

# **STRATEGII MANAGERIALE**

## **MANAGEMENT STRATEGIES**

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Section I  
**REGIONAL DEVELOPMENT POLICIES  
AND STRATEGIES**

**DETERMINANTS OF REGIONAL COMPETITIVENESS IN  
ROMANIA - A PANEL DATA APPROACH\***

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**Mihaela, Simionescu<sup>2</sup>**  
**Marioara, Iordan<sup>3</sup>**

**Abstract:**

*In this study, a few panel data models were estimated to analyze the regional competitiveness in the 42 counties (including Bucharest) of Romania. The dynamic panel with Arellano–Bover/Blundell–Bond estimators and robust standard errors showed that during 2000–2012 the GDP in the current period depends on the average number of employees and on the GDP value of the previous period. For a fixed effect model, 34.41% (Rho) of the total variation is due to the differences within the counties. The Moran's I index in 2000 is negative and close to zero (0.035) suggesting a negative but non-significant spatial autocorrelation. In 2012, the Moran I's suggests a positive and non-significant spatial auto-correlation.*

**Keywords:** *competitiveness, panel, dynamic panel, GDP, Moran's I index*

**JEL Classification:** C23, C33, C51

**Introduction**

Even if there is not an unique perspective to take a picture of the complexity of “regional competitiveness” approach, there are aggregate of conceptions rather different between them (Chilian, 2011), for European Union the problems related to regional competitiveness raising the interest of European decision agents and of the members from many years, especially regarding the realization of economic and social cohesion. The growth of European returned and less prosperous regions competitiveness is considered crucial for the achievement of this objective, especially for achieving the monetary union and the integration of new members (Gardiner *et al.*, 2006). The monetary integration and of the new members of EU has stimulated many theoretical developments of the economic science that assign a central place to the localization of the economic activities and to the evolution of regional economies (Martin, 2005; Petrakos *et al.*, 2004).

In Romania, the problem of regions and counties competitiveness became a subject of major interest for researchers, but also for the factors of political and administrative decision at the local, county, regional and national level, especially for the possibility of the European funds access for the support of regional development in the periods before and after the accession. Studies regarding the economic development and regions competitiveness from Romania appreciated by the GDP per capita and its determinants (Vincze, 2003, Chilian, 2011, Chilian și Iordan, 2008) showing gaps between regions with

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\* This work represents the partial revaluation of the results provided by the researchers for the research plan theme of Institute for Economic Forecasting 2014: Economic and Social Cohesion in Romania from the perspective of Europe 2020 Strategy, second part, development team: Iordan Marioara (coordinator), Ghizdeanu Ion, Chilian Nona Mihaela, Radu Lupu, Dalina Maria Andrei, Mihaela Simionescu, Tapu Dana, Daniel Belingher, Adriana Grigorescu (associate researcher)

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increase tendency, configuring three possible *levels of performance* (typologies): accelerated economic development, the motor type regions (*București-Ilfov*), relative economic development follower regions type (regions from Transilvania and Banat) and relative economic stagnation (left behind regions- Moldova-Muntenia-Dobrogea-Oltenia).

On the other hand, there are also some common models of evolution of some regional competitiveness determinants (expressed by the evolution of real GDP for regions and counties) and the specificity of each region regarding its formation (Jula și Jula, 2009; Chilian, 2011). The choice of the most suitable regional competitiveness strategy has as main goal the ensure of the cohesion between European Union regions. The regional competitiveness was analyzed for all countries from Central Europe with transition economies (93 regions at NUTS2 level from 8 countries). The competitiveness for the regions in Germany, Slovenia and Austria is stronger than in the case of the other regions from Central Europe (Lengyel și Rechnitzer, 2013).

Even if the Kaldor model from 1970 for the regional growth was very controversial in the 40 years till its apparition, it did not lose its relevance. This model provides plausible explanations for regional differences and differences between countries regarding the economic growth and GDP per capita (Thirlwall, 2013).

In present, the tendency of regional economic growth that differences the areas determined many interpretations, more economic growth strategies being defined for each region. In literature the concept of *territorial capital* and its efficient exploration have recently developed, especially for European Union regions (Camagni și Capello, 2013).

Panel data approach was used in few studies regarding this domain. A spatial dynamic model for panel data was applied for NUTS-1 and NUTS-2 regions from Europe on the horizon 1980-2005, getting that structural fund did not have a significant impact on regional GDP growth (Bouayad-Agha, Turpin și Védrine, 2013).

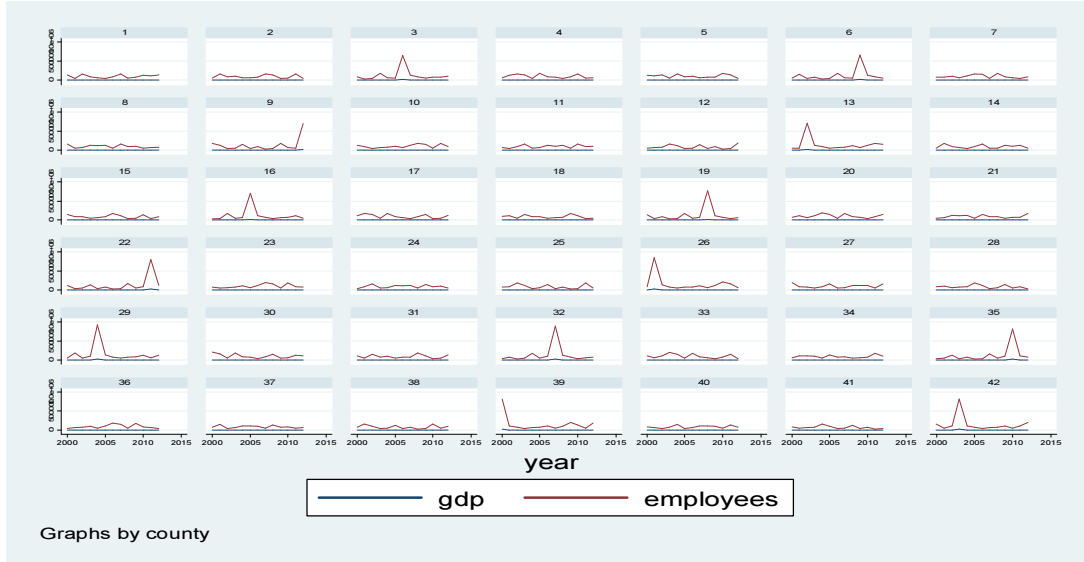
This work represents a continuation of the demarche study of regional competitiveness determinants, by the fact that using panel data models is deepened the analysis of regional competitiveness determinants for the Romanian counties for a period when significant changes regarding the development determinants have been taken place (2000-2012).

#### **Panel data for competitiveness analysis**

The data used in this study refers to GDP expressed in comparable prices (2000=100%) and the number of registered employees with annual frequency during 2000-2012 for all the Romanian counties, including Bucharest. The GDP expressed in current prices provided by National Institute of Statistics was deflated using the GDP deflator of the International Monetary Fund. The number of employees and nominal GDP were taken from the Tempo data base of National Institute of Statistics.

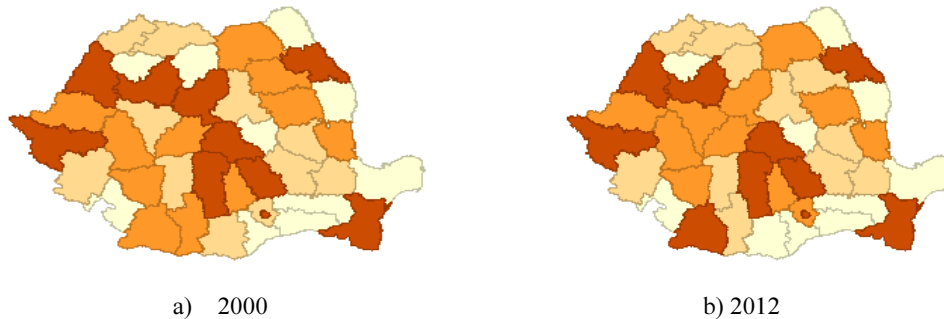
Figure 1 shows that real GDP had in the analyzed period a rather uniform distribution for each county. More variations in time are observed for the number of employees in all the counties. The maximal value for number of employees was reached in different periods, fact that suggests that there are some specific economic contexts for each county that determine a higher degree of occupation.

**Figure 1: Real GDP and number of employees for the Romanian counties during 2000-2012**



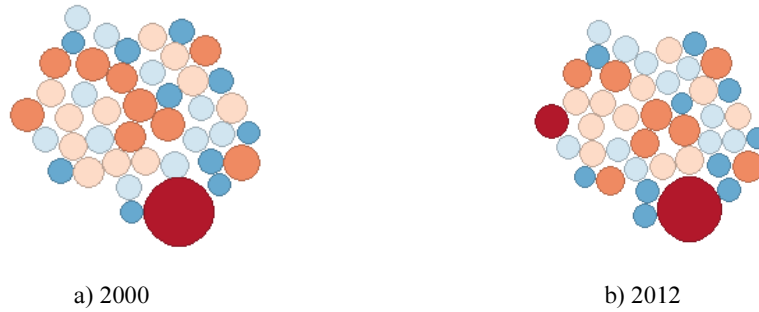
Forwards, depending on the values of GDP in 2000, respectively 2012, it was done the division of the counties of Romania in 4 groups (figures 2a and 2b). Thus, in 2000, 10 of the Romania counties registered a real GDP real between 572.1 and 952.7 million lei (constant prices) and also 10 counties between 2128 and 16870 million lei. 11 of the counties of Romania registered a real GDP between 1028 and 1359 million lei and also 11 counties between 1383 and 2106 million lei. In 2012, 10 of the Romanian counties registered a real GDP between 933.6 and 1370 million lei and also 10 counties between 3331 and 29660 million lei. 11 between Romanian counties registered real GDP between 1400 and 2126 million lei and also 11 counties between 2331 and 3171 million lei. In both periods Bucharest is different from the other counties, its GDP playing the role of outlier.

**Figure 2: The map of the Romanian counties according to the real GDP in 2000 and 2012**



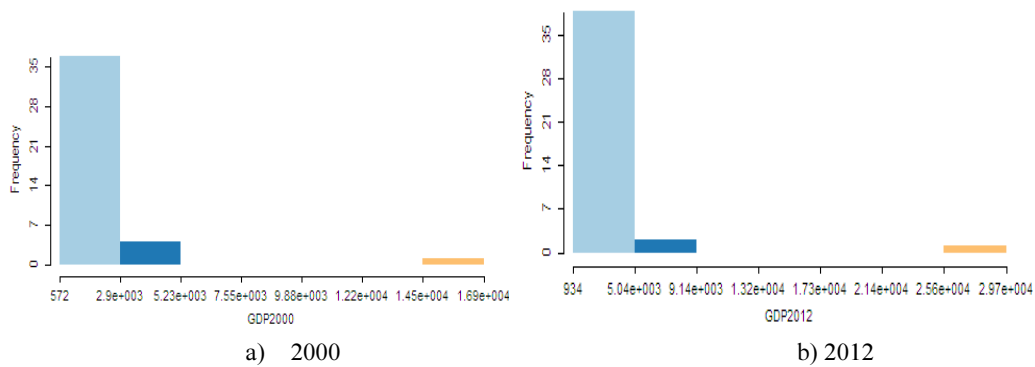
The representation of real GDP using a cartogram (figures 3a and 3b) show that in 2000 its value in case of Bucharest is different from the other values for the rest of the counties, being excluded from the analysis. In case of the 41 remained counties, we observed that 10 of them contributed with less than 25% of the total GDP (Bucharest never being taken in account), 9 of the counties contributing with more than 75% of the total GDP. The cartogram for 2012 shows that only the real GDP for Bucharest is considered as outlier, but also for Timiș county. In the case of the 40 remained counties, we observed that 10 of them have less than 25% of the total GDP (without Bucharest). 8 of the counties contributed with more than 75% of the total GDP.

**Figure 3: Cartogram of the real GDP in 2000 and 2012**



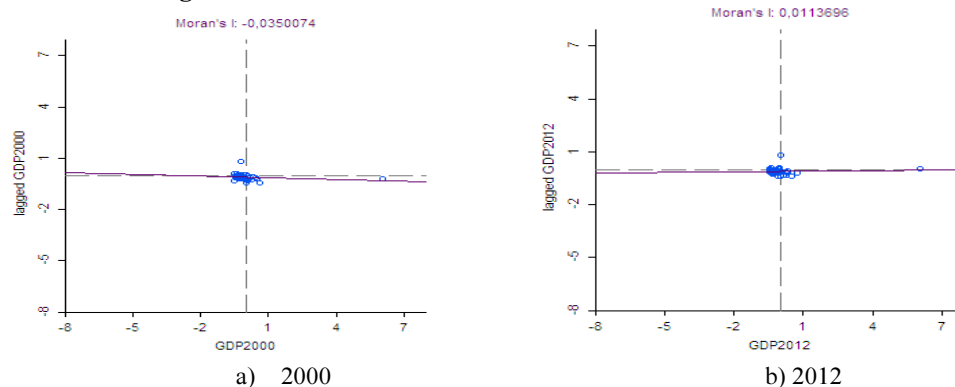
The analysis of real GDP histogram (figures 4a and 4b) indicates an increase in economic gaps between counties in the analyzed period. In 2000 we observed that the most counties (37) registered a real GDP between 572 million lei and 2900.3 million lei (comparable prices) and 4 counties a real GDP between 2900.3 and 5230.03 million lei (Cluj, Constanța, Timiș, Prahova). In 2012, more counties (39) registered a real GDP between 934 million lei and 5040.03 million lei (comparable prices) and only 2 counties a real GDP between 5040.03 and 9140.03 million lei (Constanța and Timiș).

**Figure 4: Histogram for real GDP on counties in 2000 and 2012**



The I Moran's index for real GDP in 2000 has a negative value and close to zero (-0.035), indicating a negative spatial autocorrelation, but statistically insignificant (figure 5a). It is interesting that I Moran's index has a positive value close to zero, indicating a positive spatial autocorrelation, but statistically insignificant (figure 5b).

**Figure 5: The I Moran's index for real GDP in 2000 and 2012**



The stationary tests for applied panel data (Im-Pesaran-Shin test and Harris-Tzavalis test) showed that the real GDP data and number of employees data are stationary (Appendix 1). A dynamic panel model with Arellano-Bond estimators in two stages, the standard errors being robust. The results from Appendix 2 indicate a statistically significant correlation between GDP in the current period and number of employees, but also between GDP in the current period and the GDP in the previous period. The estimations showed that there are not fixed effects in time that influence the GDP county. The model was re-estimated using Arellano–Bover/Blundell–Bond estimators with robust standard errors (table 1). The errors are not auto-correlated.

**Table 1: Dynamic panel with Arellano–Bover/Blundell–Bond estimators and robust standard errors**

System dynamic panel-data estimation		Number of obs	=	504		
Group variable: county		Number of groups	=	42		
Time variable: year		Obs per group:	min =	12		
			avg =	12		
			max =	12		
Number of instruments =		79	Wald chi2(2)	= 1171.08		
			Prob > chi2	= 0.0000		
One-step results						
	gdp	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]
	gdp					
	L1.	-.0155002	.0041998	-3.69	0.000	-.0237317 -.0072686
	employees	.0303486	.0012195	24.89	0.000	.0279583 .0327388
	_cons	-643.9503	107.7911	-5.97	0.000	-855.2169 -432.6837
Instruments for differenced equation						
GMM-type: L(2/.) .gdp						
Standard: D.employees						
Instruments for level equation						
GMM-type: LD.gdp						
Standard: _cons						

Source: authors' calculations.

Using the estimations results, we can conclude that for Romanian counties, the increase in number of employees generated grows in GDP.

**Table 2: Arellano-Bond test for errors independence in first difference**

Order	z-computed	Probability >z
1	-3.3635	0.0008
2	-1.4334	0.1517
3	0.4914	0.6231
4	1.2338	0.1992

Source: authors' calculations.

We observed that starting with the second lag the errors are independent.

We also estimated some fixed-effects and random effects models for real GDP and number of employees. The Hausman indicated that it is more suitable the fixed-effects model. In the case of our model, we observed that there is not a dependence of errors between counties, but the homoscedasticity assumption is not checked. Therefore, a fixed-effects model under the heterosceasticity hypothesis is estimated.

**Table 3 : Modelling GDP for Romanian counties- fixed effects model (p values in brackets)**

Constant	-390.7794 (0.000)
Number of employees	0.0275 (0.000)
Rho	0.3441

Wald statistic	10895.48 (0.000)
Pesaran statistic for units independence	-0.802 (0.4226)
Breusch-Pagan LM statistic for errors independence	15.342 (0.001)
Modified Wald statistic for errors heteroscedasticity between groups (H0: $\sigma(i)^2 = \sigma^2$ for all units i )	2.30 (0.7223)

Source: authors' calculations.

The interclass correlation suggests that 34.41% (Rho) of the total variation is due to differences between counties. The assumption of errors homoscedasticity, but also the independence one are checked. The results of Pesaran test indicated that there is no dependence between units.

### Conclusions

The panel data approach with Arrelano-Bond and Arellano–Bover/Blundell–Bond estimations determined in two stages with robust errors and dynamic reflected for the Romanian counties during 2000-2012, that the number of employees and GDP for the previous year are determinants of regional competitiveness. A large part of the differences in GDP between counties is due to economic evolutions of each county. Moreover, the spatial autocorrelations between counties based on I Moran's index in 2000 and 2012 are not statistically significant.

The results are in accordance with the previous studies (Chilian, 2011), that put in evidence the positive influence of the occupied population on real GDP, but also the big inertial effect of economic conditions in the previous period (simultaneously with the increase in gaps of inter and intra-development), but also regional aspects of economic development (and also of the counties components, in the context of Romanian regions are not exactly territorial-administrative units).

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#### APPENDIX 1

##### Stationary tests

Variable	IPS test statistic	Harris-Tzavalis test statistic
GDP	-10.06 (p value=0,00)	-0,0303 (p value=0,00)
Employees	-0,9325 (p value=0,00)	-0,0449 (p value=0,00)

#### APPENDIX 2

##### Modele dinamice de tip panel

Dynamic Arellano-Bond panel	Coefficient	Robust standard error	z	P> modulus(z)
GDP L1.	-0.0158	-0.0047	-3.35	0.001
Employees	0.0302	0.00036	82.70	0.000

Arellano-Bond dynamic panel	Coefficient	Robust standard error	z	P> modulus(z)
GDP L1.	-0.013	0.01	-1.37	0.169
Employees	0.02986	0.0005	53.16	0.000
Year	-18.122	29.84	-0.61	>0.05
Year 2000	-10157.27	19385.33	-0.52	>0.05
Year 2001	-11661.24	13917.59	-0.84	>0.05
Year 2002	-9875.76	10967.92	-0.9	>0.05
Year 2003	-9514.09	10192.96	-0.93	>0.05
Year 2004	-10117.18	10192.3	-0.99	>0.05
Year 2005	-5973.77	9030.79	-0.66	>0.05
Year 2006	-2794.87	8179.12	-0.34	>0.05
Year 2007	820.64	4064.54	-0.2	>0.05
Year 2009	0	-	-	-
Year 2010	-907.45	3311.768	-0.27	>0.05
Year 2011	2069.24	5204.42	0.4	>0.05
Year 2012	4940.91	6450.54	0.77	>0.05

#### APPENDIX 3

##### Fixed effects and random effects models

Fixed effects model	Coefficient	Robust standard error	t	P> modulus(t)
Constant	-774.73	0.0002	122.53	0.000
Employees	0.0312	39.87	-19.43	0.000

Pesaran's test of cross sectional independence = -0.802, Pr = 0.4226

Average absolute value of the off-diagonal elements = 0.226

Modified Wald test for groupwise heteroskedasticity in fixed effect regression model

H0:  $\sigma(i)^2 = \sigma^2$  for all i

$\chi^2(42) = 2961.86$

Prob> $\chi^2 = 0.0000$

xtgls gdp employees, igls panels(heteroskedastic)

Fixed effects model, heteroskedastic panels, no autocorrelation	Coefficient	Robust standard error	t	P> modulus(t)
Constant	-390.77	0.0002	-12.25	0.000
Employees	0.027	31.88	104.38	0.000

Random effects model	Coefficient	Robust standard error	t	P> modulus(t)
Constant	-777.29	0.00025	122.96	0.000
Employees	0.0312	78.88	-9.85	0.000



# FROM SUSTAINABLE DEVELOPMENT TO HEALTHY DEVELOPMENT. THE ECOLONOMIC PERSPECTIVE

Constantin, Popescu<sup>1</sup>  
Alexandru, Taşnadi<sup>1</sup>  
Vasile-Miltiade, Stanciu<sup>2</sup>

*Alongside underdevelopment misery, that cannot be tolerated any longer,  
we face a king of super development, equally inadmissible, as,  
like underdevelopment, it is contrary to true Good and true Happiness  
Pope John Paul II*

## Abstract:

*Development represents an ecologic phenomenon whose fruitage falls within the exigencies of "harmony of integrated live integers". The current sustainable aspect of the development is incomplete and does not correspond to the requirements of live integer, as world realities present poverty within abundance, pollution in and from developed and undeveloped countries, inhuman social inequalities, a serious waste of ecologic resources because of their use especially in the cosmotechnic alarming field. The way from sustainable development to healthy development is conditioned by the replacement of the current institutional value "no one is above law", with the wisdom "no one is above love and truth". Such long term, comprehensive process is favoured by the transition from the current competence-based educational model to the one of education in the cause of life, based on values. The methodology of approaching such subject is "nestled" in recent trans-disciplinary, holistic research, to which there contribute quantum physics, holistic medicine, systemic biology, transpersonal psychology and new openings of economic approach considering life as a live organism. There is a fundamental, long term objective interpreting economic life from the perspective of the paradigm "health of live integer" and sliding partial objectives related to reconstruction of current concepts, theories and policies and their integration in the criterion of people's happiness.*

**Keywords:** *Health of integrated live integers, ecology, healthy development, ecologic value, education in the cause of life*

**JEL Classification:** O15, Q57, Z13.

The approach of such problem means its integration towards a vision that could open knowledge window towards a new paradigm. We have in mind research in holistic medicine, systemic biology, transpersonal psychology, quantum physics etc. which by wisdom of their approach gets closed to the vision of "integrated live integers", as formulated a long time ago by Hwa Yen philosophy by means of words "*One in All; All in One; One in One; All in All*" (Grof, 2009).

Although the development process, as existing in economic science is increasingly criticised, as sometimes even its removal is proposed, considering it is only a process interior to human being and not specific to economic and social life, in this approach we propose to keep it, but with content different from the existing one.

In our vision as well, the meaning evolution of the economic and social life **can be named development when its fruitage is positive, compatible with man's aspirations and for Every Man, in harmony with the exigencies of the "health of common live integer"** (Maynard, Mehrrens, 1997).

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### 1. An Epistemological Challenge: “Health of Common Live Integer”

For some time, the scientific world has lived a complex process for changing the dominant paradigm, based on the conquests of classical knowledge, with a new interpretation from holistic, systemic perspective as “integrated integers”. In this respect, trans-disciplinary research consider Earth planet as a “live and conscious” organism (Capra, 2004), whose “systemic wisdom” is based on the harmony of “integrated integers”.

“Common live integer” is, in our opinion, made up of natural, pre-existent environment and environment created by man, in dynamic interdependency relations.

Within natural environment, according to “systemic wisdom”, life invented sexuality, as base of its diversity and death as support for individuality. The man-created environment is **ability-answer** to “nature avarice” in the form of “environment system” concretized in: **family environment**, where love as devotedness is learned, **communitarian environment**, where the worship of partisanship to solidarity, communion and compassion is revealed, **labour environment** ensuring occupation as imperative of life, in accordance with a certain division, **societal environment** making us live in harmony and **motherland environment** where roots of culture of live and conscious people is formed (Popescu, 2011).

The invention of the human-created environment is known as **education** whose role is producing transformation from the inside towards Human Man (Krishnamurti, 2012).

Evolution of natural life and human-created economic, social, spiritual life has only one role, making education fruitage help forming sensitive human being, able to grow up in liberty and responsibility, in solidarity and communion, in compassion and harmony.

The common element of internal transformation as human being development is materialized in forming their capacity to defeat suffering and to gain happiness (Dalai Lama, 2010). This meaning of life in human-created environment can be reached by means of education in love and full understanding of life (Krishnamurti, idem, p.25).

Any live, natural or human-created (family, community, organization, institutions, society) system is defined by health of integrated integers forming it. At the level of Earth planet, as live and conscious organism, the homeostasis of this process is ensured by self-organization and self-adjustment within harmony principle, characterized by tuning, coherence and resonance (Laszlo, Currvan, 2011).

Also within human-created environment, live matter as economic, social etc. life can be healthy or sick. Healthy in terms of the way that processes defining them ensure the dynamic balance for integrated integers, being always in harmony with the exigencies of the next system. From here, it results in our opinion as well that the health of the human-created environment is conditioned by the health of the natural environment, as the health of the natural environment is the most favourable premise for the evolution in health of live human-created systems. In this respect, we propose that the health of the common live integer should become the optimum criterion for economic and social life evolution, depending on which we evaluate whether this is on the normal and desirable direction or on the opposite direction.

The concepts of healthy families, healthy communities, and healthy institutions represent in our opinion the defining element in order to measure and evaluate the condition of economic and social life evolution (Popescu, Taşnadi, 2011).

A healthy economy, as economic life, is the one corresponding to dreams for better of people from all times and all places, being always in harmony with ecologic balance exigencies. Based on this highlight, we could state that what is healthy for man, family, community, organizations, institutions etc. should be healthy for natural environment as well. This means that all human activities that by their direct or indirect consequences endanger the health of common live integer can be considered as illegal and immoral”.

Therefore, common and uncommon good has in the exigencies of integrated integers a unique evaluation criterion.

It is obvious that if we refer to economic life health, we can have an evaluation scale: highly healthy, healthy, slightly healthy, and healthy. Each of these steps of evolution for economic life health can be characterised by means of a system of criteria-indicators, with adequate variation limits, depending on field specific and on the way their evolution answers to the exigencies of economic life homeostasis. Instead of using concepts of developed or undeveloped, under development economy we propose concepts of **healthy economy** or **unhealthy economy** with scale levels we proposed.

In their thoroughness, criteria-indicators helping us evaluate various health levels of economic and social life must converge towards the sense of people's lives on this earth: to be happy!

If by consequences of choices made in economic, social, politic etc. life the constants of health of integrated integers are endangered, the fundamental premise of man's happiness is infringed, as "health is not everything, but you have nothing without health"!

Also in our opinion, it is therefore necessary that we evaluate **development**, representing sense positive evolution, as being **healthy** or **unhealthy**.

## 2. Use of Triads in Interpreting Human Behaviours

Getting closed to understanding "health of live integer" wisdom as unique, fundamental and irreplaceable criterion in evaluating and measuring evolution in human-created environment is in our opinion tightly connected to using a methodological instrument that we call **triad**. Also in our interpretation, the triad concept defines an assembly of interdependent elements in sense connection with the exigencies of "health of live integer" (Popescu, idem, pp. 480-494).

Substantiating and using triads in interpreting human behaviours start from life principles in systemic vision defined as: *life as existence in relation, with you, with peers, with Divinity and with the elements of live integer*. This "existence in relation" must be evaluated as "exigency in relation", under objective conditions dominated by incertitude and limitation.

According to psychologist Viktor E Frankl, the human behaviour circumscribed to "tragic optimism" can be interpreted by means of **tragic triad (TT)** comprising in: **suffering, guilt and death**. Finding sense in each of these behaviours by means of science named **logo therapy** can help human being understand that life essence as "exigency in relation" is the responsibility of freedom of being (Frankl, 2009).

If the dominant of life as "exigency in relation" is incertitude, as the Nobel laureate in physics-chemistry, Ilya Prigogine, said, and death is the only certitude in this evolution about which a Nobel laureate in economy, Orio Giarini, talks, getting closed to understanding this cosmic context we are in means using a different triad that we call "freedom triad" comprising in: **liberty in love, liberty in responsibility and in harmony**. Such methodological instrument helps us understand from the perspective of exigencies of "health of live integer" that in man-created environment, not any freedom generates health and happiness, but that liberty which, as Einstein said, implies "a life made available in the cause of other lives" (Einstein, 2008). Such freedom triad helps us understand that **deficits in love, responsibility and harmony** encountered in life as "exigency in relation" represent the fundamental causes of any crisis: in family, in community, in labour organization, in society.

**The real freedom from the sense perspective we talked about can be only in love, in responsibility and in harmony.** Besides these, it can generate systemic pollution, human and world poverty, corruption, tax evasion etc., an increase of GDP as macro indicator producing negative externalities affecting "health of common live integer". Such economic increase is considered as "cancerous" (Capra, idem, p. 505).

As man-created environment is answer-ability to natural environment, from the perspective of people's aspirations towards happiness, it is normal to use as well as methodological instrument the **holistic triad (HT)** defined by the following components: **limiting, incertitude and interdependency**. Interpreting these components is able to allow us think and build an economic, social, political etc. life taking into account actual realities and not invented ones. In this spirit, Orio Giarini and Walter R. Stahel emphasize that *"only objective facts, namely those existing outside man, are the ones that matter. Facts become history after a human culture, a certain attitude reveal or ever create them. There is only one fact that imposes intrinsically, only one future certitude: death of both individual and our universe. Everything existing besides this certitude is life, incertitude, history thread, birth of new universes... A civilization represents a certain modality to live and create facts; it is a specific attitude towards life and towards acceptance of incertitude... It is exactly this incertitude, as source of life and responsibility, the one allowing us to believe in the possibility of a strategy for progress; due to this, no totalitarian concept or regimen can resist forever. Also, due to this we know that premises are constantly renewed, that hope is eternal, even under the worst circumstances"* (Giarini, Stahel, 1996).

Without understanding conditionality expressed by **limiting, incertitude and open interdependencies** we cannot think and build a healthy evolution of economic, social, political etc life. In this way we would be permanently outside objective reality.

Based on openings made by doctor Alfred Adler we also propose in order to interpret human behaviours the **triad of life imperatives (TLI)**, defined by the following components: **life lived, work and love** (Adler, 2010). This knowledge instrument allows us understand that only together these imperatives can represent conditionality of man's happiness. Both excesses and deficits of life lived or work, of love without love represent fundamental causes for crises in family life, in the life of labour organizations, in the life of human communities and societies. For example, if we loved Earth, would we pollute it? If we loved child, and not the ideal about child, would we oblige him/her practice a profession he/she does not like? If we loved people, would we reduce their salaries and pensions in order to solve a crisis having other causes etc.?

Each third of these imperatives must be transposed in actions and facts of human and institutional behaviour so that economic, social, political etc. life should be in harmony with these exigencies and not in disharmony with themselves, in each human time lived.

As long as sensitive human being is an integral being, it is normal that when we study the consequences of behaviours to also use the **integral being triad (IBT)**, defined by the following components: **mind power, heart power and soul power**. Each of them and all of them together represent the base for our choices under limiting and incertitude conditions about which we have talked. Use of this instrument allows us understand that the real world we want to create in economic, social, cultural etc. life in first inside us, in the "borrowed mind" (Osho, 2006), in the heart used to love and in the soul used to believe.

Maybe not arbitrarily, John Stuart Mill said that the force of a man having beliefs based on faith equals the force of 99 men driven only by interests. From the perspective of this triad, it is essential to understand that if we do not become inside us the change towards good that we want to take place in economic, social etc. life, as Gandhi said, we have no chance to be happy. This is why Grof, Laszlo, and Russell, as well as Havel, said that a "revolution of consciousness" is the only interior transformation that can help man grow up in liberty and responsibility for his/her own life, and for the life at the level of live integer as well (Laszlo, Grof, Russell, 2009). Such thesis is also connected to what Einstein stated: that we cannot exit the crisis using the thinking, the mind that provoked this crisis! This is why we also believe that today another "borrowed mind", is necessary, based on another paradigm generating man development as internal transformation (Pope Francisc, 2014).

As human society as created environment means a culture of human behaviours related to life lived, work and love, the morality of actions and facts can be studied by means of **morality triad (MT)** made up of: **truth, kindness and beauty**. Such knowledge instrument is today more important than ever, as, according to Pope John Paul II, we face a sense evolution of knowledge oriented towards “up” and its evolution in an opposite direction, towards “down” (Pope John Paul II, 2004). Today a situation has been reached where the fruitage of hands and mind endangers life in its thoroughness.

In his famous speech about moratorium, the Nobel laureate for physiology and medicine in 1967, the biologist professor George Wald, from Harvard, used arguments in order to support the idea that knowledge should not mean power, especially military power, but wisdom, namely ration in love.

In the same spirit, Nobel laureate for physiology and medicine in 1937, Albert Szent-Györgyi said: *“Tools can be used both for construction and for extinction, in order to raise life level or to destroy it. The stronger the tool, the higher the life level reached, but also the more it can kill and destroy. Militaries transformed science accomplishments intended to enrich life into instruments for destroying it. We, the biologists, have reached admirable knowledge of the way our nerves work; the militaries used our knowledge in order to produce neuro-paralyzing toxic substances. We have reached admirable knowledge of disease nature, especially of infectious diseases; the militaries used this knowledge in order to improve the instruments of bacteriologic war. We have reached admirable knowledge of plant live; based on this knowledge, the militaries created defoliant. We released hidden energies of atoms in order to raise life level and dissolve the difficult unique; based on this knowledge, the militaries created atomic bombs and hydrogen bombs, that could completely destroy humanity. This transforms the army-centred society into a death-centred society, advancing towards extinguishment”* (Szent-Györgyi, 1981).

This methodological instrument helps us understand that today we witness “man failing” and that therefore humanity has no need to enter scientific knowledge era, as stated, but in the era of morality of using scientific knowledge, from the perspective of “health of common live integer” (Popescu, 2014). Such route is from “man failing” to “man rising” by means of: truth, kindness and beauty. As also stated by Einstein, this is the actual progress, the moral one in actions and facts of life lived, work and love.

Human society created its own social homeostasis, developing a democratic system based on the harmony and interdependency of the following powers: legislative, executive and judiciary. By using the **triad of democratic society (TDS)**, we gain the possibility to understand that each of these components and all in harmony can contribute to the evolution of economic and social life in compatibility with people’s aspirations towards happiness, with the exigencies of survival on this planet.

As sensitive human being is based on a certain culture formed by partisanship to live integer and experiencing his/her own life as existence in relation, understanding people’s faith is compulsory in order to interpret their behaviour in life lived, in work and in love. In this respect, the instrument we name the **triad of faith (TF)** made up of: **annunciation, understanding and living** becomes together with the other triads, indispensable to appreciating actions and facts situated on the right direction or on the opposite direction of evolution. In essence, by use of this triad we can understand that values promoted as “love the ones close to you as you love yourself”, “do not steal”, “do not kill” etc. are nothing else but commandments of a life in harmony with you, with peers, with Divinity and with live integer.

The system of triads proposed allows us understand that going in the right life direction can be only an evolution starting from common good of families and human communities, of labour organizations, of human societies in general. In this respect, it is eloquent for example Richard Branson’s view that business must be done for people, for

their good and happiness and only then it generates healthy fruitage for all bearers of ecolonomic interests (Branson, 2012).

For this, it is essential that systemic wisdom of “Mother Nature”, as “live and conscious” organism should be in harmony with human society wisdom. Or, in better words, human society wisdom should result from systemic wisdom that we cannot be happy unless we think and live as part of life integer in which we are. In this respect, the words of Doctor Alfred Adler are relevant, meaning that human being was endowed with all necessary organs: eyes, hands, legs, mouth, brain etc., having at the same time both biologic and social functions (Adler, idem, p.201). Only education in love and in full understanding of life as “exigency in relation” is necessary so that the social functions of these organs should be in harmony with biological functions, so that using our minds and hands we should produce the goods we need, however in harmony with who we are, with the health of common live integer.

### 3. A Few Thoughts about Sustainable-Healthy Dualism

Based on what we presented above, we would like to formulate a few interpretations-thoughts about the need to reconceptualise evolution as development, using healthy concept instead of sustainable one. We integrate these conclusions reached according to paradigm “health of live integer” in a new economic science that we would like to name **ecolonomy**. Essentially, it proposes to interpret economic life health as organic part of social life health and in harmony with exigencies of common live integer. We can integrate the principles on which ecolonomy is based as a new way of thinking and living life under limiting and incertitude conditions into the following logical structure:

**Ecolonomy** is defined by:

**Wisdom:** tune it *systemically*;

**Love:** fulfil it for *man curing*;

**Knowledge:** use it with *responsibility*;

**Ecology:** remove it from *excesses and deficits*;

**Harmony:** ensure its *coherence*;

**Rationality:** subordinate it to *man*.

**Hope:** promote it *constantly*.

**Faith:** resonate it with *live integer*.

**Spirituality:** feed it with *sense values*.

**Culture:** keep its *diversity*.

**Game:** harmonize it *institutionally*.

**Life:** integrate it *holistically*.

These principles seen in unity and interdependences of relations among “integrated integers” express the wisdom of Nature Mother, as interpreted in the systemic vision about life as “game of live matter”.

In the field of human matters representing, in fact, the essence of society economy, the concrete form through which these principles come to life is magisterially reflected by Richard Branson, when he states: “... *doing good does not mean only not destroying environment, not polluting, but also removing pollution occurred for the last hundreds of years, since the beginning of the industrial revolution. Restoring harmony with nature. But this does not mean only generating less harm: our obligation is to improve people’s lives and the planet condition through business. It means helping less lucky people to find a way for earning their living, so as they could have the respectable life that they – as all human beings – deserve. It is an absolutely essential fundamental right of each and every human being to receive the necessary means for earning their living, for getting food and shelter for them and for their families and to satisfy medical needs. It means reinventing the way we live, in order to create a much more balanced, healthy and peaceful world*” (Branson, idem, p.19).

In a fundamentally interdependent world, become unique in its functional determinations, economic life cannot be described and interpreted any longer by means of concepts, theories and models dissociated from social life, detached from the ecological context in which they are, from evolution institutional framework. As shown before, lack of social-human and ecological perspective in approaching phenomena and processes in economic life generated simplest, unrealistic theoretical models, without any base of interactions contained by live integer where their sense functionality is framed.

#### 4. Deficiencies of Sustainable Development Concept

Even in 1972, in the first Report towards the Club in Rome, named *Enhancement limits*, where this process is globally approached, a conclusion was drawn that humanity needs to rethink the evolution model for economic life and get to “organic economic growth”, in harmony with nature exigencies, with social-human rationality (Meadows, Meadows, Randers, Behrens III, 1972).

All subsequent reports towards the Club in Rome contours in a very well argued form the deficiencies of the current economic growth model materialized in systemic pollution, waste of resources, development of inhuman social inequalities, increase of tension between unlimited super consumption of biology and moral for a few billion people and under consumption endangering survival for billions of people etc., nature collapse and impossibility of a life in dignity on Earth planet essentially represent the elements causing the current world crisis considered a systemic one.

In 1987, the Brundtland launches the ideology of the new model, within the same capitalist vision of getting to sustainable development harmonizing life of current generations with life of future generations, firstly in economically developed capitalist countries (Brundtland, 1987).

The essence of the concept cannot be consider inadequate for the situation of systemic crisis in which we are, but in our opinion it is partial and detached from the exigencies of live integer health, as we presented them.

From this perspective, such vision not only that is not covering as thoroughness, but it leaves outside actual policies and practices, especially of multinationals, the development of inhuman social inequalities, increase and diversification of systemic pollution processes, measurement of economic growth by means of an indicator considered cancerous (GDP), from the perspective of live integer health. Also, huge financial profits are in contempt for social-human and ecological profits, the economic growth processes that the market should feed on behalf rationality become an intrinsic purpose and the life quality of more and more people on the planet is at survival limit, under economic-social aspect (Capra, *ibid.*, p.498). Even worse, this global GDP, representing an increase as compared to 50 years ago, means in real terms more than 70% pollution, according to certain calculations. This means that what economic life won globally, the natural environment lost, nature collapse being considered by a Report towards the Club in Rome s representing the most serious expression of the current world crisis (Wijkman, Rockstrom, 2013).

In this context, we appreciate that sustainable development, sustainable as a beautiful dream; since launched, not only that it has not produced healthy fruitage as regards the quality of most people on Earth, but on the contrary, it remained at dream level patched up here and there with formulations such **social responsibility of corporations, pollution market solves pollution problems, polluter pays** etc. (\*\*\*)

The replacement of sustainable development concept by healthy development concept is, in our opinion, not only a semantics problem, but a new way of thinking and interpreting theory and practice of economic-social life evolution for the following at least one hundred of years.

We believe that a healthy evolution of economic and social life in totality can be obtained only by rethinking from roots the current model of capitalist economy.

Accepting thesis that human society economy is a live organism created by man for man's and All Man's good, it is normal that such live system should have its own homeostasis that allows him/her evolve in a healthy way. A healthy development can be carried out only on the bases of a healthy economy, where inputs, transformations and outputs form an interrelation system opening until live integer level, its health representing the condition and expression of its operation efficiency.

The healthy development model we propose is designed based on the paradigm of life integer health based on a **value system**, from where new human and institutional behaviours originate, under limiting and incertitude conditions. These values result from expressing and experiencing life as game of live matter and they mean that conditionality impossibly to break without endangering equilibrium at global, planetary scale. It is true that at the base of this model promoted by classical economic science, the values are excluded from foundation of each theory and corresponding models, as if economic and social life would not mean human behaviours fighting against rarity and incertitude. Maybe if people by their behaviours did not exist in economic and social life, and phenomena in human society economy were cosmic such as earthquakes, snow, rain etc. we would not need values. However, as human society economy means human behaviours choosing under limiting and incertitude conditions, the values that should be the base of them represent beliefs base on the faith that they must think, live and act on behalf of people, by means of people and always in harmony with nature.

In this respect, our opinion is that getting from the paradigm "business means power to compete market and life" to "business means wisdom to serve people and life in its entirety" represents the condition and expression of healthy development.

At the base of healthy development we locate the following values resulting from the exigencies of common live integer:

- *harmony*, as universal value of micro-cosmos in which we are, defined by the following attributes: adjustment, coherence and resonance whose exigencies guide human behaviours always and always within equilibrium limits,

- *freedom in responsibility* and not simply freedom is the value detached from the wisdom of the human-created environment to which liberty in love and liberty in harmony can be added, in this way building the bases of human and institutional behaviours that do not slip into the negative area as so far: *I do what I want, I do not give account to anybody* etc. Healthy development is impossible without freedom in responsibility, as life essence, says doctor Viktor Frankl, is undertaking responsibility of living in harmony as integrated integers and not detached, isolated (Frankl, *ibid.*, p.123).

- *human solidarity* as value of a healthy evolution is in fact the expression of understanding life as "existence in relation". It is at the same time freedom in responsibility and freedom in love, it is in fact human and institutional behaviour located on the normal direction of life in harmony. Only sensitive human being, as Dalai Lama says, is the one knowing, understanding and living human solidarity as a healthy behaviour under conditions of incertitude, of occurrence of risks caused by evolution: poverty, diseases, earthquakes, wars etc. This is why excellence in solidarity is in fact incomparably more precious than excellence in competencies! It shows that fundamental element of education in love and integral understanding of life must be humanity in specialist, in political man, in professor, in doctor, in engineer etc. Without humanity in professional, he/she can slip by his/her behaviours outside exigencies of live integer health, causing more evil than good.



- *social community* represents another value of a healthy development; always and everywhere collaboration and cooperation among people and communities, in organizations etc. represent the solution of any crisis, of progress by solidarity and not by egocentricity. The compassion value does not mean pity, as often understood incorrectly, but it represents a high appreciation of sensitive human being according to which a suffering man is a man like you and therefore you and him/her and us and all of you want the same thing: **to defeat suffering and to gain happiness**. In their unit and interactions, these values represent the premises so that our choices under limiting and uncertainty conditions should not be governed by: egocentric egoism, criteria that endanger the health of man and of family that he/she is part of, community in which he/she lives, organizations where he/she works, societies where it generates fruitage, nature where he/she survives. Based on these values we can say that the actual progress ensured by healthy development is the one founded on morality of actions and facts for using scientific knowledge, for man's and for every man's good. We should remark in this respect the words of Nobel laureate in medicine, Albert Szent-Györgyi: *"Our fundamental principle should be that everything we create should serve ourselves, should serve man, should serve community, and should not become their master. Machineries are good as long as they serve us and they are our instruments. If they become our masters, if they ruin our lives filling world with dirt and noise – they are not longer useful. Technocracy is wonderful if it makes us able to produce without perspiration and allows us have more time available for our human aspirations. If we can produce more efficiently under the ward of big corporations, then we should allow existence of big corporations as long as they serve us, as long as they enrich our lives. Technical progress is wonderful, however, if it profanes our nest, if it uglifies it and makes it irreplaceable, then it is better not to have it"* (Szent-Györgyi, 1981).

Implementation of values in the model of healthy development implies as next step operationalizing of **principles** that connect actual economic, social, political etc. life, and from their unit **adequate strategies and policies** result.

Within essential principles for supporting a healthy development replacing old principles, we integrate: **win-win** for all bearers of economic interests: employees, employers, families, communities, state, natural environment. Such principle is fundamentally opposite to the current principle **win-loss** highlighted by what I said before: global GDP wins, but natural environment losses.

Detachment of social from economy in economic growth models, in economic theories so far, as already demonstrated, shows narrow vision upon the value of economic goods, strictly monetary, market, of win-loss type, ignoring social and ecological costs in economic life, as if economy were outside social and ecology of live world and not an integrating part of them. Cost-benefit analyses at the level of big corporations highlights huge private profits of them, social costs being ignored, especially those related to **improving life quality, to environmental deterioration** (Popescu, *ibid.*, p.394).

In accordance with exigencies of health of life integer, we say NO to competition among people, as engine of economic life and YES to man's competition with himself/herself, on a background of communion among people, their collaboration and cooperation.

Research in transpersonal psychology field emphasizes that when man compete with his/her own self-development potential, he/she can positively use love for people, authentic knowledge and faith is hope certitude. At the opposite pole, competition among people generally brings to light their worst part, especially where freedom sleeps under egocentrism (not embedded by altruism) impulse, freedom without responsibility etc. Richard Layard, professor and adviser of the former prime-minister John Major in his work *Secrets of Happiness*, presents in this respect the wisdom of the fable "Buridan's Donkey" in splendid graphic interpretation communicating by mend of images (Layard, 2007).

Under limiting and incertitude conditions offered by Earth planet, the **rationality principle** must be naturally harmonized with **hope principle** so that rationality sense should be only the one contained in the hope for the better and not outside it. If rationality results from limiting as inevitable circumstance, hope is born as optimum principle from conditionality perspective called incertitude. Limiting without rationality would mean waste in itself, while incertitude without hope would mean choices outside normal and natural sense of evolution. These principles by which we see operationalizing of values need to get in actions and facts from institutional mechanism based on the principle no one is above law to the institutional mechanism based on wisdom “no one is above love and truth”.

Such transition is based on the fact that our society, as Maynard and Mehrtens stated, *“in front of the monumental challenges of the final years in the twentieth century, needs visions of a future that is so attractive, inspiring and convincing, so that people deviate current mentality concentrated upon immediate crises to a state of impatiently anticipating future – a future where the health and wellbeing of Earth and of its inhabitants will be ensured”*.

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# EVOLUTION OF LEGAL ADDED VALUE FOR ECONOMY BETWEEN KNOWLEDGE AND RISK

Ioan I., Gâf-Deac<sup>1</sup>

## **Abstract:**

*This paper deals with the management of welfare maximization problems about New Economy between knowledge and risk. Integrative systemic perspectives are analyzed between knowledge economy and risk.*

*Also describes the prerequisites for formalization utilitarian jurisprudence regarding integrative systems outlook for the economy between knowledge and risk.*

*In this context, it is estimated that in management, economics and law may be formalized utilitarian jurisprudence.*

*Freedom and efficiency of governance, distribution of rights and obligations regarding registration report completes the study of phase between freedom of cyber-space and legal normativity.*

**Keywords and key phrases:** *management, knowledge, risk, utilitarian jurisprudence, legal added value, the new economy.*

**JEL Classification:** A1/A10

## **1. Introduction**

In an overall assessment it is possible to accept the idea that any situation in relation to other cases, that any element content / concept in mind with another item of the same kind, may in the future suffer the same the dimensional or quality loss or gain.

Resuming assessments of work - Gâf-Deac, I.I., -New Economy between knowledge and risk (Ed. Infomine, Deva, 2010), it is confirmed that the economic argument above is suitable as an approach alternative.

It appears, also, that wealth maximizing is rooted in economic laws, but evolutionary perspectives on freedom of symmetries can shape the economic outlook, which causes physical and value added of freedom in the society.

Examples, when the operational rights to economic and managerial situations is programmed or conventional imposed to help maximize national income, means that individual freedom is refined, to be in condition to add "something" to achieving the global goal set.

Therefore, the objective of welfare maximization, operational, or differentiate derives toward individual freedom.

However, it appears that operational legitimacy within the property, whether public or private, give rise to a particular mesh resource allocation.

## **2. Management of welfare maximization**

In the new economy, focusing efforts on maximizing reach a goal is enrolling in a stream of communions, on conditional scheduled / required.

Welfare (BS) or "human condition" can vary more or less, the measurable quantitative and qualitative relationships, where certainty is formalized operated economic developments between knowledge and risk.

Prospects for integrating systemic risk to the economy between knowledge and risk not yet a clear guide to welfare developments. In all evolutionary variants sets a target / objective in general plan, marked / labeled welfare maximization (max BS) as normative principle.

Such understanding causes some "formal" conflict with freedom (L).

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Emphasizing coercion or restriction highlights conventional degrees difficulty of freedom without procedural utility contribution to the common goal of maximizing welfare.

In this context, it is estimated that in management, economics and law may be formalized utilitarian jurisprudence (Figure 1).

As such, according to *Gâf-Deac, I.I., -New Economy between knowledge and risk* (Ed. Infomine, Deva, 2010), it is expected that the properties and characteristics of qualitative and quantitative progress towards welfare laws to derive flow or to differentiate freedom, as follows:

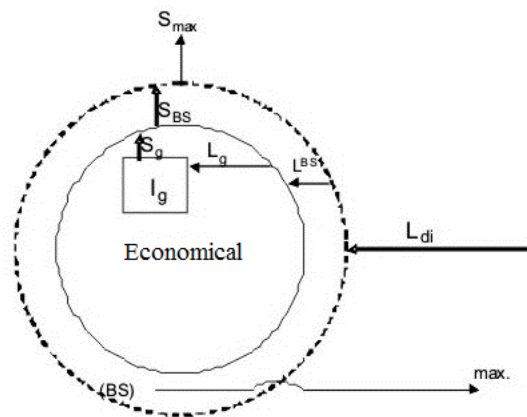
$$\begin{array}{l} (BS)(S_{\max})_{\max} \\ (1) \\ (L_{di}) \max(BS)(L_g) \end{array} \quad \begin{array}{c} \longrightarrow \\ \longrightarrow \end{array}$$

Essentially, the owner is free to dispose of its assets, not being compelled by the idea of objective / General Social target. As such, it apparently does not contribute conscripted to maximize overall welfare.

Instead, effectively participate in creating value at high levels in his own welfare, in the many parts of the general welfare.

Tangent and contingency flow to participatory creative general welfare is not directly affected its liberties.

In a simplified expression, the welfare obtained / created on the legal basis of individual / private is more feasible, more sustainable than that created / produced on state legislative base.



**Fig. 1. Requirements for formalizing utilitarian jurisprudence regarding integrative systems outlook for the economy between knowledge and risk**

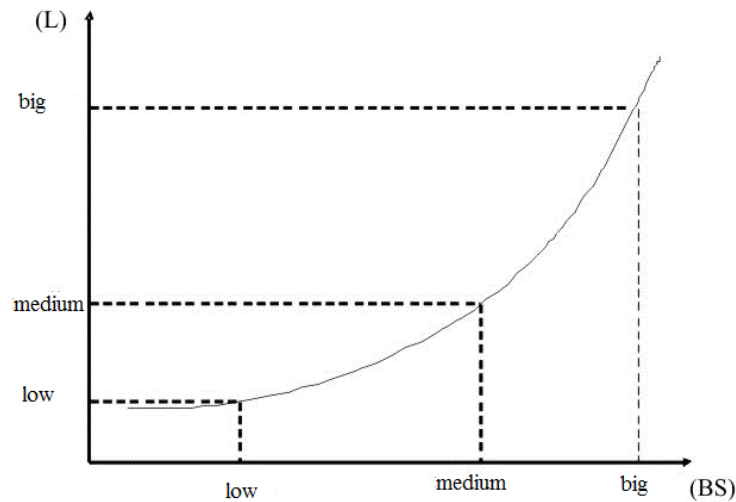
$I_g$ = generic individual; $L_{di}$ = freedom of individual rights (in BS maximized); $L_g^{BS}$ = BS state attained freedom;	$L_g$ = degree of individual freedom in the economic context; $S_g$ = effective subordination; $S_{BS}$ = increased subordination to achieve BS; $S_{\max}$ = strongest / range subordination
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As such, the case law suite area utilitarian act and permissiveness higher attenuating the individual degrees of freedom.

Practices for maximizing welfare not lead to visible sacrificing fundamental individual freedoms. Legitimacy and legitimization of action, in fact, are "free".

Recognition of quasi-permanent and quasi-continuous individual freedoms contribute to the aggregation of sub-goals, characterized by sustainability on welfare achieved.

Evolutionary arguments for ensuring freedom (L) as an expression of tensions on the (simplifying) the legal act in relation to the size recorded for welfare are highlighted curve drawn in *Figure 2*.



**Fig. 2. The relationship between freedom (L) and welfare (BS) contributing to the materialisation of systemic integrative outlook for the economy between knowledge and risk**

Circumstances damage of individual freedoms are avoided if the general action of a private nature, the individual under its own law to engage in the process of obtaining and maintaining added value induced in welfare.

Borders between size categories that characterize the freedom and well-being are not highly formalized.

The distribution rights and obligations corresponding to the distribution of income is recorded in the social body economic efficiency of society.

Essentially, legislators belief that by formulating comprehensive laws contribute to freedom, while, in practice, real freedom is obtained from the ratio maximized quantities / qualities welfare derived from low, medium and high.

## **2. Ordering risks which distorting the understanding and application of the law regarding integrative systems outlook for the economy between knowledge and risk**

In this context, risk consequences of the knowledge economy causes distortion of the applied law. For that it is necessary to establish a database relating to priority risks, which in turn are subject to ordering objectives.

Frequently, there is a tendency to reduce the complexity of the facts in question, if possible, to the state of "simplest explanation".

However, it appears that between a) fundamental legal values and b) the economy legal / economic analysis of legal acts manifest similarities, interrelatedness and conceptual conditioning.

In economics, the ideal outcome is aimed essential completely and are obtaining the uniform product, comprehensive value-added items, mainly through knowledge.

The similarity in legal (law generally) seeks ideal - untouchable, obviously - the full essentialized reducible to one general law, equipotential and n-dimensional values.

In any case, the concept of economic efficiency is common to both areas (economic and legal) as the ideal generalization is tangent / common to all areas of formal recognition.

Normative resources for integrative systems outlook regarding the economy between knowledge and risk participating in composition and economic norms alike to the legal, providing for increased dimensional alignments in absolute areas concerned.

In fact, maximizing the added value of normative resource consumption (normalized) as a measure of preference initiators (economists and lawyers).

Practical issues that came up among the initiators, refers mainly to the understanding, learning / award normativity resources, namely their distribution.

Scepticist concepts shows belief that the rules can only be described, and they can not be explained or justified.

However, note that the case is more suitable than the critical interpretations economy on the legal value added provided by law, and even more significantly, to justify the philosophical bases.

Interrelation between fundamental legal values (right) and efficiency of legal documents (economy) lead to legal maximize the value added by the concept of freedom for a society based on righteousness.

On the other hand, between freedom and welfare (social goals) is a quasi-continuous encountered antagonism.

Efficiency is a fundamental standard of evaluations in economics.

Freedom, from an economic perspective can not be pure, as manifested formalization (constraint requirement) production. However, it can be maximized, run levels, or the horizons as high or stretched.

Politicians theorists show that "it is preferable to government on citizens, but a lack of government."

Political art is to induce the ability of government in such manner as not to face or to affect people or their freedoms.

In philosophy, on the contrary, it insists on the need to clear buildings, essential free order in advance coexistence and human communities.

Individual and collective acts (economic and legal) are allowed to show, in different ways, the alternatives springing power.

Meets a) maximum freedom in a complex; b) expanded freedom relative to the initial area and c) the prohibitions.

Freedom as non-inference (noninterference) enables economic progress of any act / law, but is not allowed interaction between acts.

This kind of freedom is measured by the degree of non-interference, manifested in an area dominated by an alternative government.

Therefore, permission can be found areas of basic or extended, depending on the alternatives of government formalized power.

When documents are set noninterference is maximized freedom of non-inferential.

Freedom conjuncture occurs when a complex articulated meet fundamental freedoms outlined in defined sub-areas.

### **3. Freedom and effectiveness government**

Formal methods of governance is associated with a lot of "affronts" to citizens, affecting the expansion or manifestation of freedom.

Citizens enrolled, agree, agree or show reservations, hesitations, etc. to actionable requirements limiting restrictive, formalized, legitimized by the state or government.

The *Gâf-Deac, I.I., -New Economy between knowledge and risk (Ed. Infomine, Deva, 2010)*, remark is that institutional governance and driven by its status is conceptually categorized as "Mistress" / "ruling" on citizens. The government "must", "required" "has," "recommended," "guides," "coordinate", "dictates", "determining", "generating", "support", "moderates", "develop" and others. a.

Therefore, formal methods of government influence the content of conceptual freedom in the name of efficiency pursued or imposed.

A conception of freedom is the source, the source of legitimacy and fundamental rights "movements" / "action" allowed people in communities.

In essence, the concept of freedom is a resource that can be maximized normative quality and content.

Consequently, it is possible to pursue the maximum libertății-, or to proceed to maximize freedom. This approach is operationalized with effective governance.

Analyzes the effectiveness of governance are ways, methods or techniques highlighter / measuring the visibility of freedom, and from the results identify formulas to maximize resource / regulatory resources.

Maximizing efficiency is desired equally in relation to freedom (maximizing legal value added) and in relation to economic models.

We believe that government effectiveness is not necessarily expressed through visibility contour set of facts, actions, results, adjustments, etc. obtained on the basis restrictive, limiting imposed.

It is expected that when the contours of governance is strong (marked by "general staff"), in fact, inside the area ruled to manifest deviations from "micro-regulation", ie breaches of the law occur "too strong".

Therefore it is considered that the potential for crime is higher in the "dictatorship" than "democracy."

Expenses (financial, energy, economic, psycho-social, military, law enforcement, etc.) are higher in dictatorship, as "real-time pressure" required to be exerted on the legal freedom and democracy is found distributed and on freedom and democracy economic.

Essentially, it assists in minimizing (maximum stagnation) added value legal developments covered by a temporary increase in economic value added requirements, but unsustainable.

As such, legal documents work process and decisions / judgments of the court system are marked by conventionalism term, specific voltage or exogenous pressure us, but autarchic supported by a "central dictation."

Typically, in such a situation the concept, content and meaning of the term "good governance" are skewed.

Any economic model has concentrated on efficiency objective function, the goals pursued are exhaustive.

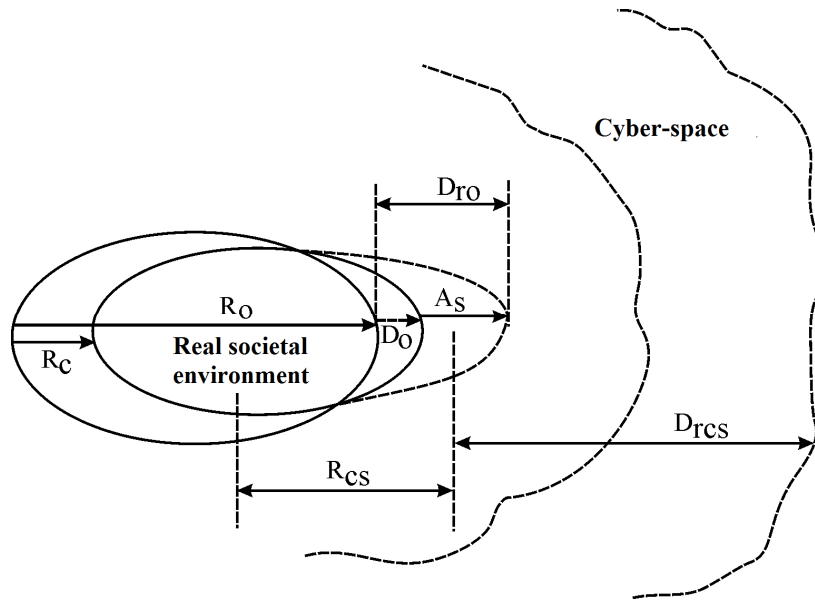
The aim is to achieve a state of "better than" condition and minimizing "the worst" measurement based on relative trends model from the initial distribution of resources (restrictions).

The legal models, operational policies created / supported content legislation give rise to "gains" or "losses" of "law" (law). This, conceptually and factually informed, leading to recognition variability regulatory substance (laws), which is the result of the imposition of subjective / establishment in practical life of a quantity / quality of "legislation" (legislation documents).

In this way receives a certain phase shift between the size / quality body / multitude substance of laws at a time and the reality surrounding opportunistic back into the requirements of the law, namely the commitment of opportunistic alignments crowd unlimited freedoms, non-standardized.

In modern times, we believe that the most significant example on theses above (taken from *Gâf-Deac, I.I., -New Economy between knowledge and risk, Ed. Infomine, Deva, 2010*), is found in the report of phase occurred between freedom in cyber-space and legal normativity, remaining far behind endogenous levels of formalization and application (*Figure 3.*).





**Fig.3. Registration report of phase between freedom of cyber-space and legal normativity in the new economy between knowledge and risk**

$A_s$ = societal advance in the physical world; $R_c$ = regulation characterized by "obsolete operability"; $R_o$ = operational regulations; $D_o$ = deficit of operational regulations;	$D_{ro}$ = total deficit of operational regulations; $R_{cs}$ = rules for cyber-space; $D_{rcs}$ = deficit regulations for cyber-space
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The real societal environment is characterized by a legal image composed of operational rules ( $R_o$ ).

As the advancement of society (global human community), the complexity ois change.

In essence, it considers that it is not an increase in actual complexity of real social environment, but rather a new look / expression of its spatio-temporal referential axes us.

In other words, in the past, "the world was as complex as today" as far as appearance, perception and understanding of issues / requirements were reported intervals objective spatio-temporal and spiritual material related referential system that / of a time (segment) given.

Therefore, the real societal advance formal induce regulatory deficit ( $D_o$ ) the operational plan for the new appearance / expression.

Legal environment is filled with the substance annihilating this deficit.

Erroneously, is recognized in law or in conventional formalized sentence construction that is circulated legal normative added value.

Note appreciation that the annihilation / cancel deficit ( $D_o$ ) not done with legal added value, but through legal trivial normativity.

It meets the legal trivial normative endogenous deficit ( $D_o$ ), which is lucrative area contributory by formalized legislative parliaments, the legislative bodies, the originators and developers of law executive of distinct areas, civil society etc.

Societal advance in the "physical world" ( $A_s$ ), occasions that inclusion on the agenda of legal trivial exogenous normative deficit is to the conception of the author of this paper, like the similarity of legal endogeneity by formalizing potential of legal added value, but not annihilation / cancellation of legal forecast normative deficit.

Thesis accepting the add event feature is reinforced by legal expression of reality, by removing the regulations, marked by "great operation obsolete" ( $R_c$ ).

On the other hand, real societal environment is depositary of virtual reality (a cyber-space) which, since the second half of last century, has operationalized appearance /

expression, currently reaching the final stage of functionality by offering spatial referential system -temporal related to "the second life" (*Second Life*).

Materiality of actually act corresponding to virtual reality (telecommunication "freer" networking knowledge immersion in relocation / relocation of person / personality of other characters in another space and another time) - requires, a new type of legal normativity.

First, it is necessary to change the elements of normativity, ie the introduction of other types of components that undergo measurement, quantitative and qualitative shaping legal question as mathematical average awarded in respect of representativeness.

In essence, it is identifying and awarding / acceptance conventional list with new types of complex operations and legal operations that can be used in the composition norms or legal standards.

In the standardization work is accepted methodological similarity to transfer operational standardization legal act to "inventing new methods, techniques, procedures, etc. in the field such as algorithmic".

#### **4. Conclusions**

- The real societal environment already meets a collection of legal rules for actions and deeds of cyberspace, in the virtual reality.

- The quantity of the substance exceeds regulatory segment information joint operational deficit regulations, customary, even occupying a part of the segment related to societal advance of the physical world.

- Still can not find it necessary limit reached forward corresponding total deficit of operational regulations.

- Attempts standardization a "general regulatory collection" are visible, perceptible to obtain "legal operationalization" based on practical requirements, to spill the contents of the law applied to the present, future and "over-come" facts. Such concern formalizing aspects described above is attributable to holders of legal information that the joint connections, composition, etc. generate legal utility or tool of "legal product" marked by trivial (in the sense of removing the complexity of the "regular").

- It recognizes, in context, the urgent need for legal creation, based on the legal added value, while formalizing legal utility-based legal tools and products resulting from the composition of information taken from warehouse / stock of concepts, principles, data sentences etc. legal.

- Legal added value by quantifying causes possibly increase / maximize legal democracy.

- Judiciary can no longer remain in the role of "chaser" of conventional debates, the trivial exceptions is in homeostatic systems, highly formalized; he can not only act as the regulatory plan "pusher" only in real social environment.

- In essence, law can 'and should be "shooter" ("vehicle") for real societal environment, to new identified over-referential systems, understood or organized / self-organized and managed predictable degree of certainty in final / finished quasi-determined field.

- To achieve a such status, it is considered that it is necessary to imagine / create a new type of inferential statistical legal steps to remove the uncertainty related to facts and actions of real societal environment.

- In a large appreciation, freedom and effectiveness of key governance, on referential, practical, current plan and future alignments in real social environment is of legal added value creation.

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# COMPARATIVE ANALYSIS ON COMPETITIVENESS: ROMANIA VS. BULGARIA

Bogdan-Daniel, Floroiu<sup>1</sup>

## **Abstract:**

*The research developed in the present work is mainly aimed on comparative analysis of competitiveness in Romania and Bulgaria.*

*We want to draw a warning, because the situation is even more worrying because, according to the latest official reports on global and regional competitiveness, Romania was exceeded by Bulgaria, which will have a negative impact on Romania's development in the medium and long term, unless urgent action is taken to redress situation.*

*Although entry into the EU, competitiveness has become a national priority for both Romania and Bulgaria, this being transposed in national development programs and operational programs of the EU's competitiveness, the figures show that Romania had a very low absorption of European funds during 2007-2013, two times less than Bulgaria absorbed.*

*Target, set by the EU Strategy, is that by 2020, investment in research, development, innovation, made both government and the private sector, representing 2% or 1.5 % of GDP for Romania and Bulgaria.*

*In these circumstances, Romania must develop macroeconomic policies to stimulate economic competitiveness, develop all regions, to attract foreign direct investment, external grants.*

*Bulgaria has to face two major challenges: to accelerate the grow rate and to make it sustainable. Bulgaria has to ensure conditions for innovations and realization of human capital, including the development of the regions.*

**Keywords:** competitiveness; global; regional; GDP; Europe 2020; structural funds; Romania; Bulgaria

**JEL Classification:** O57; P52

## **1. Introduction**

In the current international and European context, marked by economic crisis, we consider it important empirical analysis of competitiveness both globally and regionally.

A broad notion of competitiveness refers to the inclination and skill to complete, to win and retain a position in the market, to increase market share and profitability, and eventually to consolidate commercially successful activities (Filó, 2007). The World Economic Forum (WEF) produces one of the best known competitiveness indexes – the Global Competitiveness Index (GCI).

The Forum defines national competitiveness as the “set of institutions, policies and factors that determine the level of productivity of a country” (Schwab and Sala-I-Martin, 2012; Schwab and Porter, 2007). The WEF definition links micro-(firm-level) to macro-(country-level) competitiveness.

The framework describing a firm's capacity to compete, grow and be profitable (Martin et al, 2006) is relatively uncontested, but applying the same concept to countries or regions has been subject to much debate.

The implicit analogy between firms and nations has been widely criticized because a country cannot go out of business and because competition between countries can benefit both, while competition between companies in the same sector is more likely to be a zero sum game (Krugman, 1996).

Between the micro and the macro level stands the concept of regional competitiveness. A region is neither a simple aggregation of firms nor a scaled version of nations (Gardiner et al, 2004).

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Meyer-Stamer(2008) states that: "We can define (systemic) competitiveness of a territory as the ability of a locality or region to generate high and rising incomes and improve the livelihoods of the people living there".

In contrast to the WEF definition focused on the concept of productivity, this definition is based entirely on the benefits to people living in a region. It assumes a close link between competitiveness and prosperity. It characterizes competitive regions not only by using output-related terms such as productivity but also by determining the sustained or improved level of comparative prosperity (Bristow, 2005).

The Joint Research Centre of European Commission defines regional competitiveness as "the ability to offer an attractive and sustainable environment for firms and residents to live and work" (Dijkstra et al., 2011). This definition integrates the perspective of both firms and residents.

## 2. Global Competitiveness: Romania vs. Bulgaria

The research developed in the present work is mainly focused on comparative analysis of competitiveness in Romania and Bulgaria.

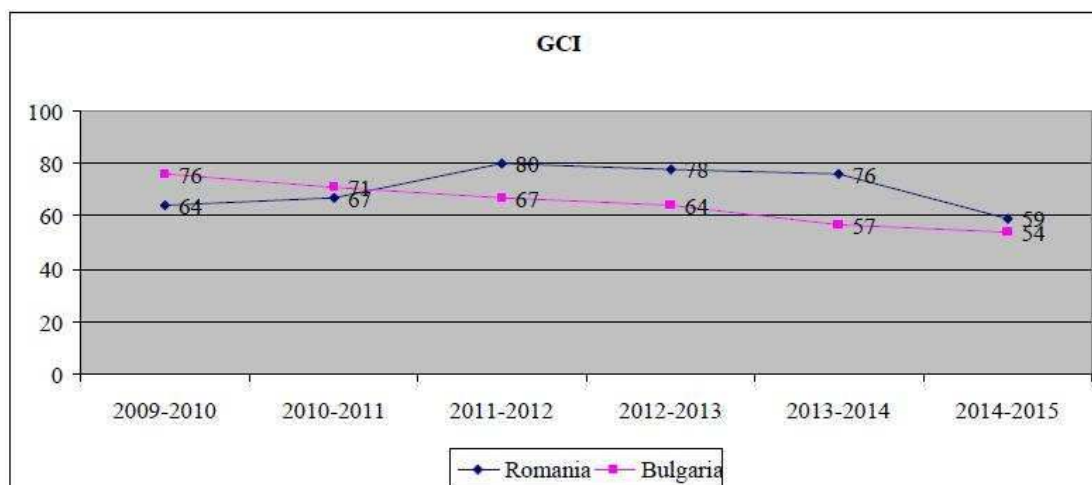
This analysis considered important because the two neighboring countries, which joined on 1 January 2007 the European Union, are the last two places in almost all official EU statistics.

We want to draw a warning, because the situation is even more worrying because, according to the latest official reports on global and regional competitiveness, Romania was exceeded by Bulgaria, which will have a negative impact on Romania's development in the medium and long term, if not undertake urgent measures to redress the situation.

Main research techniques, used for the research, were investigating statistical and content analysis of major reports and publications of international organizations and institutions on Romanian and Bulgarian competitiveness, and statistical methods of analysis and interpretation of data, descriptive statistics and correlations respectively. For statistical processing of data collected, we used Excel computer software, Data Analysis module.

The main data sources were taken from the World Economic Forum, the managing authority of operational programme Competitiveness from Romania and Bulgaria and Eurostat databases.

Global Competitiveness Index (GCI) is a composite index that is calculated based on 12 pillars that are found grouped in three sub-Indexes.



**Figure no. 1 GCI 2009-2015: Romania vs. Bulgaria**

Source: processed by the author on official data from WEF Global Competitiveness Reports

According to the WEF Report Global Competitiveness 2014-2015, Romania and Bulgaria have advanced to positions 59 and 54.

As seen in the current report, Bulgaria ranks ahead of Romania by 5 positions. Only for the first sub-indicator Bulgaria exceeds Romania by 18 positions. Romania exceeds Bulgaria, on the second sub-Index by 2 positions and the great advantage of Romania to Bulgaria is 28 positions on the third sub-Index.

As shown in Figure no. 1, Bulgaria's evolution is much better than Romania, the GCI was 76th in 2009-2010 and it reached 54th in 2014-2015, recovering 22 positions.

Instead, Romania has a negative evolution, GCI has fell steadily from 64th in 2009 - 2010, reaching 76th in 2013-2014, although had an advantage of 12 positions against Bulgaria at the beginning of the study period, Romania reach in 2013-2014 the position of Bulgaria in 2009-2010. However, you should consider, according to the latest report 2014-2015, Romania reached 59th place recovering 17 positions from last report.

Stages of development are determined by GDP per capita (US\$), but for economies with a high dependency on mineral resources, GDP is not the sole criterion for the determination of stages.

As a consequence of this, Romania and Bulgaria are in stage 2 - Efficiency-driven according to WEF Report. In this case, Romania is slightly better than Bulgaria.

Therefore, Romania must recover in all areas, but special attention should be paid to vital areas of Romanian society: health and primary education, macroeconomic environment, infrastructure and institutions, where Romania's score is dramatically lower than Bulgaria.

### **3. Romania vs. Bulgaria: Regional competitiveness**

To improve the understanding of territorial competitiveness at the regional level, the European Commission has developed Regional Competitiveness Index (RCI) which shows the strengths and the weaknesses of each of the EU NUTS 2 regions.

RCI 2013 is the second edition of the index and includes updated and more data together with method refinement.

Unlike RCI 2010 which was a learning index, RCI 2013 has two more changes: inclusion of Croatia and modification of the NUTS region classification for the EU 27.

RCI 2013 is based on a set of 80 candidate indicators of which 73 have been eventually included in the index.

According to Country Competitiveness Index 2013 (CCI), Bulgaria is ranked 27 and Romania occupies the last position – 28.

CCI 2010 showed the same ranking for the two countries analyzed: Bulgaria 26 Romania 27 since Croatia joined the EU on 1 July 2013.

Unfortunately, the worst performers regions are: Severozapaden (Bulgaria) and region Sud-Est and Sud-Vest Oltenia (Romania).

Analyzing the evolution of GDP per capita for Romania and Bulgaria in the EU-28 GDP, extremely important indicator for analyzing the evolution of EU member countries, it is observed that Romania has a small advantage against Bulgaria. Values are worrisome because GDP of countries surveyed is by 50% lower than the average EU-28 (Table no. 1).

**Table no. 1 GDP at current market prices per head of population (PPS)**  
Index EU-28=100

Country	2009	2010	2011	2012	2013	2014	2015
Romania	49.7	50.7	51.3	53.0	55.0	55.8	56.4
Bulgaria	43.8	44.1	46.5	47.5	48.1	48.6	49.1

Source: [http://ec.europa.eu/economy\\_finance/ameco/user/serie/ResultSerie.cfm](http://ec.europa.eu/economy_finance/ameco/user/serie/ResultSerie.cfm)

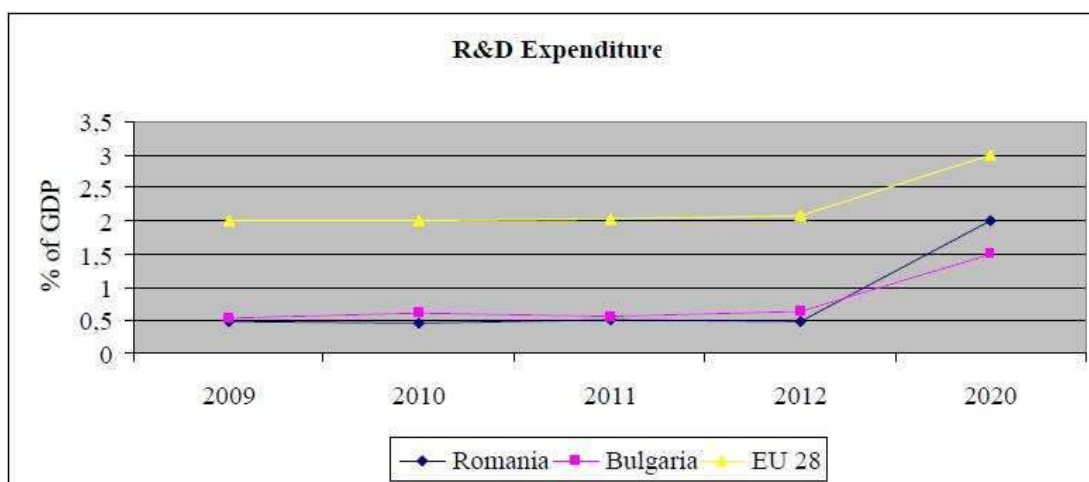
In March 2010 was launched “Europe 2020” - the EU’s 10-year growth strategy. It seeks to enhance the delivery of growth and jobs for the present decade. At the heart of the agenda is the achievement of “smart, sustainable, inclusive growth brought about through greater coordination of national and European policy.”

The three axes of the strategy are:

- ◆ Smart growth: developing an economy based on knowledge and innovation;
- ◆ Sustainable growth: promoting a more resource-efficient, greener and more competitive economy;
- ◆ Inclusive growth: fostering a high employment economy delivering social and territorial cohesion.

The strategy identifies seven flagship initiatives the EU should take to boost growth and jobs that are measured by the 7 pillars.

It is imperative to pay attention to research and development, knowledge-based activities and the target, set by the EU Strategy, is that in 2020, the investment in research, development, innovation, made both government and private sector, to represent 2% of GDP or 1.5% of GDP for Romania and Bulgaria (Figure no. 2).



**Figure no. 2 R&D expenditure (% in GDP)**

Source: [http://epp.eurostat.ec.europa.eu/portal/page/portal/europe\\_2020\\_indicators/headline\\_indicators](http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators)

Europe 2020 Competitiveness Index is a composite index that is calculated based on 7 pillars that are found grouped in three sub-Indexes (Table no. 2).

According to the WEF Report: Europe 2020 Competitiveness (edition 2014), Romania ranks 28th place, losing 2 positions from edition 2012, instead Bulgaria remains in 27th place.

Bulgaria ranks 27th overall; results confirm that it is still in the process of reinforcing its institutions. The labour market and employment area (16th) represents Bulgaria’s main strength. Flexibility in hiring and firing practices (8th) and a healthy relationship between pay and productivity (12th) make the labour market relatively efficient (14th), while the relatively high participation of women in the labour force (9th) is a competitive strength.

Bulgaria also can count on a relatively sound environment for entrepreneurship (16th), characterized by a somewhat accepting attitude towards entrepreneurial failure (15th) and non-distortive taxation (13th). However, Bulgaria trails other EU countries in terms of competition policy (ranking 26th), as well as in the use and impact of ICT, which reflect low performance on the digital agenda pillar (25th). Education and training are other relevant areas for improvement, ranked 27th and 28th on the two sub-pillars, respectively, indicating the necessity to work on both the access to education and the



quality of the system. Bulgaria's environmental performance is also among the lowest in the EU, with a particularly low assessment of the capacity to enforce environmental regulations (27th) and concerns about the quality of the natural environment (28th).

Romania is 28th overall, the lowest position in the Europe 2020 Competitiveness Index ranking. The performance is relatively better in the area of sustainable growth because of a comparatively acceptable level of renewable energy production (11th) and CO2 intensity(14th). At the same time, the country attains the lowest performance in the EU in the smart category (28th). Romania trails almost all EU economies in most of the pillars, with only a few relatively better results in the labour market and employment pillar, where it ranks 22nd. The country's labour market is flexible (ranking 10th in terms of hiring and firing practices), with a relatively better participation of women in the private sector (19th). In terms of smart growth, Romania's performance shows that the country still needs to concentrate on developing sound institutions and market structures before it will become as competitive as the most advanced economies. Romania ranks only 23rd in the enterprise environment pillar. Despite a positive entrepreneurial attitude (3rd), improvements need to be made in the competition component (25th) and towards stronger development of clusters (24th). At the same time, the availability of finance is better than in other countries (15th on access to loans). Also, performance on the digital agenda and the innovative Europe pillars needs to be reinforced; Romania's ranking is 28th on both, pointing to the country's very low capacity for innovation. Taking a holistic approach to building up different areas of development is necessary to enable Romania to close the gap between its competitiveness and European targets.

**Table no. 2 Romania vs. Bulgaria: Place on the Pillars of Europe 2020 Index**

INDEX	Romania	Bulgaria
<b>EUROPE 2020 INDEX (2014 edition)</b>	<b>28</b>	<b>27</b>
<b>SMART GROWTH</b>	<b>28</b>	<b>27</b>
1ST PILLAR: ENTERPRISE ENVIRONMENT	23	24
2ND PILLAR: DIGITAL AGENDA	28	25
3RD PILLAR: INNOVATIVE EUROPE	28	27
4TH PILLAR: EDUCATION AND TRAINING	28	27
<b>INCLUSIVE GROWTH</b>	<b>26</b>	<b>24</b>
5TH PILLAR: LABOUR MARKET AND EMPLOYMENT	22	16
6TH PILLAR: SOCIAL INCLUSION	27	28
<b>SUSTAINABLE GROWTH</b>	<b>26</b>	<b>25</b>
7TH PILLAR: ENVIRONMENTAL SUSTAINABILITY	26	25

Source: WEF, The Europe 2020 Competitiveness Report (edition 2014)

#### **4. EU structural funds on competitiveness**

##### **4.1 Romania**

As follows from the analysis performed on competitiveness, Romania is far behind Bulgaria globally and in last place in the EU, having to recover significant gaps in terms of knowledge-based society.

The overall level of economic activity in Romania remains low. An analysis of the level, structure and sector performance clearly shows that the issue of competitiveness is a challenge for Romania:

- ♦ Current dependence employment of a very low value-added agriculture, where small farms are very large share (almost 93% of all farms) with low orientation towards the market, low productivity and technical equipment, grove large areas diminished (50%);



- ◆ Entrepreneurial culture as reflected by the relatively low density of businesses in all regions except the Bucharest-Ilfov region and move towards low value-added activities;
- ◆ Levels of productivity internationally uncompetitive in many industries;
- ◆ Low current representation services with added value in the economy;
- ◆ Fragmentation, excessive standardization, inefficient use of resources in the Romanian media and academic research and development, the absence of a strategy for the development of intensive research institutions.

In these circumstances, Romania must develop macroeconomic policies to stimulate economic competitiveness, develop all regions, to attract foreign direct investment and external grants.

The European Commission approved Romania, on 12 July 2007, Sectoral Operational Programme “Increase of Economic Competitiveness”. The total project budget was around EUR 3 billion, of which, Community assistance was EUR 2.55 billion (about 12.7% of the total EU money invested in Romania under Cohesion Policy in 2007-2013).

Absorption rate was only 36 % at September 30, 2014.

General objective of OP “Increase of Economic Competitiveness” was to increase the productivity of Romanian companies, to reduce disparities compared to the average productivity of the Union. Measures taken in 2015 will generate an average increase in productivity of approx. 5.5 % annually and will allow Romania to reach a level of about 55% of the EU average.

Specific objectives of the OP Competitiveness 2007-2013:

- ◆ Strengthening and developing the productive sector;
- ◆ Establishment of a favorable environment for enterprises;

Achieving these two goals can be gauged by “SMEs contribution to GDP growth” by 10% in 2015.

◆ Increasing the capacity of R&D and fostering cooperation between RDI institutions and the productive sector;

Achieving this objective will contribute to increasing the value of R&D expenditures (GERD) to 3% of GDP in 2015.

◆ Harnessing ICT potential and its application in the public sector (administration) and private (citizens, enterprises);

The target is to increase the penetration of Internet services (access to online services enterprises) from 52% in 2003 to 70% in 2015.

◆ Increasing energy efficiency and sustainable development of the energy system;  
The target is to reduce primary energy intensity by 40% by 2015.

◆ Promoting Romanian tourism potential;  
The target is to increase the tourist flow in Romania by 20% by 2015.

Currently, there are few available evaluation results, which provide a picture perspective on the relative effectiveness of specific types of intervention. Regarding lessons learned in 2007-2013 can be highlighted:

◆ Shortage of demand for R&D in less developed regions of Romania, that prevent the development of market economy;

◆ Fragmentation of the research environment and the inadequacy of its links with growing business needs and social challenges;

◆ Absence of appropriate financial instruments for R&D needs for ensuring its links with the productive sector/technology transfer;

◆ The importance of simplifying the rules on access and the implementation of projects;

◆ The lack of thematic concentration/sectoral actions for enterprises of OP Competitiveness, Priority Axis 2 "Competitiveness CDI" had a slow start, but showed a continuous annual growth rate of contraction, achieving total allocation contracting in 2013.

An important recommendation of the Council on National Reform Programme for Romania in 2013 and that includes an opinion on the convergence program of Romania for 2012-2016 refers to the need to increase the synergy between research, innovation and industry, in particular by prioritizing research and development activities that have the potential to attract private investment.

**Romania's development objectives for 2014-2020 must:**

- ◆ To meet the specific development of Romania, based on competitiveness that should be promoted by national investments;

- ◆ Contribute to the objectives of smart, sustainable and inclusive European Union, established by the Europe 2020 strategy, the basic document that foreshadows all EU policies and programs.

The overall goal for 2014-2020 will be determined based on the need to boost the sustainable economic growth in Romania, coupled with the major objectives of EU development.

Development priorities will be identified based on major development needs of Romania in the following areas: infrastructure, competitiveness, human resources (including employment and social inclusion), administrative and territorial development.

For 2014-2020, Romania's priority is to increase competitiveness, which has been transposed on the recommendation of the European Commission in funding priority "Promoting economic competitiveness and local development", with funding of EUR 1.33 billion representing 4.3% of total funds.

**Thematic objectives:**

- ◆ Strengthening research, technological development and innovation;
- ◆ Improving access, use and quality of information and communication technologies;
- ◆ Increase the competitiveness of SMEs, the agricultural sector and fisheries and aquaculture sector;

Needs indicated in the Agreement to increase competitiveness are:

- ◆ Creating an R&D public more compact and modern, who focus on the needs of the economy, social changes and technologies that Romania has worldclass potential, in accordance with the principles of smart specialization and to raise the level of marketing and internalizing research;

- ◆ Promoting a culture of entrepreneurship and innovation in the entire educational system in companies.

Component Research, technological development and innovation (R&D) to support business competitiveness and pursue the following specific objectives, which are subsequent general objectives:

- ◆ Encouraging private investment in R&D and research partnerships between businesses and research organizations (research and development institutes, universities) in order to increase the transfer of knowledge, technology and personnel with advanced skills and development of R&D products and services based on R&D in economic sectors with growth potential.

- ◆ Facilitating access to financial instruments to support private investment in research and innovation and to stimulate start-ups and spin-offs innovative.

- ◆ Development of public and private R&D both clusters as part of existing/emerging centers of excellence and other types of CD structures established at national, regional, European, and in the priority thematic areas, in agreement with existing potential and/or competitive advantage.

- ◆ Unlocking the potential for excellence in R&D by creating synergies with EU R&D program - Horizon 2020.

## **4.2 Bulgaria**

For the first program period for Bulgaria 2007-2013, by Operational Programme “Development of the competitiveness of the Bulgarian Economy 2007–2013”, resources are allocated at the size of EUR 1.16 billion (10.3% of total funds), of which EUR 0.99 billion (85% of the resources) are funding by the EU along the line of ERDF and EUR 0.17 billion (15% of the resources) national co-financing.

Absorption rate was 74% at September 30, 2014.

The purpose of the support within the framework of OP Competitiveness is to develop a competitive and efficient production and business potential, to contribute to increasing the economic effect and to assist the necessary structural changes in economy with a view to achieving a sustainable progress and feasible cohesion during the programme period. The overall objective of OP "Competitiveness" is to develop a dynamic economy competitive at the European and world market.

The general objective of the operational programme shall be implemented through two specific objectives that cover both aspects of competitiveness – the preparedness of Bulgarian enterprises for the Common European Market and for the fast changing conditions on international markets, as well as the condition of the environment in which they function.

The expected impact of the investment:

- ◆ To raise the expenditures on Research and Development (R&D) by 0.64% up to the level of 1.15 % by 2013;
- ◆ To raise the export as a share of the GDP ratio by 30 % by 2013;
- ◆ To reduce the overall energy intensity level by 25 % compared to the level of 2004 and to create additional capacity of 16 GwH for the needs of the enterprises of renewable energy production in the national grid;
- ◆ To create 2120 jobs, and 300 jobs in the research area;
- ◆ In overall, the contribution of small and medium enterprises (SMEs) to GDP is set at 32.3% for 2013, i.e. 10% increase in comparison with 2004 data; and Labour productivity increase will be 11.5% for the same period and baseline.

Outside the resources granted for the financial engineering tools (36%), the biggest percentage is of the granted resources for technological modernization and management systems (33% of the totally granted resources), followed by the resources for innovation and support for the SRDA (17%) and energy efficiency and green economic.

The effect of the resources granted on the Bulgarian economic indicates positive impact on the GDP, employment, the export of goods and services, as the most significant is the impact on the growth of the private investments. In this sense, the effect of then operational programme is measured not so much in the quantity of submitted resources and/or in the financing „by the pieces, and the initial push of projects which are later taken and further developed by the private sector by taking the benefit for itself.

Despite of the contribution of the funds granted along the line of the European funds, incl. of the operational programme for competitiveness, for overcoming the negative economic trends in the first programming period for our country, Bulgaria continued to be the worst developed member state of the EU with GDP per capita 45% of the average for the EU, with the lowest indicators in terms of competitiveness, efficiency, power consumption and resource efficiency.

The main challenges before the Bulgarian economy remain the difficult access to sources of financing, low rate of business internationalization, low rate of innovativeness of the Bulgarian enterprises, high rate of energy intensiveness and resource consumption of the production, bad structure of the export (based mainly on the exportation of raw materials and goods with relatively low added value).

One of the main debates on the European level is the new industrial policy of the EU. Europe, historically, has always been economically strong based on the production.

However during the last decades, a greater share is acquired by the services and finances.

At the same time Europe could not leave the crisis without production and well paid jobs.

In this sense, a dialogue is needed with the business and the whole society regarding the starting of a process of reindustrialization of Bulgaria an attraction of investments for export oriented productions.

The importance of the OP "Competitiveness" 2007-2013, respectively of the new operational programme for innovation and competitiveness for the period 2014-2020, is determined by the special place of the business compared to all other participants in the development, namely: the business creates the public goods and is the actual agent of the economic development as a main component of the development and all other participants (public authorities on central and regional/local level, non-governmental sector) can be qualified as „supporting the development—, to obtain certain public benefits.

Considering the results achieved and lessons learnt from the current program period, the existing problems, needs and dispositions of the target groups, the proposed vision for the Operational Programme „Innovation and competitiveness (OPIC) is as of 2020, Bulgaria is a resource – efficient, eco-friendly industry and competitive industry and competitive economy, ensuring conditions for innovations and realization of human capital, including the development of the regions as per the specific giving.

Thus, the economy of Bulgaria is facing two main challenges, which need to be addressed by the OPIC— during the programming period 2014-2020.

The first challenge is to search for the base of the acceleration of the grow rate of the economy aiming for the catch-up development, and meanwhile compensating the decrease of the population in labor capacity age with the fostering of the overall economic activity and labor productivity.

The second challenge is to ensure that the accelerated grow rates will be sustainable – with accent on the ecology and energetic and generally the resource effectiveness. These challenges also require serious institutional and administrative support.

To overcome the main challenges for accelerated and stable growth, the following two priority axis have been defined with the relevant intervention areas:

**PRIORITY 1.** Entrepreneurship, export and production potential as a base for accelerated growth

A) Technological development and innovations („smart— growth) – in relation to the likely investments, as provided in the Thematic objective 1 of the General strategic frame;

B) Competitiveness and productivity of the enterprises (fast growing) – considering the Thematic objective 3 of the General strategic frame;

**PRIORITY 2:** Green and efficient economy as a guarantee of sustainable growth

C) Green economy and resource efficiency – following the investment logic of Thematic objective 6 of the General strategic frame;

D) Energy technologies and energy efficiency – in execution of Thematic objective 4 of the General strategic frame;

Within the frame of the indicated conditions, the total size of the resources on the Operational programme „Innovation and competitiveness 2014-2020” is EUR 1.18 billion representing 12 % of total funds.

## **5. Conclusions**

As follows from the analysis performed on competitiveness, Romania has been exceeded by Bulgaria with 5 positions overall, Romania remains the last position in the EU, having to recover significant gaps in terms of knowledge-based society.

Lack of vision has been identified as one of Romania's main deficiencies in implementing Competitiveness OP. In addition, it was recommended to establish a stable set of indicators for outputs, outcomes and impacts, to help monitor the effectiveness of the program and its objectives.

In attracting structural funds on competitiveness, Romania registered an absorption rate, two times smaller than Bulgaria, in 2007-2013.

In these circumstances, Romania must develop macroeconomic policies to stimulate economic competitiveness, develop all regions, to attract foreign direct investment and external grants.

Bulgaria has to face two major challenges: to accelerate the grow rate and to make it sustainable. Bulgaria has to ensure conditions for innovations and realization of human capital, including the development of the regions.

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# ECONOMY MANAGEMENT REFORMULATION THROUGH CORPORATE MANAGEMENT APPLICATIONS

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## Abstract:

*The paper presents conceptual aspects of corporate management on the reformulation of the economy. The central aim of the reformulation process management Romanian and European economy is entering into economic science and practice of corporate logic, modal logic as part of trust and distrust, to operate the new network economy based on knowledge. It concludes that, in fact, the utmost importance of corporate social responsibility proves practical and effective in the management of the economy reformulation. It is said that success and key future performance of the Romanian economy is a model integrated generalized corporate management, the project outlined in the article, regarding conceptual and practical regulatory alignments new modern enterprises corporate behavior.*

**Keywords and key phrases:** *corporate management, management, management reformulation, the new economy.*

**JEL Classification:** A1/A10

## 1. Introduction

In the context of the evolving global economy and human development conditions in the new knowledge society consider that appropriate management approach towards a new reformulation of the Romanian and European economy.

In the process of reformulation mainly can consider the following:

- Reviewing the managerial perspective of human action to identify behavioral motivations to serve economisation or saving economic effort and resources;
- Looking for procedural awareness alignments in the general calculations management of economic decision-making;
- Development of new theses on the concentration of knowledge resources, clearly recognizing the dominance of technology on culture and socio-economic management;
- Switching to longer greener a mass of knowledge management and organizational structures.

In fact, the reformulation of the Romanian and European economy management aims to identify and systematize the management elements of the networking / based economy using the theory and practice of corporate management.

## 2. Conceptual expressions of corporate managerial economics reformulation

Identifying the knowledge of complex economic networks is a prerequisite to formalize complex decision-making process and highlights the generic qualifiers for a new corporate management-based complex-dynamic social networks.

As such, it proves priority data management knowledge and pragmatic economic transition, which is added to corporate managerial behavior conception for non-socio-economic events.

The central aim of the reformulation process management in Romanian and European economy is entering into economic science and practice of corporate logic, modal logic as part of trust and distrust, to operate the new network economy based on knowledge.

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To be applied in the economy means corporate commitment or disposition to believe disposition, with extensions of confidence sufficient condition by judgments, opinions, desires, demands that are contributory to productive economic and social act management of high complexity. [1]

It can make distinctions between states of "corporate" and "sub-corporate" which, in turn, determines the recording conditions managers' personal and the subpersonale and full self-consciousness differentiated status of the search, as term help thinking to reach the fullness of documents substantiating the corporate base decisions.

Different situations that reflect the realities of socio-economic variables are included in corporate conceptual expressions.

In economic practice, however, appear aimed at the need to identify requirements relative size of the parameters of the meta-variables corporate management.

However, the theory stated or expressed in some content to be tested for an immediate next step, relations confirmed to be used for predictions of quantitative and qualitative economic production, in a so-called corporate managerial reconsideration.

In effect, extensive management, corporate management suggests new dimension of organization and management issues or perceived limits and measurement actions mastered organization and management decision that may be of further interest in the economy and in general societal environment.

Subject matter, scope and methods of corporate management are subordinate derivation applied complex socio-economic systems or quasi-complete decision ascertaining the effective behavior management for socio-economic sustainability.

In itself, the corporate management "measures" so establishes sustainable applications of economic information, productive, social, scientific, etc., and determines most dense knowledge about the organization and management in general and semantic meaning.

From a rational economic production model it is possible to build, so the generation, empirical economic production model, which according *Gaf-Deac, I.*, in his *Fundamentals of Doxastic Management (FMP Publishing House, Bucharest, 2013)*, "push" knowledge management in new areas evolve, using results-images.

Corporate management models in economics reconstruct images of managerial mechanisms that lead to new statistical processing sub-images results useful for ensuring sustainable management of productive economic behavior of complex systems.

Possible models of economic organization and management credibility by corporate management are supported by specific statistics, with which the alternative scenarios and managerial experience, until the establishment of the maximum likelihood. [2]

### **3. Corporate Social practical Responsibility and effective in the management of the economy reformulation**

Of their scientific investigations that in Romania and Europe, both small, medium and large corporations are required by law to have the attention factor called "social responsibility".

All Romanian companies has national social responsibilities because their activities are conducted in the country, territory, sand ocial disturbance in after their productive economic activities can be found in Romania.

Any method of organization and management must however take into account the content, role and consequences of social responsibility in business.

Corporate Social Responsibility (CSR) is participating in the reformulation of economic management. (CSR) is, with the rise of multinational companies, new business philosophy, which emphasizes the need to look beyond the ultimate goal of the enterprise (customer satisfaction, in order to maximize profits). [4]

World Bank agrees to corporate social responsibility commitment to its stakeholders and also a tool to improve the situation of local communities in which the company operates.

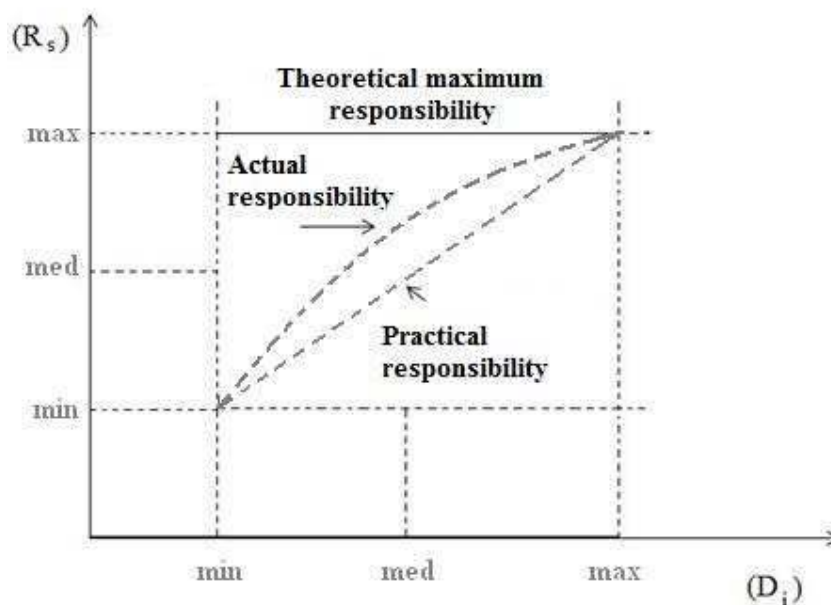
The European Union is interested in developing and implementing the concept of (CSR), which is part of the Europe 2020 strategy for sustainable growth.

OECD has campaigned to improve transparency and ethics in international affairs, developing four documents concerning (CSR) Corporate Governance Principles, the Guidelines for Multinational Enterprises, the polluter pays principle Convention. [3]

For example, social accounting is a concept designating measuring social and environmental effects of economic activity of the company and requires the development of methods, techniques and appropriate reporting tools.

It is noted that among firms in Romania, if it is to be a healthy environment for the production and business, should the socially to register theoretical maximum social responsibility case.

It follows that it is useful awareness of corporate social responsibility development of theoretical, practical, effective companies, regardless of size and importance in the national economic system and, by extension, regional neighboring countries in Europe (*Figure 1*).



**Fig.1. The evolution of corporate social responsibility theory, practical and effective in large companies in Romania**  
 $(R_s)$  = corporate social responsibility;  $(D_i)$  = size of firms.

It appears that corporate social responsibility should not be confused with corporate sponsorship and philanthropy. This (corporate social responsibility) is based on the vision and enterprise software integration and management objectives feasible and effective modern marketing.

In modern complex firms most complicated aspect turns out to be that of developing an integrated model of corporate management in the enterprise applicable generic standard.

We believe that, in fact, integrating traditional mode operation of the company, with corporate management in the economic environment in Romania, it creates the basis for a new model of management.

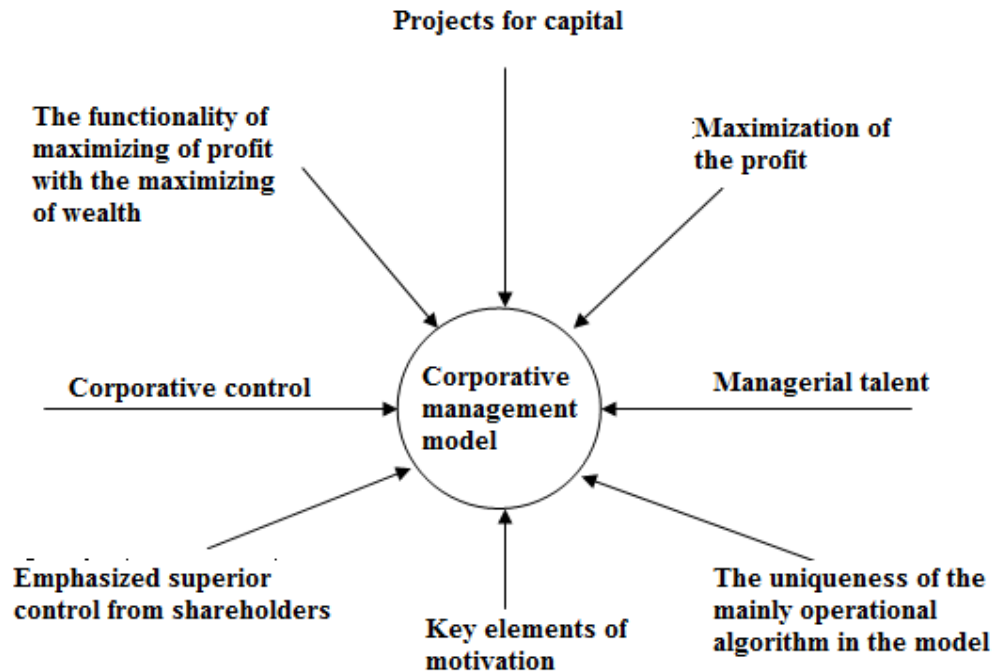
In the economic, managerial talent is helping to conduct activities on corporate management. The corporate management is inputs (inputs) common elements, traditional productive activity, economic and business.



In particular stands out entry (input) representing the operation of the company, which involves obtaining maximum profit that relates to welfare and working environment in the undertaking.

A company that plans to introduce corporate management needs a guide application, a guidance document on which to formulate new strategies and tactics for sustainable management. In other words, a model is needed.

For further improvement in this area is advancing the project proposal outline corporate management in national and regional modern European companies. (Figure 2).



**Fig. 2. Proposing a general model for corporate management companies in Romania**

Scientific investigating possible future orientations of the company's activity, to be contained in such a document resulting, for example, that firms in Romania, as a country - member of the EU, it creates conditions for applying corporate management nationally, as and in areas of national development, if approved regulatory framework document.

Operation by corporate management on nationally Romanian companies and in European Regional geographically involves establishing guidance, guidelines on which developed and approved regulations for the Board of Directors regarding the duties, responsibilities and authority.

Guidelines have titles in stating the legal basis for each direction, along with tasks, responsibilities and resources or persons delegated to management.

Therefore, it is necessary to design a regulatory document, defining the company's operation by applying corporate management.

This document serves as a model for the organization and destination management imposed by effective corporate management.

This document may have sections, chapters, paragraphs, etc. respecting the main rules for the establishment and operation of companies, played in succession below.

- Alignment No.1 proposed document refers to the mandatory declaration and taking firm of purpose and mission of the company.

- Alignment No.2 aimed at defining the tasks and powers conferred Board of Directors. (BD).

- Next, proposed guidelines refers to the organization of the Board of Directors in the alignments no. Three.

Election of the President, Committee and Members of the Board of Directors (BD) should be transparent, salary awards to be granted so that no person may not be in conflict of interest in the company.

Synthetic yielded the following findings and feedback on the draft regulatory document management at national and European regional corporate:

- A company has one or more owners, founders, shareholders;
- The company in question has technical system for production; material, financial and human resources, which in turn are executing human resources (workers) and human resources for the overall management of the company;
- Organization and management of the company lies in the tasks, duties and powers of human resources for the overall management of the company;
- Type of management (rules, procedures, techniques, methods, etc.) is applied to the management team, located at the top of the pyramid in the golden triangle of the organization;
- Usually classical, traditional management team has its own organizational structure, specific (general manager, deputy general managers, directors, chief engineers, chief accountant, etc.) that are found in the organization approved;
- Rules of Organization and Operation (ROF) and internal regulations (ROI) with company organizational chart showing the hierarchical positions, roles, tasks, duties, responsibilities, reporting hierarchical relational etc. related to all members of the management team.

Such a structure and such a regulatory framework ensures the company's production, resulting in consumption of material resources, financial, human, knowledge, etc. for the production of products, services, etc. at levels as low cost and sale (delivery, delivery and consumption) in rooms as well as larger so as to make a profit, benefits in terms of efficacy, efficiency, etc.

Currently, the highly developed advanced technologies of telecommunication without borders, a rețelizării and clustering in highly competitive markets and a strong competition, it appears that the organization described above has traditional vulnerabilities or weaknesses that put threatening the sustainability of the operation of the company in question.

Accordingly, it is intended to complement this framework with corporate management methods to implement "best management practices" already recognized as effective at national and European regional, international, global.

- Alignment No.4 of regulatory documents on corporate management refers to the management of corporate procedures performed by Board Director (BD) in accordance with the "economic approach" set out above.

Problem functional Board of Directors (BD) must be seen in proper interrelationship between the proposed alignments described above.

In fact, the practical application of modern management firms is reflected in activities of the Executive Committee (EC) and the Office of the Executive Board (ECB), whose action guidelines concerns the introduction of corporate management, applicable national and regional, international, globally.

- Alignment No.5 relates in this context, information, reports from Board Directors (BD).

Such a structure proposed to guide the introduction of corporate management is support for developing regulatory documents.

On this basis it is now possible to establish procedures for making such as: achieving a regulatory document for a global corporate operational plan and regional levels and achievement of regulatory documents nationally in Romania. Order or priority development documents can be established in relation to policy or strategy in the company.

In other words, priority may be developed nationally regulatory documents (in Romania) the aggregate or compound can be found in a paper for the European regional plan.

In the second version, priority shall be formulated and approved a regulatory document geographically European Regional provides the framework for achieving the documents in the national economic environment in Romania.

It appears that at present (2014) international (global) is already developed and operates a general framework of overall corporate management for modern businesses primarily through corporate management code already recognized in Europe and the world.

As such, nationally, in Romania, it is considered necessary to establish guidelines for the introduction of a new type of firms among corporate management, since the consequences of any misalignment in the field affect their future competitive business relations.

It is therefore useful to develop an integrated model of corporate management, including procedures for all the positive or negative, organization and management of firms.

Corporate management models are different from country to country. However, meet certain features that are common, the basis for developing an integrated model of corporate management firms in Romania, which is widely accepted nationally and then in regional, European and global. It is useful to develop a model based on the relationship "profit-welfare", for example, could be a feature in fact common general model of corporate management firms.

In practice, usually there are requests from shareholders to the management activities of the firm. However, periodically (annually) managers need to develop a report to shareholders, report the company managers on how they perform tasks received in the organization and management of the enterprise for profit.

Therefore, by applying corporate management is noted that, more important than any other measure, the answer to the many requests and demands from shareholders for the good of the company.

Proposed introduction of corporate management firms in Romania involves actions change, so improvement. In a certain sense, any change management, as can be seen introducing corporate management structure of a company, means its devolution.

Devolution may lead to reconsideration of the functional situation of the company in the economic and social local Romanian, understanding common sense "national space" in Romania.

We find that in comparable terms, currently (2014) in Romania firms are moderately interested, concerned, that attracted corporate management and manifest intent only satisfactory theoretical input it into their functional structures. This concern is justified weak rather obligations inputs (inputs) such as corporate management, which originated in developed countries at the regional level (eg in developing countries).

The reason identified is that the interest mentioned is supported on short and medium term on regional and global cooperation, which could suffer Romanian firms, unless they have a "language" Corporate relationships with partners already linked to corporate performance management in Europe together.

Therefore, managers of Romanian companies are increasingly confident that their businesses and long-term national economic environment will necessarily accept objective certainly types of best practice in European regional and global corporate management.

However, short-term, regional corporate management application situation among Romanian firms can be considered as the limit between satisfactory and unsatisfactory, or in some cases, with some feedback only satisfactory.

The main cause of this situation appears too lengthy process of transition from command economy mentality related to the economy competitive market. Equally, the country's overall economic difficulties or lack of clear policy development, management determines stagnation Romanian firms.

Many companies require no concern for decentralization or devolution, meaning the freedom of devolution of decision-making power drop at the entity. Mainly tracked functional autonomy, procedural and managerial firms. This suggests possibilities for internationalization, regional activity free European firms.

However, Romanian firms and their managers, not yet completely detached state. They argue, in any case, the protective role of the state, accept state intervention to save them to survive in their critical moments. Of course, firms would like to state saving intervention when the limits of survival, but the intervention in question should be, if possible, selfless, unconditional, and financial support should often be non-refundable.

However, the Romanian companies show their location regionally temptation internationalized and therefore, introduce corporate management practices, but will not release the "local", the "national".

Important companies in Romania, to survive is internationalized production line, receiving human, financial and material equally from national and local plan from the European Regional.

Virtually every European country (including Romania) currently meets at least one big company type enterprise transnational corporations in the local economic system. This fact confirms that large companies get often by their size exceeds some governments in power and size, causing the influence of international institutions out how to correct corporate management.

We note that currently, more and more national and European regional management concentrates in the hands of the great leaders of transnational company company type. In the absence of rules of corporate management, in our view, Parliament may become "fair" that displays prices open voting laws being bought, sold, with another word 'marketing'.

Inappropriate social situations are more often accompanied by local environmental impairment because businesses use the environment beyond the maintenance of its bearing. We believe, however, that public policies in Romania and at least the regional level, should be directed to the requirements and directions ensuring sustainable economic growth.

Corporate management ensures growth by establishing a creative balance between the actions of managers and their acts of organization and management.

Classical management traditionally becomes critical more poorly with applicable elements of theory and practice related to corporate management.

Organization and corporate governance, corporate management is integrated so as it helps the overall complex to solve current problems among managers.

#### **4. Conclusions**

In the analyzes and proposals that improve through training in regional and corporate management in Romania the application is deepening and stage directions such as: assessing European regional corporate management in Romania, developing key recommendations for improved corporate in Romania in accordance with international standards and principles of the OECD in the field, increasing the understanding of current practices of corporate management.

In Romania, according to their investigations, we have concluded that retention still exists to restructure the Board of Directors classic traditional.

Briefly, the investigation carried out are retained conclusions, findings and observations in the field which mainly relate to:

1 In Romania in 2011-2013, in fact, not enough programs and policies meet effective coordination, clearer and effective internationalization and regionalization Romanian firms, to practice more significant corporate management relations of production and commercial contracts performance of companies.

2 We note that, in fact, conflicts of interest are central factors that determine the set of deviations from corporate managers behavior characterized by ethics and fairness;

3 The main conclusion is that the concerns of trends and effective interest of enterprises in Romania for corporate management is only 48-60% of the total expression of interest;

4 The agenda managers still proves inadequate management of their enterprises internationalization and regionalization.

5 Found it carefully considered the operation of large enterprises in Romania type corporations, but even if corporate management programs, sometimes they are implemented only partially or declarative.

6 In Romania continues to feel the need to establish ways to improve the organization of corporate management.

The main recommendations in the context of analysis refers to:

1 Setting up in business structures and human resources management for the body of economic change agents, promoters of new managerial concepts arising from corporate management principles.

2 Board of Directors consists of a number of senior executives must have and a number of non-executive directors, whereas the latter, being independent, become part of the management staff of the company, and that specialists have reluctant to portray real problems noticed in enterprise operation.

3 Another measure is the preparation and approval prior company crisis management plans, where the company based on the overall corporate management is for any manager working map characterized by an active change.

4 Improving corporate management studies modern companies must relate to the restructuring of the board of directors, the focus of its work is on performance, not only subsistence or economic survival in the highly competitive business, competitive. As such, the organization and leadership of the state should be replaced with dynamic organization and management.

5 It is recommended that an integrated model applicable corporate management companies in Romania and the European Regional geographically. The developers of strategies, tactics, methods, techniques, procedures, regulations, etc. organization and management have one theory and proposals on this basis, useful design management decisions in the new knowledge economy.

6 In the national strategic, global and European regional development of a code is useful parliamentary corporate management and thus will create the transparent base harmonization in the political process, legislative, economic and managerial.

7 In fact, the key to success and future performance of the Romanian economy is a model integrated generalized corporate management, aimed at conceptual and practical regulatory alignments new modern enterprises corporate behavior.

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# DECENTRALIZATION AND LOCAL ECONOMIC DEVELOPMENT IN THE KNOWLEDGE SOCIETY

Elena, Rusu (Cigu)<sup>1</sup>

## Abstract:

*The sustainable development became a goal for knowledge society, but one of the main question in literature remains as how close is the relationship between economic development, knowledge society and local governments' level. Given the great diversity of situations and frameworks both across countries and within them in the European Union, I consider that each country must have own policies designed to implement process of decentralization with the commitment of "healthy" economy in a society dominated by the technology and innovation. In this context, the problem occurs in decentralization should be managed on two levels: on the one hand in terms of central-local budgets relations, and on the other hand, in the local public finance structural plan.*

*The paper will try to emphasize the connection between decentralization, local economic sustainable development and knowledge society, taking into account an overview of this three aspects and empirical evidences. In this regard, I will use the background offered by literature and the official statistical data for analysis to identify the variables which explain decentralization and local economic development in the knowledge society.*

*I estimate the analysis to confirm the hypothesis that there are good aspects, but also deficiencies that require solutions and budgetary policy options as part undisputed positioning local government finance as an engine of development of the whole nation.*

*I consider that the paper can be a useful viewpoint in understanding local public finances in decentralization, which allows researchers to include other sources of information for researching an in a much more complex approach.*

**Keywords:** decentralization, local economic development, local finance, local government, knowledge society

**JEL Classification:** H7

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## 1. Introduction

From the 1970s onwards, the idea that local communities can serve their own needs through their proper economy has gained momentum globally. So that, today, local governments are essential contributors to economic and social community development, and an important employer which have played a fundamental constitutional role throughout the history of all European countries. Their role became complete when almost all the EU countries decided to be impacted by decentralization over the last fifty years, transferring responsibilities and means from central government to local administrative-territorial units which starting to have a certain independence of decision and action.

Simultaneously, starting with the beginning of 21<sup>st</sup> century, the global society realized beyond the importance of development, the sustainability of it. So, the sustainable development became a goal not only for central government, but also for local governments.

In this context, when we realized that society is governed by technology and so that it is considered developed, the local communities must face with the challenge to generate a sustainable development as the total autonomy they have in action and decision.

The paper will try to emphasize the connection between decentralization, local economic sustainable development and knowledge society, taking into account an overview of this three aspects and empirical evidences.

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## **2. An Overview of Decentralization Process and Features of Local Economic Development**

Decentralization is viewed as an indispensable part of sustainable development efforts, particularly those focused on alleviating poverty (White, 2011). Several countries of Europe elaborated their first major decentralizing Acts starting with the end of the 1970s, such as: Spain with its 1978 Constitution, France with the 1982-1983 Acts, Belgium and Luxembourg in 1988, Italy in 1990, etc. These initial reforms determined a common framework for local autonomy in Europe, which were concretized by the European Charter of Local Self-Government, adopted in 1985 and which came into effect in 1988. The European Charter of Local Self-Government quickly became a reference, particularly for the new Central and Eastern European democracies that were in the process of implementing their own decentralization reforms, driven by a desire to both consolidate local institutions and capacities and the prospect of joining the European Union (Poland, Hungary in 1990; Slovenia, Latvia, Lithuania and Estonia in 1993 and 1994, etc.). Also, several West EU countries began territorial institutional reforms, such as: Belgium in 1993 with federalization, Greece in 1994 with creation of departments, Italy in 1997 with “Bassanini Reform” and the United Kingdom in 1998 with devolution Acts (Dexia – CEMR 2008). Starting with the year 2000, Romania and Bulgaria implemented a strong decentralization process; Czech Republic, Slovakia and Slovenia set up a regional level; France adopted Act II of the decentralization process; Spain initiated reform of autonomous communities; Italy adopted a constitutional reform and Germany reformed the federalism. So that, in the period 1990-2013 was consolidated the process of decentralization in all countries of the EU, the most striking reforms taking place in Belgium, Spain, Italy, the United Kingdom, France and Germany, as “old” EU countries. The tendency in Europe was to externalize the operation of local public services, choosing delegated management via sub-contracting, concession contracts with a private entity (i.e. an association or a company), public-private partnerships (PPP), and privatization of some public services. The high development of PPP and the wish for a better design of local development strategies have generated the implementation of a form of shared economic development which was not based only on directives from the public sector governed by decentralization or simply guided by the free market forces. So that, the local authorities and the market trying to find a link between them, has defined a new way of policy-making, and especially of economic development policy-making, thus promoting local development strategies.

However, the EU countries are still looking how to guarantee and consolidate local and regional autonomy, while at the same time rectifying, via solidarity mechanisms (equalization measures), the territorial imbalances such autonomy can generate. It is clear that there are many different interpretations of the concept of “decentralization” in Europe, making decentralization difficult to assess, given the multitude of criteria, whether in terms of the extent of local responsibilities, the leeway that local elected officials have over expenditure and revenues (particularly in terms of fiscal autonomy) as well as the way supervision and legal and financial control are carried out.

Economic development intervention requires a detailed analytical understanding of the strengths and weaknesses of the local economy, as well as the forces that are constraining or driving it. Local matters must be also placed in the context of external economies forces from around the globe. New technology, changing availability of natural resources, and trade and monetary policy, for example, all strongly influence local economic needs and opportunities. (Blakely, Green Leigh 2010, 143). Local governments are the most legitimate local public authorities responsible for calling together the different local actors and seeking areas of public-private consensus to further local economic development (Alburquerque 2004).



### **3. Empirical Evidences of Decentralization Supporting the Process of Sustainable Development**

The European Union is comprised of 28 Member States, with a very heterogeneous territorial organization. Some countries include regions on only a part of the national territory, as Portugal with autonomous regions of Madeira and Azores, United Kingdom with the "devolved" nations Scotland, Wales and Northern Ireland and Finland with Kainuu and the autonomous island province of Åland. As a "regionalized" unitary State with regions that have "ordinary" as well as "special" status, Italy has a special place in the EU. Romania has eight development regions without juridical/legal personality. In the 28th landscape of EU, eleven countries have just one level of local authorities (i.e. municipalities), ten have two levels (municipalities and regions/counties) and seven, which include some of the biggest countries in the EU, have three levels (i.e. municipalities, regions/counties and intermediary entities as departments, provinces, counties, etc.). In present, there are approximately 90936 local governments in the EU.

The indicators which allow to quantify and characterize decentralization across the EU countries are as following: expenditure decentralization (% of local public expenditures in total expenditures of the general government); own revenue decentralization (% of own revenue in general government revenues); revenue decentralization (% of local public revenues in general government revenues); local autonomy (% of own revenues in total local public revenues); the percentage of transfers from the central government in total local revenues; local public expenditure coverage by own revenues (% of local public expenditures covered by local taxes and fees; transfer dependency (% of local public expenditures covered by transfers). Using both expenditures and revenues, we tap into the main aspects of fiscal decentralization.

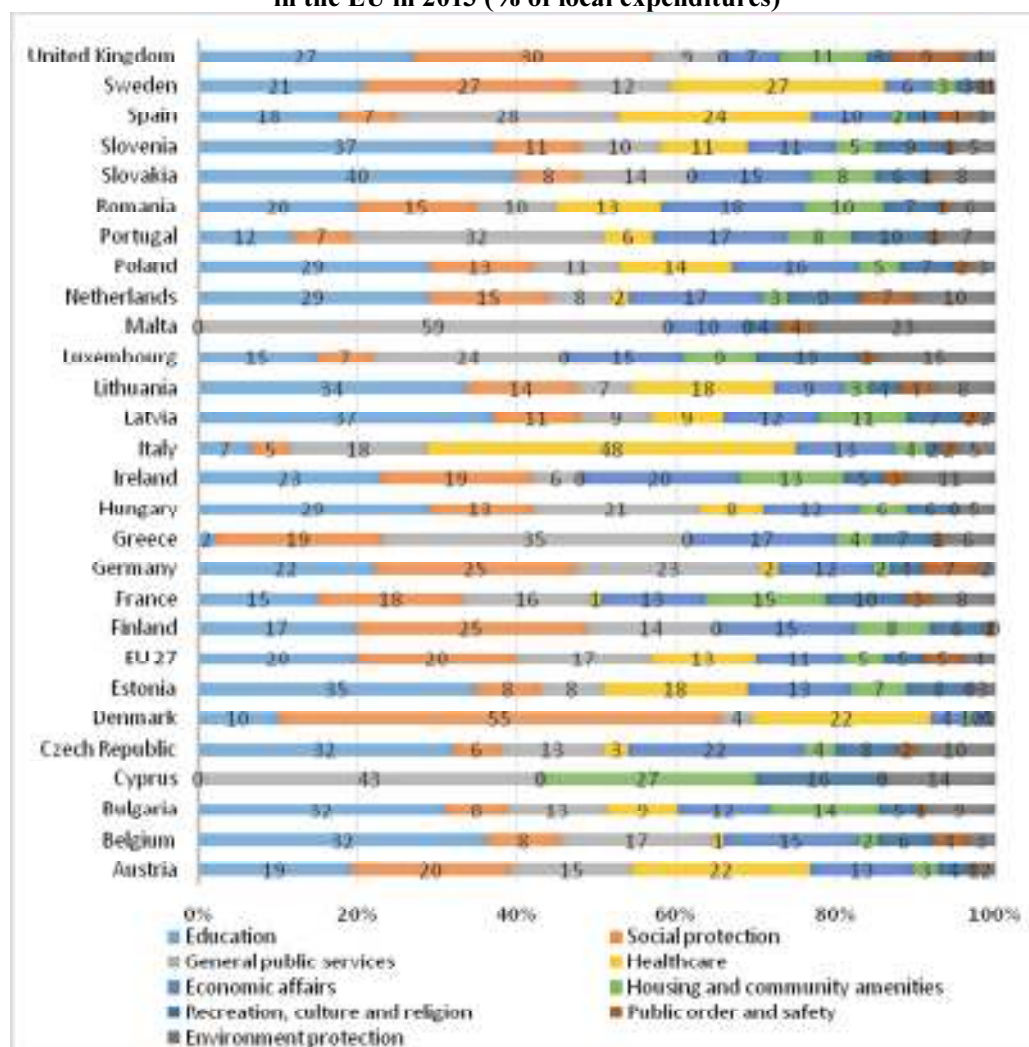
According to the literature review, the following areas were included into the categories of public expenditure supporting the process of sustainable development: education (Koehn 2012, 274–282; Kościelniak 2014, 114–119) – means to invest in human capital, environmental protection (Hoang 2006, 67–73), health and social protection (Seke, Petrovic, Jeremic, Vukmirovic, Kilibarda, Martic 2013, 1–7), recreation, culture and religion (Gough, Accordini 2013, 851– 887; Farmer, Chancellor, Gooding, Shubowitz, Bryant 2011, 11–23; Athichitskul 2011, 3–11). The amounts of the above mentioned categories of local public expenditure were analyzed as percentages of GDP, nominal values and dynamics indices, compared with the changes in total public spending.

Regarding local public expenditure by economic function (Fig. no. 1), expenditure on education increased by 3% per year, average in volume terms representing 20% of local budgets in the European Union countries. In Belgium, Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Slovenia, expenditure on education accounted for over 30% of total local expenditure, but no more than 40%. In countries as Cyprus and Malta, education is financed only by the state, being a centralized public service.

Social services expenditure, which refers to infrastructure and social benefits (e.g. sickness, disability, old age, survivors, family, youth, unemployment, housing, exclusion), account for 20% of local budgets in the EU. In Denmark, social services expenditure account for 55% of local expenditure and in Austria, Finland, Germany, Sweden and the United Kingdom the rate exceeds 20%. In Malta, social service expenditure are supported by the state budget.

Spending on general public services such as operating political bodies, general expenditure of administrations, interest charges on debt, etc., accounts for 17% of local public budgets. What is remarkable for this expenditure category is that local governments of Malta finance 59% of them, the biggest percent from the EU countries, while Denmark register only 4%.

**Fig. no. 1. Categories of local public expenditure by economic function in the EU in 2013 (% of local expenditures)**



Note: \*not data available for Croatia

Source: computed by author using Eurostat data and Dexia-CEMR, 2012

Healthcare expenditure has an average of 13% of local budgets. In Austria, Denmark, Italy, Sweden and Spain, local authorities and regional authorities are responsible for indirect or direct management of public hospitals, specialized medical services and basic healthcare, the expenditure in budgets exceeding 20%. In Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Luxembourg, Malta, the Netherlands, Slovakia and the United Kingdom, these functions are provided by the central State and/or social security bodies. In Romania, until 1997 funding health care was based on a national health system, the amounts being allocated from state budget, local budgets and some funds set up for. Social health insurance system established by law in 1997 became operational in 1999. Starting with 2010, the process to decentralize hospital determined the heavy weight of healthcare expenditure in local budgets, in 2013 being 13%.

Economic affairs accounted for approximately 11% of local budgets. They account for more than 20% of local expenditure in the Czech Republic and Ireland. Cyprus established this category of expenditure in the authority of central government.

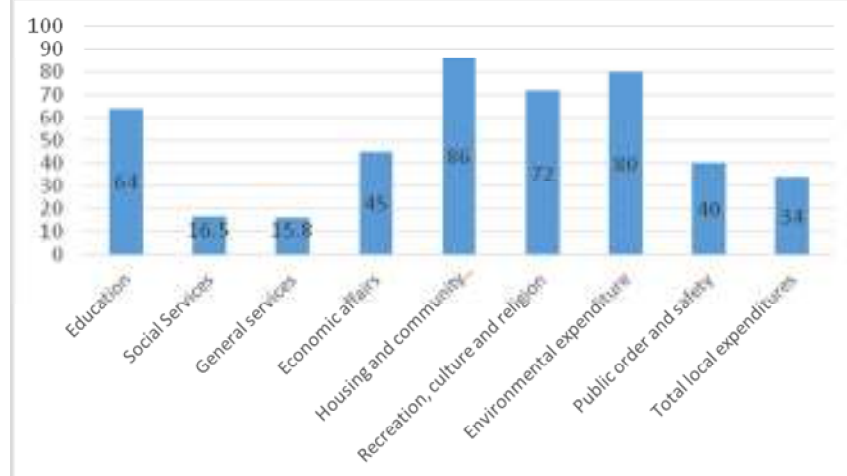
Three category of expenditure, respectively housing and community amenities, recreation, culture and religion, and expenditure on public order and safety accounts for

5% of local budgets. Regarding housing and community amenities expenditures, Cyprus is the country with more than 20% of total local budget.

Environmental expenditure (waste collection and treatment, parks, environmental protection) accounts for 4% of local budgets. The amount of local environmental expenditure in all EU countries is not significant in local budgets. The only country which register more than 20% of local budget expenditure is Malta with 23%.

According to fiscal federalism theories, viewing local expenditures as a percentage of total expenditures is the most appropriate way to gauge fiscal decentralization (Fig. no. 2). Expenditure on education represent 64% of public spending on education in the European Union countries. Social services account approximately for 16,5% of the entire public sector's social expenditure. General services accounts for 15,8% of the entire public sector expenditure. Economic affairs accounted for approximately 45% of public economic intervention spending (transport, communications, development of companies active in industry, agriculture, fishing, mining, energy, construction, etc.). Expenditure in housing and community amenities (water distribution network, public lighting, and building of housing) accounts for nearly 86% of public spending in this area. Recreation, culture and religion (sporting equipment and activities, libraries, museums, up-keep of heritage sites, municipal culture centres and theatres, etc.) accounts for 72% of public spending in these areas. Environmental expenditure (waste collection and treatment, parks, environmental protection) accounts for 80% of public spending in these areas. Public order and safety (regional and municipal police, fire brigades and emergency responders) accounts 40% of public spending in this sector.

**Fig. no. 2. Local public expenditure as % central public expenditure in 2011**



Source: computed by author using Eurostat data

Trying to implement decentralization, the center of gravity of public expenditures in the EU countries moved to local budgets, where local public expenditures grew at an average rate of 2,8% a year in real terms. Correlating with GDP (Fig. no. 3), local public expenditure of the EU countries fluctuated around an average of under 11,68% of GDP in the last ten years. In 2011, local government spending averaged 11,8% of GDP and 11,6% of GDP in 2013.

**Fig. no. 3. Local public expenditures in the EU countries**

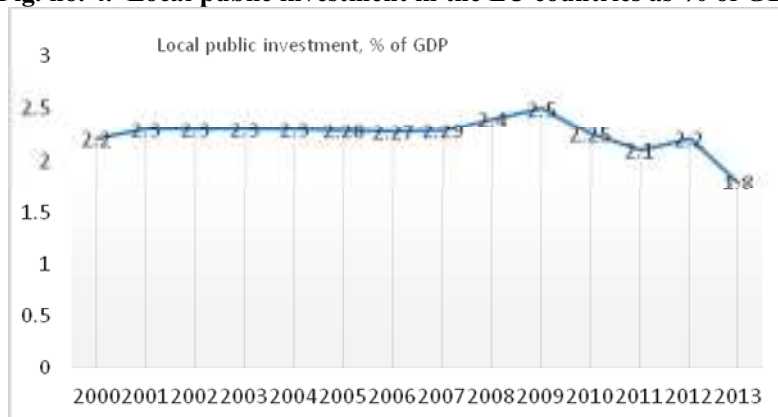


\*Excluding capital payments on borrowings

Source: computed by author using Eurostat data and Dexia-CEMR

Great importance should be given to capital expenditure (Fig. no. 4), which in 2013 around 55% of total public investment was carried out by local authorities. The highest rate were met in Germany, Belgium, Finland and France, where local budgets sustain over 65% of public investment. Local public investment accounted for 2.3% of GDP for the period 2002 – 2007, reached to 2.5% in 2009, partly as a result of stimulus measures. For the period 2010-2013, it declined to 1.8% of GDP. In real terms, local public investment in the EU fell by 7.2% in 2010, 6.6% in 2011, 3.3% in 2012 and 8.6% in 2013.

**Fig. no. 4. Local public investment in the EU countries as % of GDP**



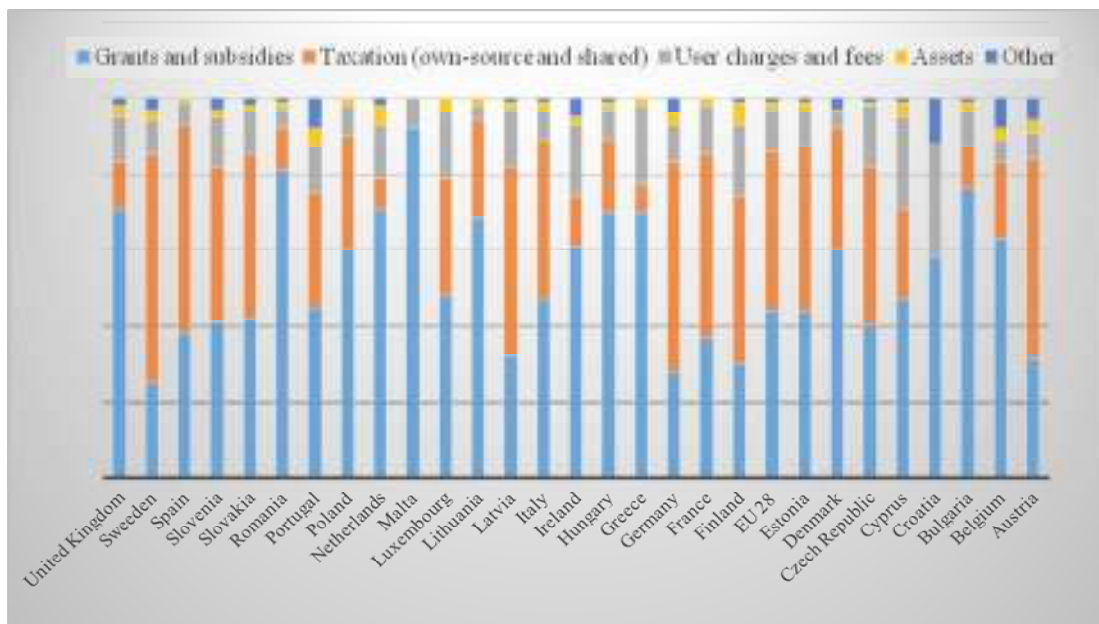
Source: Eurostat

As a reaction of implementing sustainable development in a knowledge society, local direct investment was robust over the decade 2000-2010, particularly in the CEE countries where it financed decentralization and urbanization as well as the development of metropolises, including renovation, construction and efforts to upgrade infrastructure and public equipment (transport, water, waste, etc.) to EU standards. It was also boosted by looser lending conditions for local authorities as well as by European Cohesion policy. In fact, European Structural and Cohesion funds, alongside domestic co-financing, had a powerful leverage effect on local investment in many EU countries.

An important issue encountered in the analysis of public sector decentralization is the appropriate measurement framework for fiscal decentralization and fiscal autonomy. The commonly used main indicators for fiscal decentralization are local revenues (% of total central government revenue); tax revenues (% of total local revenue or total tax revenue); non-tax revenues (% of total local revenue); grants from other levels of government (% of total local revenues and % of their total expenditure expressing vertical imbalance).

The local public revenue of the EU countries comes from a wider variety of sources (the creation of local taxes, the implementation of national tax revenue-sharing schemes, the creation of grant systems, the use of alternative sources, the implementation and modification of equalization instruments, etc), but the considering of existing strong tax revenue system supposes a financial management based in all improvement in economic activity (Fig. no. 5).

**Fig. no 5. Categories of local public revenue in the EU in 2013 (% of total revenue)**



Source: computed by author using Eurostat data and Dexia-CEMR

Even the decentralization was reformed permanently, grants and subsidies are still the main source of European local public sector revenue, in some countries accounted for over 70% of revenue (Greece, Malta, Bulgaria, etc.). Over the crises period, grants and subsidies dropped in volume terms in general, but investment grant growth remained strong, primarily in CEE countries (Hungary, Romania, Bulgaria, Estonia, Poland, etc.).

Shared taxation, in the sense of collecting a tax at the national level and then sharing the revenue between central budget and local budget, and own tax revenue account almost 42% of local budget revenue, with differences between most decentralized countries (Finland, Denmark, France, Germany, or Sweden – more than 46%) and less decentralized countries (Greece, Bulgaria – under 15%) . Local tax are not applied in Malta, because of the small size of the national territory.

Fees and user charges represent approximately 11% of local budget. Revenue from the sale and the operation of physical assets (e.g. income from land) and financial assets (dividends, interest from deposits and investments, etc.) provided approximately 2% of local revenue.

Local tax revenue accounted for 11.6% of GDP and around 36% of public revenue in 2013 (Fig. no. 6).



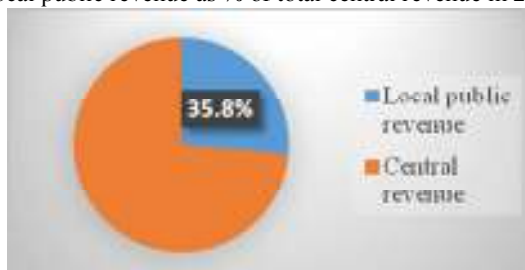
**Fig. no. 6. Local public revenue in the EU**

Local public revenue as % of GDP in 2013

Local Tax revenue (own-source and shared) as % of GDP in 2013



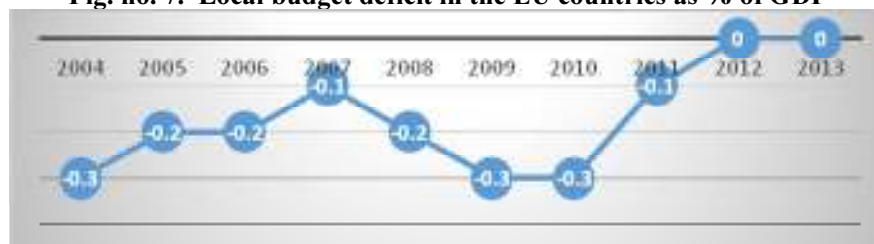
Local public revenue as % of total central revenue in 2013



Source: computed by author using Eurostat data

The EU countries registered a local budget deficit of 0.3% in 2004, recovering to 0.1% of GDP in 2007 (Fig. no. 7). Due to a fall in revenue in 2008 and 2009, stemming mainly from the reduction of transfers from the central government, the local budget deficit registered 0.3% of GDP in 2009 and 2010. Fiscal consolidation measures then began to have an effect and the deficit was progressively reduced from 0.1% of GDP in 2011 to 0% by 2012 and 2013. However, the practice of local budgetary deficit does not necessarily mean that the financial situation of local governments is imbalanced, and the use of local debt, necessary because of the deficit, is allocated to the local investments, without it posing a macro-economic risk.

**Fig. no. 7. Local budget deficit in the EU countries as % of GDP**



Source: computed by author using Eurostat data

#### 4. Conclusion

Local financial stability is an important objective of each government because creates the premises for sustainable local economic development. In this context, the reality demonstrates that the rise in local public debt is controlled in the most vulnerable countries. At the same time, taking into account that public services provided by the local authorities are likewise linked with local economic competitiveness, since the quality of those services increases the attractiveness of the area for private investment, an important issue of local governments in decentralization is to create the necessary conditions in terms

of basic infrastructure and urban development services for the private business sector to take on its role as a producer of goods and services and a motor of the local economy.

However, some challenges and vulnerabilities remain and require continued monitoring and policy action at local level in decentralization, which means that local economic development must be incorporated in the programmes for the strengthening of local governments, to improve the capacity for the efficient management of the resources transferred to local governments and modernizing municipal management.

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# STATE AID EVOLUTION OVERVIEW IN EUROPEAN UNION CONTEXT DURING THE PERIOD 2007 – 2012

Anca D.B., Dodescu<sup>1</sup>

## Abstract:

*According to the European Union point of view, the fundamental principle of state aid is to ensure that inside the single market, competition is not distorted. In this context, by exception state aid can be justified when they contribute to achieving EU's social and economic goals. This may take place when market forces obstruct the achieving of the proposed objectives or permit their achieving on unacceptable long terms and costs. This article is structured in four parts, focusing on European Union's vision regarding state aid measures. The first part of the article refers to the general context of state aid in EU. The second part of the article tries to define this concept according to European Commission point of view and also studies the state aid information provided by the EU, through its benchmarking instrument regarding state aid expenditure called State Aid Scoreboard. The third part of the article mainly presents the EU state aid evolution during the period 2007 – 2012 and establishes a methodological point of view in order to classify and divide state aid in two main categories: non-crisis state aid and crisis state aid, with the purpose of avoiding the distortion trends regarding state aid expenditure granted for the financial sector. This part of the article also presents different types of state aid at EU27 level and granted by the selected member states (Romania, Hungary, Bulgaria and Germany) between 2007 and 2012 and also analysis horizontal aid, sectorial aid and state aid during the economic crisis 2008 – 2012, referring to recapitalization and asset relief measures and guarantees and liquidity measures. The last part of the article presents the conclusions and also states certain recommendations regarding EU state aid practices, based on the results obtained.*

**Keywords:** horizontal state aid, sectorial state aid, recapitalization and asset relief measures, guarantees and liquidity measures

**JEL classification:** O52; R58

## 1. Introduction

In the late 1970s, the European Commission started defining state aid policies granted to certain sectors, by establishing specific instruction for each of the selected areas. An important EC communication in 1978 establishes the fundamental basis of state aid, rules that every EU member state still applies even today.

The fundamental principle is to ensure that inside the single market, competition is not distorted. In this context, by exception state aid can be justified when they contribute to achieving EU's social and economic goals. This may take place when market forces obstruct the achieving of the proposed objectives or permit their achieving on unacceptable long terms and costs (Bacon, 2013).

Recently, the European Commission published a statistical study concerning the main types of state aid granted by EU in the context of the financial and economic crisis. The study conducted by the European Commission's experts in the period 2008 – 2012 focuses on state aid impact on the member states economies affected by the financial instability generated by the economic crisis and also concentrates on the European Institutions' response. (European Commission 2011)

The actual European regulations provide that the application of the European rules regarding state aid in the context of economic crisis must consider the exceptional character of every situation, insuring that this kind of measures do not lead to useless distortions of competition or to negative effects on the other member states. (European Commission, 2012)

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Achieving this generic objective implies that all state aid schemes and measures must be periodically assessed, in order to avoid any negative situation. According to the European Commission, every member state must review and report its state aid scheme every semester.

## **2. Defining the concept of state aid in EU context**

According to the European Commission definition of state aid, this concept is defined as being any form of advantage provided on a selective basis by any national, public authority. (State aid scoreboard, 2011)

Therefore, subsidies granted to certain individuals or general measures open to all enterprises are not covered by this prohibition and do not constitute the subject of State Aid (general taxation rules, legislation, etc).

The European Commission classifies as state aid, only the measures that perform the following characteristics:

- There must be a proven state intervention or proven intervention through the states' resources which can take a variety of forms: grants, interest and tax exceptions, guarantees, government holdings of all or part of a company or providing goods and services on preferential conditions, etc);
- The intervention gives the recipient an advantage on a selective basis;
- The competition is distorted;
- The trade between certain member states is affected, or it creates a certain prejudice / damage.

According to EU legislation, in some cases the government intervention is necessary for a well – functioning and equitable economy despite the general prohibition of state aid, and the TFEU leaves room for a number of policy objectives for which state aid can be considered compatible.

The European legislation establishes clearly all these exemptions and the laws are regularly reviewed in order to improve their efficiency. The European Commission adopts new legislation in close cooperation with the member states.

State aid measures can only be implemented after the approval by the Commission, which also has the power to recover incompatible state aid.

State aid control is conducted by three European bodies, called Commission Directorates General:

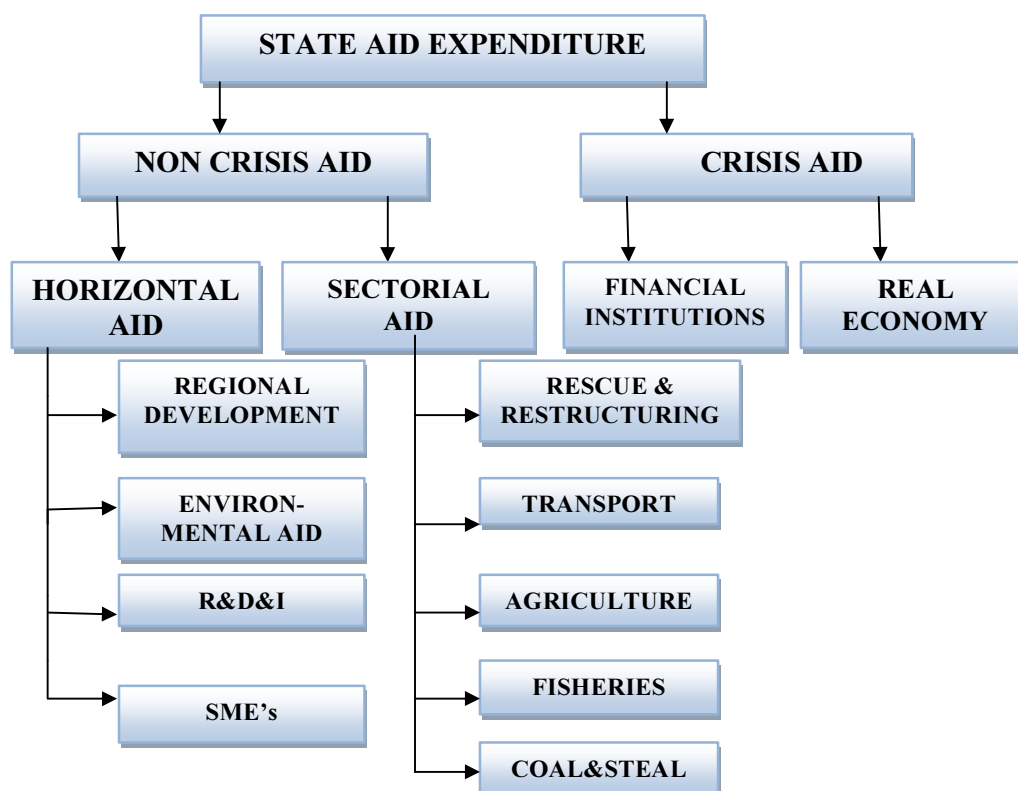
- Fishery;
- Agriculture;
- Competition

This article studies the state aid information provided by the EU, through its benchmarking instrument regarding state aid expenditure in the EU, the member states and also in EFTA countries, called State Aid Scoreboard.

## **3. EU state aid trends between 2007 and 2012**

From a methodological point of view, in the context of European Union state aid is divided in two main categories: non-crisis state aid and crisis state aid, with the purpose of avoiding the distortion trends regarding state aid expenditure granted for the financial sector. (State aid Scoreboard, 2011)

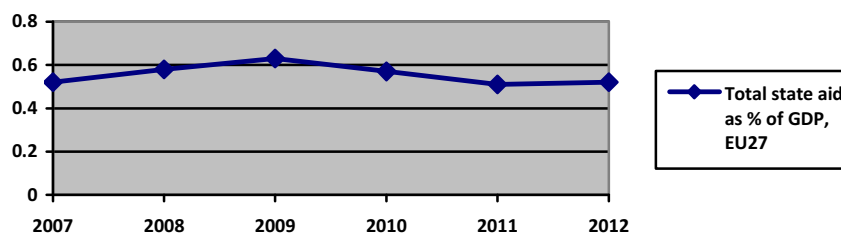
State aid expenditure is divided as presented in Figure 1.



**Figure 1: State aid expenditure classification**

Source: Author's representation, based on the information available on EU portal  
[http://ec.europa.eu/competition/state\\_aid/studies\\_reports/archive/scoreboard\\_arch.html](http://ec.europa.eu/competition/state_aid/studies_reports/archive/scoreboard_arch.html)

This part of the article presents non crisis aid as a synthesis of EU expenditure, accompanied by an overview of state aid trends granted to the industry and services in the analysed period, 2007 – 2012.



**Figure 2: EU 27 Total state aid (non-crisis aid) evolution as percentage of GDP**

Source: Author's representation based on data available on Eurostat database

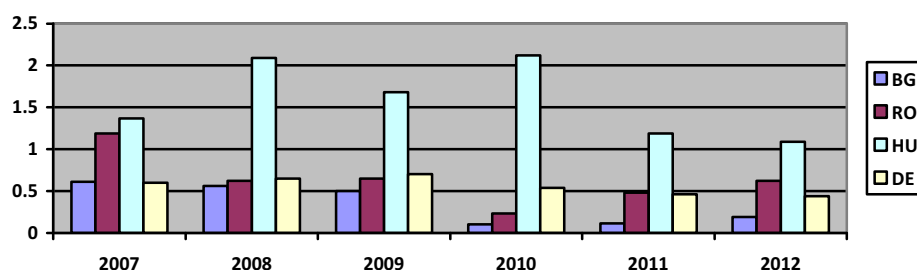
Figure 2 presents non crisis state aid trend or evolution granted by EU27 between 2007 and 2012. It could be easily noticed that this type of state aid initially followed an increasing trend between 2007 and 2009. The maximum non crisis state aid expenditure was registered in 2009, and followed a moderate decreasing trend between 2009 and 2011, when it registered the lowest value. Compared to 2011, the state aid expenditure registered a slight increase.

According to the official European Commission estimates regarding EU27 GDP, the non – crisis state aid for 2012 totalised approximately 67,3 bil. EUR, representing 0,52% of EU27 GDP.

For a better and more clear situation and also for determining our country's position compared to other member states, this article also tries to present a comparative analysis with reference to non - crisis state aid evolution as a percentage of GDP in certain member states in the period 2007 – 2012.

The selected member states are Romania, Bulgaria, Hungary and Germany and their situation is presented in Figure 3.

The motivation for choosing these countries is that Bulgaria also joined EU in the same time as Romania and it's our Southern neighbour, Hungary joined EU in 2004 accession wave and it is the Western neighbour of Romania. Another reason for selecting these countries is that they are often taken together and compared, because they present several similarities regarding the political regime and history. Germany was selected because it has the healthiest economy, based on a strong, performant and efficient economic policy. Germany is also considered the engine of EU economy by the other member states.



**Figure 3: Non crisis state aid evolution as a percentage of GDP in the selected member states between 2007 and 2012**

Source: Author's representation based on data published by Eurostat database

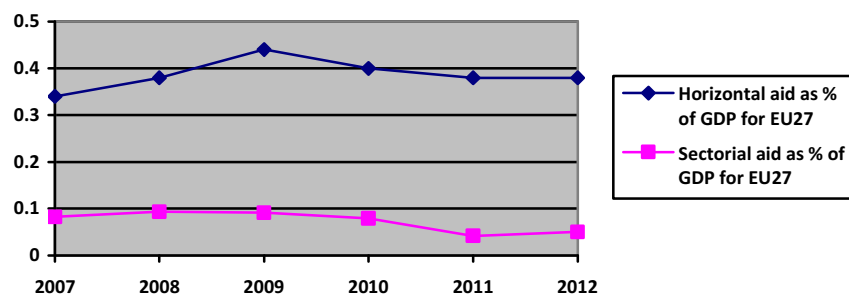
In the case of Bulgaria, the expenditure with non - crisis state aid is the lowest and it registered a decreasing trend, reaching its minimal value in 2010, and after it followed a moderate increasing evolution.

In our country's situation, the expenditure with non - crisis state aid followed a decreasing trend until 2010, and after it registered a slight increase between 2010 and 2012.

Out of the four countries analysed Hungary has the highest expenditure with non - crisis state aid and it has a fluctuating trend, increasing and decreasing from year to year. A possible explanation for the instability of this rate may be the Hungarian interests and priorities in the period analysed.

Germany has the most constant non – crisis state aid expenditure evolution, registering similar values every year. We can also notice that after Bulgaria, Germany is the country with the lowest non crisis state aid expenditure.

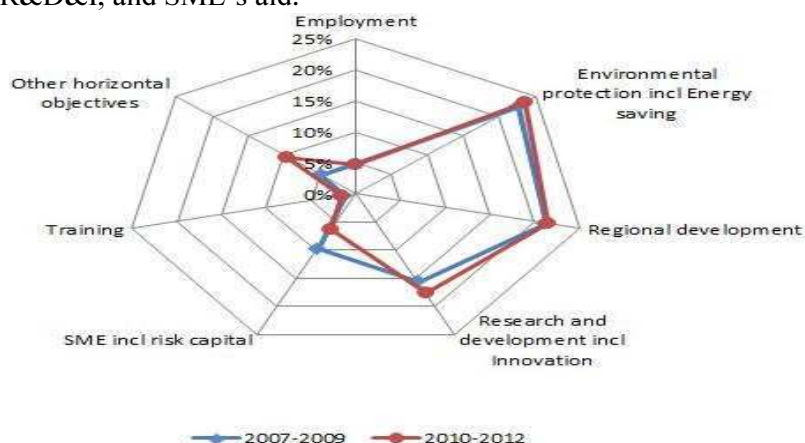
As stated above, the non – crisis state aid divides into Horizontal Aid and Sectorial Aid and in the next part of this article we will also present the evolution and also the most supported direction from the state aid point of view in certain selected member states.



**Figure 4: EU27 Horizontal aid vs. EU Sectorial Aid as percentage of GDP between 2007 and 2012**

Source: Author's representation based on data published by Eurostat database

When trying to analyse the non - crisis state aid supported directions we can easily notice that the horizontal objectives enjoy EU's attention, when compared to the sectorial objectives. The most supported directions are: regional development, environmental protection, R&D&I, and SME's aid.

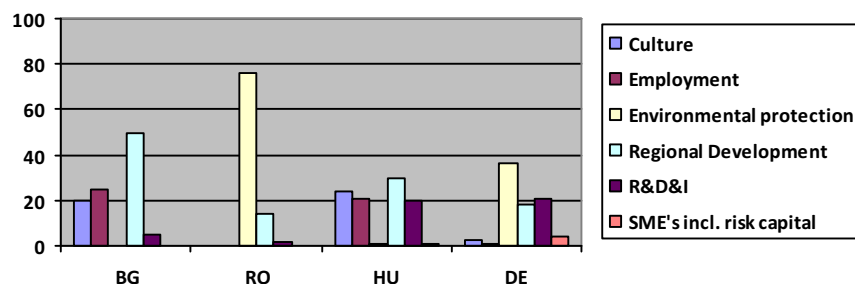


**Figure 5: EU27 Horizontal state aid evolution as percentage of total state aid between 2007 and 2012**

Source: European Commission, Competition DG, State Aid Overview, available online [http://ec.europa.eu/competition/state\\_aid/scoreboard/horizontal\\_objectives\\_en.html#](http://ec.europa.eu/competition/state_aid/scoreboard/horizontal_objectives_en.html#)

In a general matter, the above figure presents EU27 horizontal objectives evolution in the analysed period of 2007 – 2012, determining the most supported directions (Environmental protection – 24%, Regional Development 21%, R&D&I – 18 %)

This article also tries to encompass a more specific approach regarding the horizontal aid granted by each of the selected member states, in order to see if there are any differences of perspective. According to this idea, in Figure 6 we will present each country's situation for year 2012.



**Figure 6: Horizontal objectives as % of total state aid in the selected member states in 2012**

Source: Author's representation based on data published by Eurostat database

In Figure 6 we can see each member state situation regarding the horizontal directions they granted in 2012 and we can easily compare the trends.

At first glance there is a similarity between Germany and Romania regarding the objective “Environmental protection”. Both of the countries grant the most for this horizontal objective, following EU27 trend. We can also notice a similarity between Hungary and Bulgaria regarding the objective “Regional Development”, granting the most for this horizontal objective.

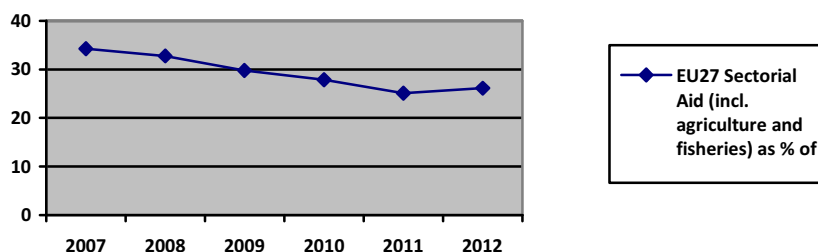
In the case of Germany we can see that horizontal state aid is mainly granted for objectives as: “Environmental protection”, “Research, development and innovation” and “Regional Development” and less for directions like: “Culture”, “Employment” and “SME’s”.

In the case of Hungary we may notice a certain uniformity in granting state aid to most of the analysed directions like: “Culture”, “Employment”, “Regional Development” and “Research, development and innovation”, less aid for “SME’s” and none for “Environmental protection”.

In the case of Romania we may notice that the most state aid grants are directed to “Environmental Protection”, less grants for “Regional Development” objectives and almost none for “Research, development and innovation”, “Culture”, “Employment” and “SME’s”.

If we compare the results obtained with the horizontal aid directions supported by EU27, we can see that Germany is the country that respects the most the European trends, granting aid to the most important sectors that also represent the engine of the economy: “Research, development and innovation”, “Regional Development” and “Environmental protection”.

Regarding the Sectorial state aid including agriculture and fisheries aid as percentage of total state aid, the amounts granted at EU27 level for the period 2007 – 2012 are presented in Figure 7.

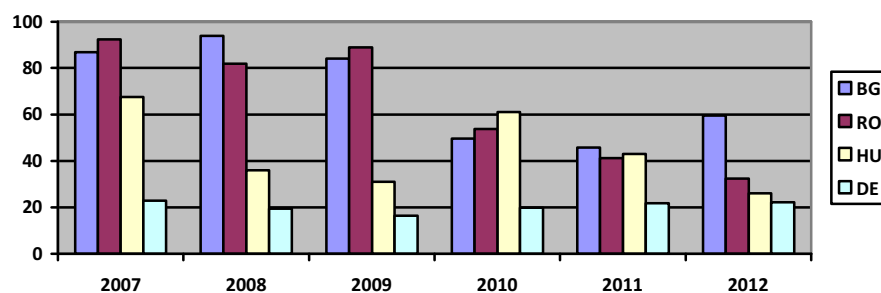


**Figure 7: EU27 Sectorial Aid (including agriculture and fisheries) as % of total state aid in the period 2007 - 2012**

Source: Author's representation based on data provided by Eurostat database

Figure 7 presents the evolution of sectorial aid between 2007 and 2012 as percentage of total state aid and we can notice that it registered a continuous decreasing trend.

For the purpose of a better image regarding sectorial aid in the selected member states, we can analyse Figure 8.



**Figure 8: Sectorial aid as % of total state aid between 2007 and 2012 in the selected member states**

Source: Author's representation based on data provided by Eurostat database

Regarding the evolution of sectorial aid, Figure 8 presents the situation of the selected member states and the first aspect that we can notice is that Bulgaria and Romania have the highest sectorial state aid rates in the period analysed, registering more than 80% between 2007 and 2009. If we think about the directions of sectorial aid: “Rescue and restructuring”, “Transport”, “Agriculture”, “Fisheries” and “Coal and steel” we can say that this directions were supported the most of after joining the EU.

This article also studies the second main type of state aid, crisis aid granted by the member states in the period 2008 - 2012.

The financial market crisis in 2008 called for a massive intervention by all European governments, in order to reduce the negative effects present in every European economy. State aid granted to institutions has been the most important factor for restructuring the confidence in the financial sector and avoiding another breakdown. In addition to this, EU governments also used the Temporary Framework rules to offer assistance to the real economy, with the purpose to reduce the negative effects of the economic crisis.

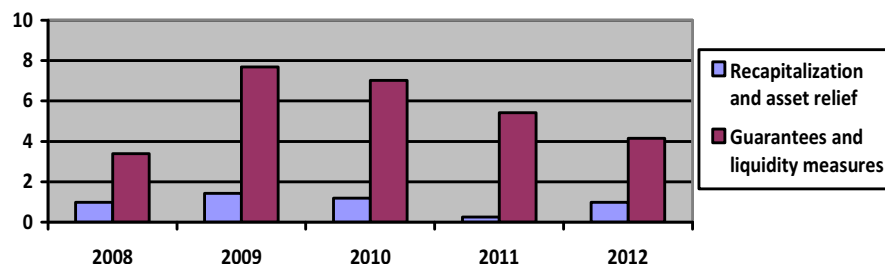
According to the 2013 State Aid Scoreboard, between 2008 and 2013 EC took more than 400 decisions authorising state aid measures granted to the financial sector, disguised in several forms: recapitalization and asset relief, guarantees and other forms of liquidity.

In this part of the article we presented the situation of Recapitalization and asset relief aid and the situation of the guarantees and liquidities during the financial crisis at EU27 level and also at selected member states level.

Firstly, Figure 9 presents the crisis state aid situation granted by EU27 during the financial crisis 2008 – 2012.

In the above figure we can notice that in terms of “Guarantees and liquidity” measures the highest amount reached was in 2009, representing 7,6 % of EU27 GDP. Ever since then, the EU27 amounts have been decreasing until it reached 4,14 % of GDP in 2012.

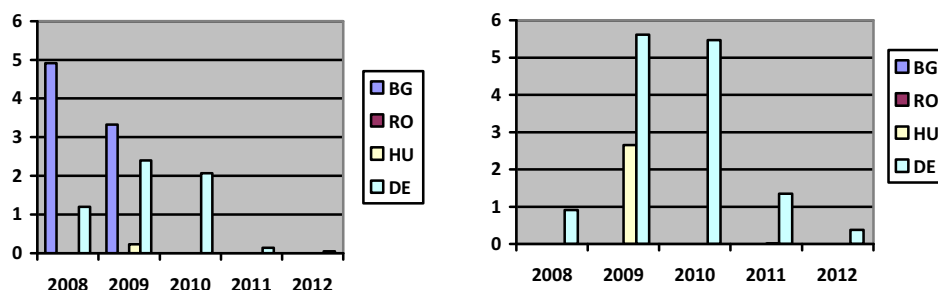
In the case of “Recapitalization and asset relief” measures, the highest value was reached in 2009 also, representing 1.42 % of GDP and it continued to decrease until 2011 when it registered the lowest value, 0.25% of GDP. In 2012 it increased registering almost 1% of GDP.



**Figure 9: EU27 crisis state aid evolution as % of GDP, during the financial crisis 2008 - 2012**

Source: Author's representations based on data provided by Eurostat database

Following the same structure of the article, the next figure will present a comparative analysis between the selected member states in terms of “Recapitalization and asset relief” measures and “Guarantees and liquidity” measures adopted between 2008 and 2012.



**Figure 10: Recapitalization and asset relief measures compared to Guarantees and Liquidity measures as % of GDP in 2008 – 2012**

Source: Author's representations based on data provided by Eurostat

From the above figure we may notice that Romania is the only country that hasn't adopted any “Recapitalization and asset relief” measures during the financial crisis. The highest values of this kind of measures were registered in 2008 in Bulgaria and by the year 2011 and 2012 they were almost inexistent in the selected member states.

From the “Guarantees and liquidity” point of view, Romania and Bulgaria haven't granted any support during 2008 – 2012, Germany is the country that applied the most “Guarantees and liquidity” measures, reaching the highest level in 2009 registering 5,61% of GDP, but reducing this kind of aid by 0.38% in 2012.

#### 4. Conclusion

In the context of the “economic turbulences” caused by the financial crisis, state aid is a strong instrument used by the member states to counterattack the negative effects on the financial stability and also on the real economy.

The latest estimating remarks stated in the EC 2013 Fall Report are not optimistic with reference to the evolution of EU economy and Eurozone sovereign debt crisis, continuing to negatively reverberate on the economic growth forecasts.

In this context it is possible that state aid measures will continue to be used on a large scale, with the purpose of protecting and supporting the EU financial market, but as stated in the latest EU State Aid Scoreboard, the European governments must not extend state aid measures like the “Temporary Framework” after the intense crisis moments pass, because the regulations regarding this kind of aid, with the purpose of promoting risk capital investments – for example, minimise the risk of free trade distortions.

In conclusion, EU's long term objective regarding state aid must concentrate on the horizontal objectives that distortion less the free trade and competition, like: research, development and innovation aid, environmental protection aid and SME's including risk capital aid.

#### ACKNOWLEDGMENT

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# THE NEED FOR STRATEGY IN THE TRAINING OF EMPLOYEES: A CONDITION FOR IMPROVING THE HUMAN CAPITAL IN ROMANIA, AS EU MEMBER

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Daniela-Neonila, Mardiros<sup>2</sup>

## Abstract:

*As a component of the intellectual capital, the human factor is a competitive resource, full of potential and economic benefits. The use of it should be further promoted, while improving the consistency of definitions and methods across Europe. Knowing the fact that the business environment is based on the human capital, it should also take into account the views of stakeholders and the developments in accounting rules and corporate governance in order to assess, to measure and to report this component of intellectual capital. Of course, for Romania, being a part of the huge mechanism that is EU means a new perspective for the use of human capital and for the understanding of its importance. The main focus of the paper is on Romania's strategy regarding human capital, which should be consistent with EU 2020 Strategy, should be based on the idea that intellectual capital investments and assets are necessary, but not sufficient to make human capital productive, and a change of perspective is necessary.*

**Keywords:** human capital, European Employment Strategy, vocational training, Europe

**JEL Classification:** E22, E24, F66.

## 1. Introduction

The human capital represents the skills of individuals, their characteristics, which remain the same in any social environment. Basically, the human capital consists of *educational capital* (skills acquired by individuals in the training, school and outside it) and *biological capital* (physical abilities of individuals, most often synthesized as health). Starting from the two recognized components, it is obvious that, in essence, it is meant to be exploited on the labor markets in exchange for economic resources of any kind. Therefore, it was developed as a concept in economics, being regarded principally as “an estimation of a person’s ability to generate income through labor” (Voicu, 2004).

One of the first notable mentions about the human capital belongs to Kiker (1966), who noted six reasons that led, since before 1960, to treating employees as human capital:

1. To demonstrate the power of a nation;
2. To determine the economic effects of education, investing in health and migration;
3. To submit more equitable taxation systems than those that already were;
4. To determine the total cost of the war (in assessing the loss of war, after the two World Wars);
5. To warn the population about the need for preservation of life and health and to emphasize the importance of life for individuals living in the economy;
6. To support the establishment of compensations, decided by the courts in case of death or injury (Voicu, 2004).

If Europe is to compete on the world’s market, the development of sustainable industries, which are adaptable to change, has to be promoted. To do this, Europe needs to promote the idea that, in each member country, human capital should be used and appreciated at full capacity. To this end, education and training must meet labor market demands and of those who wish to develop both their natural and learned capacities. In a rapidly moving market, continuous training should be a priority, being the key to employment and economic success.

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European attitude regarding employment, education and training is reflected in the Communiqué Bruges. Elaborated for the period 2011-2020, it represents the Communiqué of European Ministers for education and training, the social partners and the European Commission, to review the strategic approach and priorities of the Copenhagen process. For the period, governments should pay more and more attention to basic training to better match the supply of skills to demand, considering that, in nowadays, very few measures are being taken to improve continuing education. Companies, and here we consider the case of Romania, have little interest in the social dimension of their activities but, in the long-term future of their human resources, the needs are enormous and a change of attitude will be well received.

## **2. The impact of EU member status of Romania on the training of human capital**

In 2000, the European Council held a special meeting in order to agree on a new strategic goal for the Union. This goal was defined a set of supportive measures, set for the EU to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs. This goal brought in the center of everybody's attention, among other issues, the intellectual capital, as limitless resource for both the member states and the economic environment. This so called 'Lisbon Agenda' is an indication of the kind of intellectual capital the EU wishes to create in order to reach its strategic goal.

### **2.1. The European Employment Strategy: coordinates and perspectives**

Europe is in the middle of a severe economic, financial and political crisis. Unemployment rates are high – in particular amongst young people - in September 2010, a general unemployment rate of 9,6 % for the was calculated for EU 27 Member States and a youth unemployment rate of 20,3 % (Bruges Communiqué, 2010). The crisis has emphasized the need to reform our economies and societies. Europe wants to become smarter, more sustainable and more inclusive. To achieve this we need flexible, high quality education and training systems which respond to the needs of today and tomorrow. That involves an increased attention for the development of human capital.

In Romania, as in other emerging economies within the European Union, continuous vocational training system was organized as a network of national, local and sectoral structures of responsible authorities. In terms of institutional and legal point of view, the tripartite training system in Romania is on par with the rest of Europe. The system, however, does not operate to its full potential due to lack of financial resources. In the new context of the internal labor market, which is in deficit, both employers and unions have every reason to increase the effort to allocate funds. Of course, in context, we recall the possibility to access the Structural Funds, including the European Social Fund (the Sectoral Operational Programme for Human Resources Development 2014-2020).

Thus, being an EU member, Romania has assumed the EU 2020 Strategy and, of course, the European Employment Strategy (EES), which seeks to create more and better jobs throughout the EU. The EES was initiated by the Delors White Paper, made operational by the Essen procedure, formalized within the employment chapter of the Amsterdam Treaty and put into practice before the official implementation of the Treaty on the basis of the employment guidelines of the Luxembourg summit. While to some extent it displays continuity with earlier European social policy, in some respects it represents a qualitative break (Goetschy, 1999). In this context, procedures such as the European employment strategy could present advantages both for the member states and for the EU itself by contributing to the construction of supranational coordination (Goetschy, 2001).

The aim of the EES can be seen from three different perspectives. First, this strategy is a way to increase the *legitimacy* of Community-level action by achieving a common

denominator in the labour market systems. Second, the EES seeks to improve the *efficiency* of Social Europe. The competition introduced at Maastricht between two basic rule-making methods (legislative and contractual) was supposed to enhance the efficiency of social regulation. Third, the EES was also intended to serve as a *catalyst* for the efficiency of national employment policies. This was to be achieved in four ways (Goetschy, 1999):

- *by making national policies public, putting them to the test of comparison and submitting them to the examination of a range of EU institutions.* Related to Romania, the mutual control of national employment policies adds to the emerging coordination and Europeanization of national objectives can be seen as a cause and as a consequence of the changes in the national regulations;

- *by establishing external constraints over national policy.* For the case of Romania, the fact that the National Training Plan for 2012 is inspired by the Bruges Communiqué is a proof (National Training Plan, 2012);

- *by the requirement of common statistical tools and benchmarking* (see country reports);

- *by generalizing the method used by the Commission itself in developing the EES procedure*, involving quantified targets, a specified timetable and tough monitoring.

To reach these objectives, the EES encourages measures to meet three headline targets by 2020 (European Commission, 2011):

- 75% of people aged 20-64 in work;
- school drop-out rates below 10%, and at least 40% of 30-34-year-olds completing third level education;

- at least 20 million fewer people in or at risk of poverty and social exclusion.

As a part of its strategy, European Union is continuously monitoring the attitude of the member states towards the employment. Related to new member states, they have some characteristics, such as: the low employment rates, sharp regional disparities, widespread unemployment and particularly long-term unemployment, the development of the informal economy and the gap between employers. All these demand and employee skills: these are the main characteristics of labor markets in the countries in Central and Eastern Europe, including here Romania too (Palpant, 2006).

## **2.2. The influence of the European strategy on Romania's employment policies**

Romania has been establishing own measures and objectives in order to accomplish the objectives imposed by the EU member status. According to National Reform Programme in Romania 2011-2013, in order to achieve an employment rate of 70% in 2020 for the 20-64 age group, our country is focused on priority implementation of removing constraints in the way of employment growth, leading to better functioning of the labor market, facilitating the transition from unemployment or inactivity to employment, strengthening the professional skills of the workforce and increasing the quality of employment of residents in rural areas, young people and women (NRP 2011-2013, pg.61).

If we consider the published data in the National Reform Programme in Romania 2014, according to Eurostat, in 2013 the employment rate for the 20-64 age group was 63,9%, up with 0,1% comparing to previous year, standing at a distance of 6,1% from the national target for 2020 (NRP 2014, pg. 30). Also, as a solution to youth employment, in 2013, a National Plan on Boosting Youth was implemented, 44,395 students were enrolled in personalized programs regarding counseling and career guidance, and approx. 29,860 young people were benefiting from an offer of employment.

Another step is the new Social Dialogue Code, which has been passed by Parliament (Law no. 62/2011, republished in 2012). The main innovation in this code is the removal of the time-honored clause which made negotiation at national level binding. Accordingly,

collective bargaining is no longer compulsory at national level. The only mandatory agreement will be the enterprise agreement and even these will only be compulsory for companies with more than 21 employees. This means that for the majority of Romanian companies, the main instrument of labor relations is the individual contract.

According to European Employment Observatory, these measures constitute a firm step forward towards the decentralization of the negotiation process and thus to making both the market more flexible as well as ensuring that salary negotiations do not lead to excesses that remove the link between employee compensation and productivity (EEO, July 2011).

It is possible that these new flexible rules on negotiation, together with the increasing importance of the role of enterprise and ultimately individual negotiation, as well as the fact that the public sector has been decoupled from the private sector, might in the future spur job generation.

### **3. The laws and their influence on the continuous vocational training of the human capital**

In order to sustain the vocational training, as a part of the national programme, important laws such as the Labor Code or the Fiscal Code clearly regulate or provide certain facilities for continuous training.

According to the Labor Code, art. 189, vocational training may be provided to employees in any of the following forms:

- a) attendance of training courses organized by employers or by suppliers of vocational training services;
- b) vocational on-the-job training for new-entrants to a position or work place;
- c) probationary and post-graduate training in Romania and abroad;
- d) on-the-job vocational training;
- e) coaching;
- f) other forms of training agreed upon between employer and employee.

To organize courses for vocational training, financing is needed, especially in enterprises, because, according to the Labor Code, art. 190, employers are also supposed to create the appropriate conditions for all their employees to take part in vocational training programmes, as follows: at least once every 2 years, if they employ 21 or more employees; at least once every 3 years, if they employ 21 or less employees.

Because the related training expenses are borne by employers, the financing can be (CEDEFOP - European Centre for the Development of Vocational Training, 2010, pg. 87):

A. *direct*: employers own funds (Commercial societies, national companies, autonomous national administrations, may cover staff training costs, Institutions financed from extrabudgetary sources finance training from this income, Institutions financed from the national budget finance training according to their own budget), the budget of unemployment insurances, sponsorships, donations, external sources, and fees from trainees.

B. *indirect*, which includes:

- for employers - deduction of expenses encountered for staff training;
- for training providers - exemption from VAT payment: (according to the Fiscal Code, art. 141, letter f) “educational activities under the Education Law no. 84/1995, as amended and supplemented, adult training and services and deliveries of goods closely related to those activities performed by public institutions or other authorized entities;” are exempt from VAT payment);
- for employees - training leaves.

In accordance with the Europe 2020 flagship An Agenda for New Skills and Jobs, the government undertakes the necessary steps for the implementation, at national level, of the

flexicurity concept and of measures leading to the increase of chances of integrating persons of disadvantaged groups, women and young people into the labor market.

Moreover, the National Framework of Qualifications was completed, the Classification of Occupations in Romania is permanently revised and the development of partnerships between the education system and the labor market is supported, especially by involving social partners in the planning of education and training offers. The measures of facilitating young people's entry in the labor market (guidance, counseling, apprenticeship, company set-up) also contributes to the implementation of the Youth on the move flagship initiative (VET in Europe - Country report, 2012).

Overall, the legislative framework (laws, government ordinances, government decisions, and orders of different ministers) regarding the continuing vocational training (CVT), consists of:

- The Law no 1/2011 on national Education - contains express provisions on the quality of training. This law aims to modernize the Romanian education, for its adapting to the current requirements of the knowledge society;

- Romanian Labor code (Law no 40/2011 adopted for amending and completing the Law no 53/2003) regulates the training within enterprises and stipulates the obligation of the companies to train the personnel every two years (every three years for SME); Also the labor code regulates vocational training objectives, the types of vocational training, mandatory vocational training programs, obligations of vocational training beneficiaries, types of vocational training contracts, the on-the-job apprenticeship contract;

- A special law regulating apprenticeship;

- Government Ordinance no 129/2000 of adult vocational training, modified through the Law no 375/2002, and the government ordinance no 76/2004 which stipulates: the criteria and procedure of quality assurance of continuous vocational training programmes; the competences based training, assessment and certification; the assessment and recognition of the competences acquired with in nonformal and informal learning contexts;

- Law no 76/2002, modified through Law no 107/2004 and Law no 580/2004, of unemployment insurance system and stimulation of employment, stipulates the passive and active measure against unemployment; The modification and completion to the *Law no 76/2002 on unemployment insurance system and the employment stimulation* addresses the development of the new employment stimulation measures, and the adaptation of their implementation to the current needs of the labor market. The law stipulates the introduction of the following elements: providing free services to assess the skills acquired in the informal and non-formal system; grading the financial support to the unpaid unemployed persons during the participation at the continuous vocational training (CVT) programmes; more flexible conditions for subsidizing the CVT programmes have been organized by the employers; the access of the unpaid unemployed persons to the mobility bonuses; the reduction of the conditionality for the companies that hire unemployed persons and persons belonging to the vulnerable groups;

- Amending and completing the Law no. 279/2005 on apprenticeship at work will reduce the administrative burden by repealing the procedure of authorization of the employer and certification of the apprenticeship master, as well as facilitating the implementation of measures to stimulate the apprenticeship at the work.

- Other regulations concerning the training at sector level.

In the same spirit, of increasing the chances of integrating persons of disadvantaged groups, women and young people into the labor market, according to National Agency for Employment (NAE), the courses organized for continuous vocational training for 2009-2014 periods are as follows:

**Table 1. The number of courses organized for continuous vocational training in Romania by National Agency for Employment**

Year	Number of courses	Number of courses organized for beneficiaries of free training services and courses		Number of courses related to the financing programmes		Number of courses according to the training form				Organizing institution		
		Number of courses for unemployed persons	Number of courses organized for other categories of beneficiaries of free training services	Number of courses financed from Social Security Budget	Number of courses financed from other sources	Initiation	Re-qualification	Improvement	Specialization	Authorized training suppliers	Own training centers NAE	Regional Training Centers for Adults - CRFPA
0	1	2	3	4	5	6	7	8	9	10	11	12
2014	2002	1953	49	1912	90	292	1546	72	92	457	636	909
2013	2093	2041	52	1872	221	412	1465	111	105	557	667	859
2012	2072	2010	62	1647	425	397	1468	97	110	728	622	722
2011	2229	2148	81	N/A	N/A	464	1570	96	99	825	662	742
2010	2397	2173	224	2094	79	493	1750	105	49	720	851	826
2009	2215	1980	235	N/A	N/A	N/A	N/A	N/A	N/A	709	842	664

Source: National Training Plan for 2009-2014, National Agency for Employment [www.anofm.ro](http://www.anofm.ro)

As we can notice, there was a decreasing in the number of courses, for the period 2010-2014, but this was a consequence of the proportional decreasing of the courses financed from different sources, other than the Social Security Budget (table 1). According to Romania's Country Report for Vocational Education and Training (CEDEFOP, 2011), the groups benefiting from vocational training are:

1. Unemployed receiving or not the unemployment benefit;
2. Persons that could not find employment after graduating an education institution or after military service;
3. Individuals under refugee status or under another international protection form, according to the law;
4. Persons that could not find employment after detention or repatriation;
5. Persons in detention;
6. Individuals back to work after child raising leave;
7. Persons back to work after military service;
8. Persons back to work or to recuperation of work capacity after invalidity retirement;
9. Persons running work activities in rural environment.

During the period 2011 – 2014, the National Agency for Employment (ANOFM) is implementing *call center PES* project funded under the ESF through SOP HRD. The stated aim of the project is to increasing the quality and efficiency of services offered by the implementation of “call centers”. The project aims at developing opportunities for vocational guidance/training/development and socio-professional integration on the labor market of jobseekers by developing an innovative system for providing the information.

#### 4. Conclusions

Human capital can be seen as the power of a nation, an economic power who can lead to economic growth, to a better position on the world's map and, in the case presented in the paper, on the Europe's map.

Understanding national VET systems, their characteristics, developments and priorities is a key element in different levels of the VET coordination and development process. It may also bring additional ideas and examples of good practice. In the case of Romania, the vocational training supply is still very fragmented since it is designed rather for persons than for companies, being guided by punctual labor market requirements. The system is mostly focused on the supply of certificates and less on the development of competencies required for employment. The long duration of CVET programs makes them inadequate for persons employed. Another important factor operating like an obstacle in the current CVET system is the fact that the current legislation does not allow the certification of partial qualifications, although the demand for training in the labor market is often focused on narrow qualifications.

The new measures in Romania, described above, may have some effect in the short term, although this is uncertain in the Romania's emerging economy, which is permanently affected by evolution in the market. Of course, *there is a permanent need for connectivity between job-creation and economic growth, and for adaptation of economic needs to employees' training.* With employers having more freedom of negotiation and with the labor force better able to use its capacities, unconstrained by the rigidities of the earlier version of the Labor Code, it will become less costly to create jobs and far easier for individuals to assume more than one job and thus increase wealth generation.

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# HYPERTEXTUAL KNOWLEDGE FOR MINIMIZING RISKS OF BIOCHEMISTRY AND BIOPHYSICS STRUCTURES AND HEALTH SUSTAINABILITY ACHIEVEMENT

Ioana-Andreea, Marinescu<sup>1</sup>

## Abstract:

*The present study was used to examine the main theoretical and practical ideas about taking processes of accumulation, concentration and amplification (concentration / accumulation) of chemical compounds, potentially affect on humans and outside, at least in the vicinity.*

*The article shows that, in fact, concentration, accumulation and gain back health sustainability model management, under bio equivalent configure the procedural areas of bioconcentration, bioaccumulation and biomagnification. It concludes that in order to minimize the biochemical and biophysical risk, the socio-economic value of the perpetual nature must be protected, and use of knowledge in the economy on quasi-continuous and dense net management control for optimized structures. That is fully legitimate pragmatic, positive.*

**Keywords and key phrases:** management, biochemical structure, biophysical structure, health sustainability, public health, laboratory, bioconcentration, bioaccumulation, biomagnification.

**JEL Classification:** A1/A10

## 1. Introduction

Sustainability of health lies in the concept of sustainable development, highlighting the relationship between nature, society (people) and economics (general system operational health).

In fact, environmental sustainability is sought to formalize the existence and activities of people.

We consider the system comprising infrastructure operations / operationalization of Biochemistry and Biophysics is "separate" from the general system health and sub-systems elements and sub-elements of sustainability affect.

In contrast, sub-elements, elements and sub-systems are those that the aggregation, aggregation, or composition make possible the existence of joint infrastructural system biochemistry and biophysics found implicit in the general health.

Relationship vector composed of inclusions above requires sequential and quasi-full examination to identify alignments through control structures aimed at ensuring the sustainability of health.

Thus, identifying (under "control") issues affect can formulate solutions and alternative options for contributions to health sustainability, using the "economy" and "management control structures" to get value-added methodology, instructional and to streamline and sustainability practice in the field.

## 2. The general conceptual framework dominant by "clean" knowledge

Conceptual approach and practical knowledge of "clean" is consistent with the answers to contribute to shaping applied the concept of sustainable development (or sustainable).

The subject of the present research was devoted to the report Our Common Future, World Commission on Environment and Development, established by United Nations General Assembly in 1983, known as the Brundtland Report (Gro Harlem Brundtland, WLCED, 1987).

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According to this document, sustainable development is "development able to meet the needs of present generations without compromising the ability of future generations to meet their own needs". [4]

We appreciate that perspective Biochemistry and Biophysics development is sustainable when specific inclusion in series between nature, society and the economy remains intact.

Examined the development is unsustainable when the inclusion of sustainability needed health is ignored.

Unsustainable development are recorded when the activities of Biochemistry and Biophysics wear social systems and / or beyond their intrinsic natural, functional.

Also, these systems affected / affect biochemical and biophysical consequences lose their ability latching and maintenance of their activities, endogenous.

As such, unsustainable development occurs when short-term health benefits are favored at the expense of the medium and long term - at all scales, from local to global.

Long term health consequences of such choices are environmentally-disastrous, immoral and irresponsible social or economic-destructive conventional unacceptable.

Therefore, to minimize the risks biochemical and biophysical value socioeconomic perpetual nature must be protected, and use of knowledge in the economy and the quasi-continuous and dense net management control optimized structures is fully legitimate pragmatic, positive.

### **3. Hyperlink knowledge to master biochimico-physical bioconcentration, bioaccumulation and biomagnification**

Knowledge of biochemistry and biophysics involves the exercise of communication in terms of semantic / linguistic utterance and its denial of the reconsideration of linguistic utterance on the basis of notification of incompleteness.

Setting meanings biochemical and biophysical and referral incompleteness of knowledge in the field are induced in reality before, mainly tight correlation between the performance of communication and denial of its courts.

Communication is interactional character and aims relationship between transmitter and receiver.

Individual or collective decision-maker in the medical environment, public health or health system use reflex skills with roles in identifying landmarks that would help promote understanding of paratextual signs.

*Gérard Genette* in his *Introduction to Arhitext* (1979), launched the term paratext paratextualitate notion of designating, in fact, arhitextualitatea. [1]

Observing the quoted text into another, signifies intertextuality and reunion "type of accessory signals" such as the title, subtitle, preface, marginal notes and infrapaginal, the schedules, drawings etc. paratextualitatea show.

Metatextuality depicts the relationship linking the text to another comment, without quoting or to appoint necessarily.

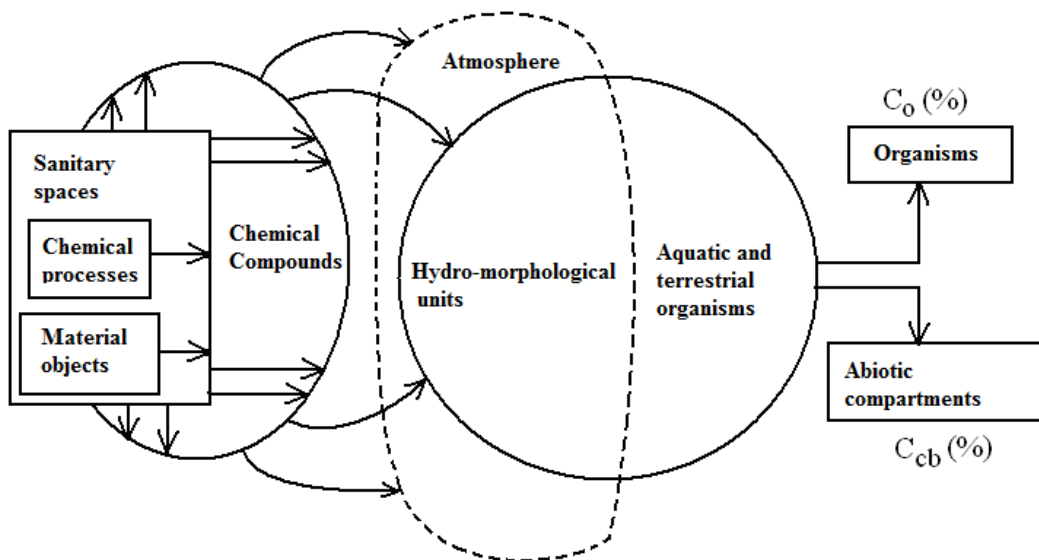
Instead, highlight the text hipertextualitatea derived from existing texts by transformation or imitation. [2, 3]

In depth conceptual recounted above, arhitextualitatea is regarded as a parameter of transtextualității aimed at "the most abstract type and thus" covering "general perception" of a text on biochemistry and / or biophysics.

In such a context, to operationalize knowledge of hypertext, namely to master bioconcentration, bioaccumulation and biomagnification biochimico-physical, we appreciate that we started from and more about chemical compounds and processes of

material objects laboratories and healthcare premises, that once released into the atmosphere can be found respectively in areas of "compartments" of hydro units.

The morphological units following general procedural flow major unit called "health space" atmosphere, aquatic and terrestrial organisms that are playing the role of deposits, which host processes of accumulation and concentration of chemicals (*Figure 1*).



**Fig. 1 –Substantially higher concentrations of chemicals bio-accumulated / concentrated in organisms to abiotic compartments  $\{C_o > C_{ab}\}$**

It is noted that the concentrations of chemicals released organisms and regathered (focus) are considerably higher than in abiotic compartments:

$$C_o > C_{ab}; (\%)(1)$$

This focus leads to the idea of examining flow concentrators to be organized or led, amid biochemical and biophysical processes goals beyond human.

Specific management becomes a methodological tool / procedural fundamental contribution to the operation of identifying interference proposals, comparisons, joint, etc. of  $\{a\} * b\} * c\}$  (*Figure 2*).

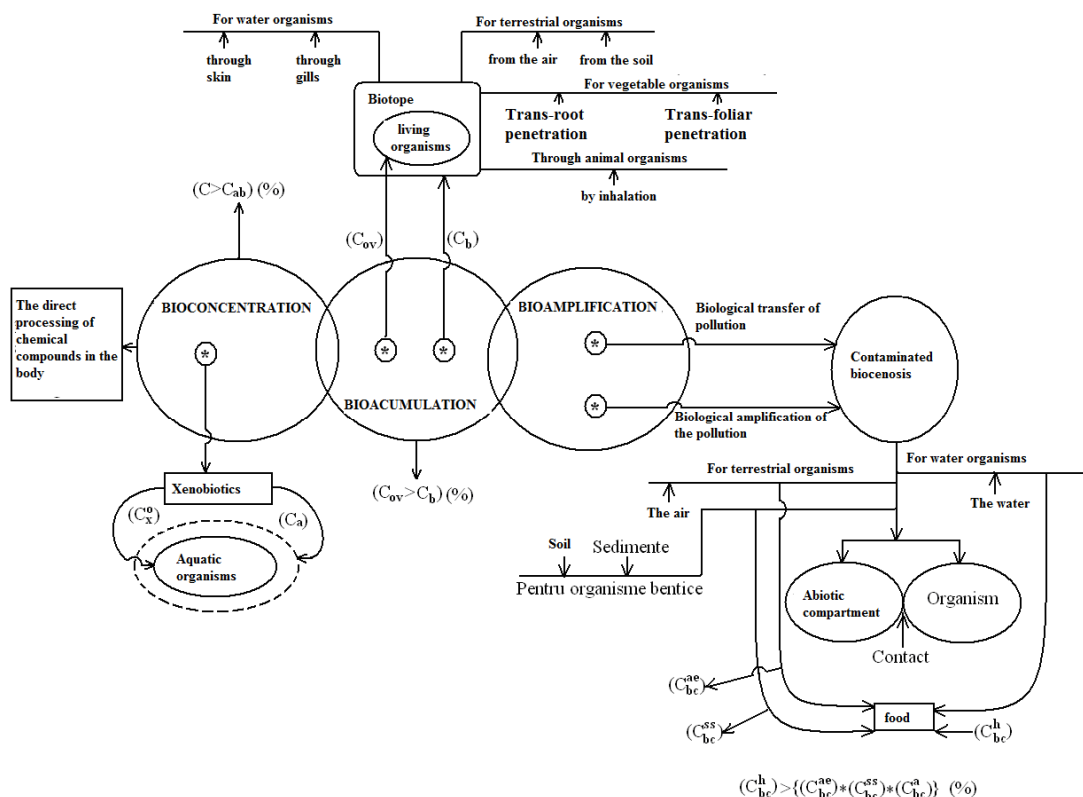
To organize and manage the overall process concentrator so as to ensure mastery of contamination phenomena, specific management must answer the following questions:

(1) How does an organism disturbance contamination by chemicals released from processes and materials in the areas of sanitary items?

(2) What is the range of values recorded biocercetare factors and the extent to which a critical value affects / is starting to affect an organism, including the human one?

The above questions ("how?" and "who?") seeks ways and sizes need to be retrieved in a managerial model of sustainability opportunities for health, given ongoing events / quasi-continuous biophysical and biochemical processes in the environment or units / departments and structures that impose restrictions, requirements for the protection, safety at work and life.

In this context, the present study was used to examine the main theoretical and practical 1) accumulation, 2) concentration and 3) amplification processes taking (concentration / accumulation) of chemical compounds potentially affect on humans and outside, at least of proximity.



**Fig. 2 – Bioconcentration, bioaccumulation and biomagnification structured contamination after mode insurance processing**

In our opinion, concentration, accumulation and increasing return on sustainability management model under equivalent bio sanitary or procedural areas are configured in a) bioconcentration, b) bioaccumulation and c) bio-magnification.

In fact, essentially to induce procedural organization and management in the field is necessary to outline the areas mentioned above structural units which must be examined in terms of their potential and full operation on bodies contamination.

In the period October 2012-January 2014 in the laboratory of biochemistry and biophysics laboratory of the Faculty of Veterinary Medicine, University of Bucharest Spiru Haret to appeal exemplificativ on complex observations and research to identify the elements and factors, agents and stimuli sub-infrastructures and locations (points) which, over time, and human presence (teachers, students, visitors) are găzduitori potential sources of contamination.

On this basis it was possible to outline the mathematical model of symbolic managerial Biochemistry and Biophysics procedural management to ensure sustainability in the areas of public health. [6]

Casuistic study is, in extending our appreciation representative conceptual and applied by extension to other types of spaces, the biophysical and biochemical contamination susceptabilitatea bodies is observed or inferred or stated-predictive potential.

Mainly proceeded to describe infrastructuui overall location research to assess the potential and management alternatives biophysical and biochemical structures to ensure sustainability in complex operationalization health related work by staff (teachers, students, administrative staff) in laboratories mentioned.

Were systematized, hypertextual, biophysical and biochemical elements of infrastructure put in operationalization (use) the potential impact on human life and the environment, in terms of ensuring minimum health sustainability, using the principles, methods, techniques and management procedures.

Types of biophysical and biochemical substances that affect the main circuits of consumption and their recovery were found to be carriers flow configuration immaterial flows, deep knowledge, hypertext in the field.

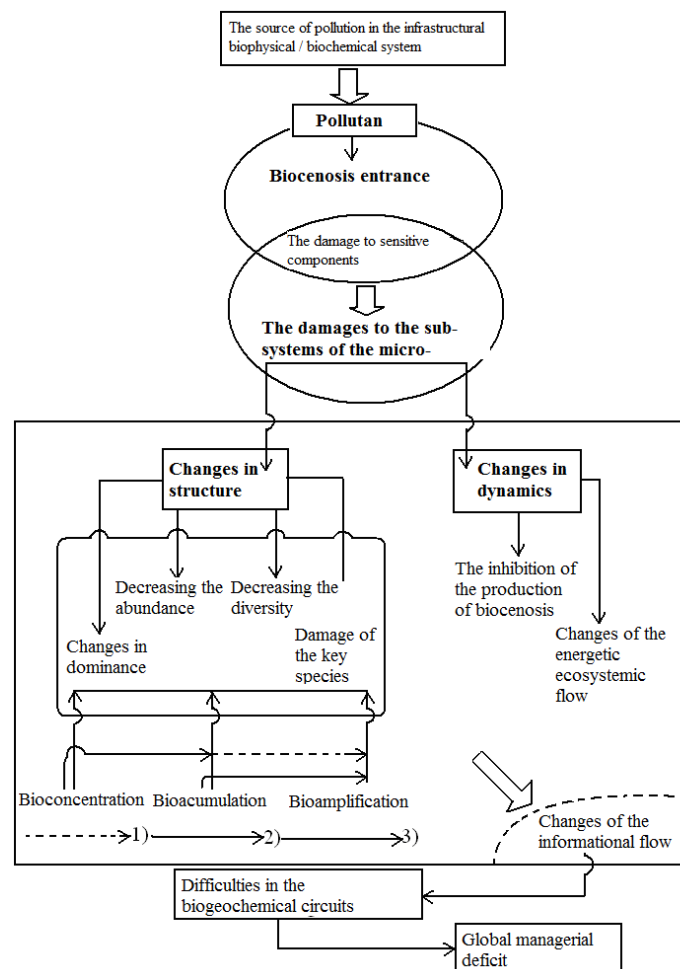
Mainly were retained aspects of inputs (inputs) categories related to impairments that are found in the procedural management model designed to counteract undesirable effects to inland establishment of organization and management of sustainable health. [4]

Observations, findings and feedback on research results casuistic formulation of sustainable health management model were assigned management transfer contamination biophysical / biochemical humans and creatures, along the food chain.

It was noted that a pollutant from a source infrastructural if you reach a determining influence biocenosis scale micro-ecosystem.

From a managerial perspective, the effects can be quantified by studying the changes / modifications in the structure and dynamics of micro-eco-system in question.

Sensing elements are affected zone preference (*Figure 3*).



**Fig. 3 – Establishment of general managerial deficit caused by the insertion of pollutants in ecosystems**

Is noted that if there was impairment of primary (with preference for stage time) of the sensing elements, further damage occurs multitude of sub-systems of the micro-ecosystem in question.

Further, changes occur in a) structure and b) dynamic.

From our observations that changes in structure refers to: 1) changes in dominance, 2) micșoarea abundance, 3) reduction in the diversity and 4) affect key species.

These sub-alignments transformative (change) are those of the bioconcentration, bioaccumulation and biomagnification as processes / phenomena impairment biophysical or biochemical.

Changing dynamics refers mainly to the inhibition of biomass and energy flow changes in eco-systems.

Bioconcentration marks the presence of a causal element of origin biophysical / biochemical in a higher concentration in sub-biotic system to a minimum / maximum set conventionally scheduled admitted, allowed.

The level at which a substance or "effect" biochemical / biophysical is concentrated in the tissues above the ecosystem (water, air, etc.) determine the formalization of a bioconcentration factor.

In fact, bioconcentration is an accumulation and / or "effects" biophysical / biochemical environment in the body or elements of purification and simultaneous downloads.

As such, the bioconcentration a compound biochemical / biophysical effect organisms reach higher concentrations than those recorded in divisions / sub-abiotic systems.

Usually, taking the body concerned compounds occurs directly.

Bioaccumulation is the process of meeting the elements, or an element like multiple unit ("one") in sub-biotic systems, location family / lot being made about direct.

Bioaccumulation is, in fact, a net meeting a single element in a family of elementary units (unit).

By identifying the bioaccumulation phenomenon reception and storage of chemicals in the tissues of the body (mainly human body) in water, food, etc.

Meets a degree of accumulation and dispersion reveals a certain accumulation.

Accumulation is realized by persistent and has benchmarks for delivery.

A complex ecosystem consisting of biocenosis and biotope should be "healthy" to prove asiguratoriu potential for sustainable healthcare environment.

"Health status" of the biophysical environment and / or biochemical marks the sustainability of health through a "health status" of man, the creatures in general.

Therefore, increasing the concentration of pollutants in living organisms as compared to the habitat in which it occurs in nature bioaccumulative.

Biomagnification induce increasing / increasing the concentration of elements in the flow slide unit / transformative rețelizat related to a food chain or clustered.

If the sub-systems / departments abiotic compounds / effects of biochemical / biophysical have low or very low levels, and transfer items (such as food) to meet high concentrations / high of the compounds in question, by "moving" them in living organisms biomagnification occurs.

In our assessment, in terms of managerial theory and practice gap refers to the lack of knowledge and conception regarding measurement bioamplificării.

It appears that the area lacks standard protocols and as such, the managers responsible for establishing and maintaining the sustainability of health have provided tools or levers with which to obtain information for decision making feasible control, improve and monitor specific process of biomagnification.

We believe that biomagnification may be subject to modeling. For example, the use of the bioenergetic body may provide options / alternative connection between one) necessary 2) volume and 3) the quality of the substance consumed, in order to make at least the operational functioning of a matrix that body sustainable formula health and health sustainability.

Materializing managerial perspective of the issues examined, it appears that changes in the structure of compound articulated dynamic changes cause changes in information flow, which is very special significance challenges among managers, on contact with health sustainability in an eco-system disturbed. [5]

As such, there are difficulties in organization and management of biogeochemical and biogeophysical circuits in a general management framework characterized by deficit.

Thus, the appearance invasion / insertion pollutants in the ecosystem (either natural or infrastructural) lead to general managerial deficit that has major consequences on the sustainability of human health in turn.

It follows that effective management infrastructure to ensure sustainability of health, it is necessary organization and leadership to counter the transfer process contamination biophysical / biochemical throughout the food web, reaching humans and creatures in general.

#### **4. Conclusions**

- From the perspective Biochemistry and Biophysics development is sustainable when specific inclusion in series between nature, society and the economy remains intact.
- A complex ecosystem consisting of biocenosis and biotope should be "healthy" to prove asiguratoriu potential for sustainable healthcare environment.
- A pollutant from a source infrastructural if you reach a determining influence biocenosis scale micro-ecosystem. From a managerial perspective, the effects can be quantified by studying the changes / modifications in the structure and dynamics of micro-eco-system in question.
- Concentration, accumulation and gain back health sustainability management model under equivalent bio or configure the procedural areas bioconcentration, bioaccumulation and bio-magnification.
- To operationalize knowledge of hypertext, namely to master bioconcentration, bioaccumulation and biomagnification biochimico-physical, we have started to appreciate more knowledge about chemical compounds and processes of material objects laboratories and healthcare premises that once released into the atmosphere are found or in areas of "compartments" of hydro units.

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# STRATEGIC MANAGEMENT OF BIOCHEMICAL AND BIOPHYSICAL CONTROL STRUCTURES AND SUSTAINABILITY HEALTH ACHIEVEMENT

Ioana-Andreea, Marinescu<sup>1</sup>  
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## Abstract:

*Scientific Investigation of sustainability sanitary herein, matters to a) define the structure of the health sector; b) knowing the contents of the local health systems, c) to obtain information about the properties and characteristics associated with health in Romania; d) obtaining views on the mission, objectives, goals and targets pursued by health services; e) scheduling results, effects and positive consequences among human communities to ensure sustainable health in the framework of sustainable development of the country and, last but not least; f) it is intended to measure people's participation and the rule management process, based on biochemical and biophysical control structures. Mainly, it is considered that the sustainability and health have depicted conceptual content that must be secured effectively recovered, concrete operational activities of health systems in laboratories and hospitals.*

**Keywords and key phrases:** *management, economics, biochemical structure, biophysical structure, sustainability health, public health, laboratory, hospital, bio-economics, bio-management.*

**JEL Classification:** A1/A10

## 1. Introduction

Biochemical and biophysical control structures are important in ensuring the sustainability of health, their contribution to the management reforms to improve public health, and for economic and social development.

It is recognized that health is a resource thesis undeniable and immeasurable human personality, the individual and society as a whole, placed among the most important national values.

In comparable terms, control of health situations biochemistry and biophysics and medical instruments involves management activities to reach the "sanitation and health in the country better than another health and health system of another country."

However, the terms management evaluation in the field are still imprecise, and the area analyzed to obtain representative finding is still uncertain. This conceptual blurring the area is recognized by the World Health Organization officials.

Definition of sustainable health is the subject of studies and analyzes in the art. They are justified by the need to know the dimensions and implications of biochemical and biophysical factors and hospital laboratories that produce disturbance of public health nationally and, on this basis, to confirm the formulas determining actions and effective measures to prevent and combat the deficiencies in the organization specific control and management structures.

Strategic Management of biochemical and biophysical control structures for health sustainability implies the need to remove at least some generic causes of the emergence of Biochemical and biophysical disturbances in health and health systems in laboratories and hospitals in Romania.

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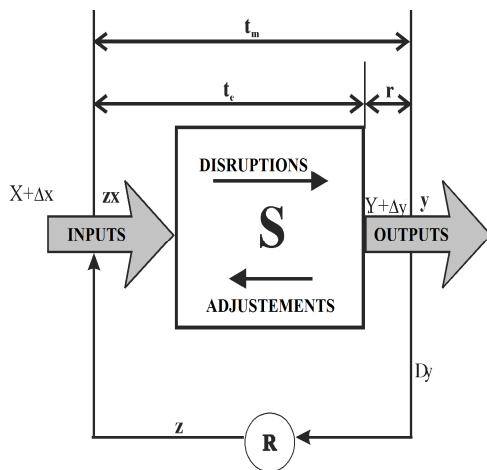
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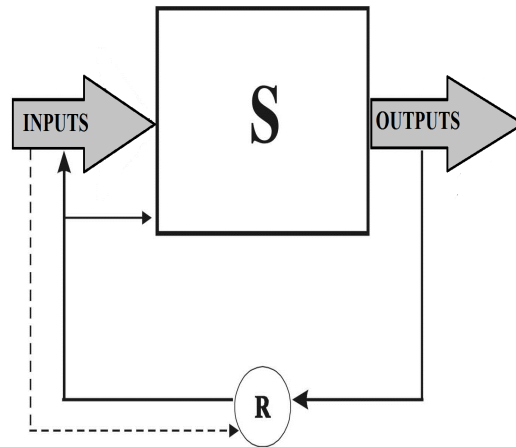
## 2. Biochemical and biophysical control structures entered under strategic management to ensure health sustainability

General definition of biochemical control structures and / or biophysical systemic vision can start the process of quality medical instruments, health and specialized health facilities in Romania, based on general health sustainability.

In *Figure 1* is shown schema for the definition of control structures with self Biochemistry and Biophysics, and in *Figure 2* is shown schema for the self-regulating and self-organizing structure.



**Fig.1. Control structure with self Biochemistry and Biophysics**



**Fig.2. Structure of biochemistry and biophysics of self control and self-organization**

The descriptions of the two figures are symbolic notations meanings:  $S$  = Biochemistry and Biophysics control structure (organization or body, ministry, hospital, laboratory, etc.);  $R$  = regulator (element transformation, processing, resource material, financial, additional knowledge, innovative);  $x + \Delta x$  = change inputs (material, financial, knowledge);  $y + \Delta y$  = change output (resulting material, financial, knowledge);  $y$  = output;  $\Delta y$  = disturbances (disturbances, difficulties, negative situations);  $z$  = value adjustment (correction) (additional resources);  $zx$  = input set;  $r$  = control interval;  $t_e$  = effective control time;  $t_m$  = dead time.

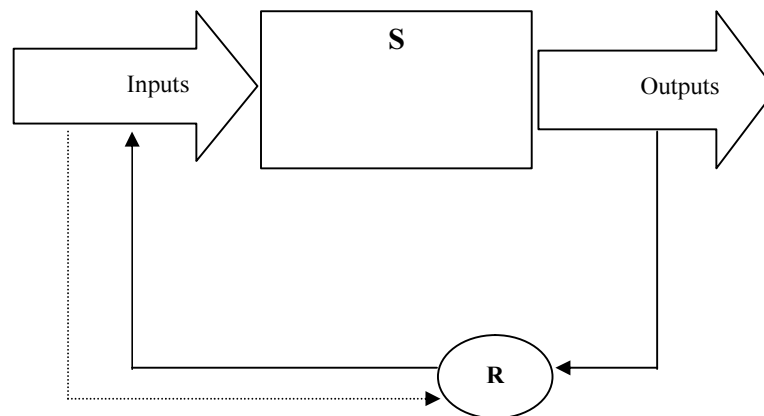
In this context, it is inferred that the value denoted by  $x$  a entry into  $S$  (ie, the control structure biochemical and biophysical) range (reaching  $x \pm \Delta x$ ), and the result output denoted  $y$  when  $y$  is  $y \pm \Delta y$ , is transmitted by feedback from regulator denoted by  $R$ .

In general, biochemical and biophysical control structures are denoted  $y$  follows that the output is kept constant.

Based on theoretical notions of the concept of management in any field, such as in the health sector or in organizations or in laboratories and hospitals can design into a personal vision, a certain style of management to achieve the best results on health sustainability through conventional decisions correctly founded.

Decision management is the process of choosing a path of action to achieve objectives through the application of which influence the activity of at least one person other than the decision maker. [3]

*Figure 3* presents the scheme self-regulating and self-organizing management system that fits the concept of the health system, health and medical sector in which the control structures of Biochemistry and Biophysics.



**Fig. 3. System control and self-organization according to health system design, health and medical sector in which is the biochemical and biophysical control structures**

S = management system; R= regulator

Health policy in Romania is part of the general management science, which in a decision system is applied in an area of national interest found in a difficult process of reform.

Such educational system, in Romania, the government, politicians, decision makers at the country level, health is priority declarative centered realities and national traditions.

In this context it appears that evaluating health services aimed at identifying vulnerabilities, slippages or strengths and the setting of a holistic, integrative, generating performance laboratories and hospitals in Romania.

We find equally that in Romania, the health system is under a decentralization process covering the entire public administration. [4]

In addition to national legislation, the Romanian medical system shall harmonize domestic regulations with the regulations set out in the European Parliament and of the Council of Europe within the area.

On the other hand, health is a fundamental constitutional right and, equally, a "national treasure", which supports the development of society. From this perspective it is clear that there is equivalence between the concept of health and quality of life. [2]

Health system and public health are long-term investments, which require effective links between politics and other social policy field Romanian state, helping to ensure a flexible human capital, able to handle any situation and likely development environment to ensure that people operates.

In recent years, experts have assessed the health system and the Romanian medical and governors charged with this power, and focused attention on the economic analysis of health management and medical arrangements for public health assessment.

National Strategy for rationalization of hospitals, approved by Government No. 303 / 23.03.2011, prepared by the Ministry of Health in collaboration with World Bank experts and personalities with expertise in the medical field, brought to the fore the difficulties the health system in Romania, formulating recommendations, as the implementation can only contribute to "improve" not "development" Romanian health system.

### **3. Operation of biochemistry, biophysics and infrastructure of hospitals under biosafety and biocontainment**

In the context of preliminary analytical field shows that faults of Biochemical and Biophysical health and health systems in laboratories and hospitals in Romania, mainly refers to:

- Lack of quantity and quality sustainable health services to serve at least satisfactory population;
- The health system in Romania answer still inefficient major health problems in laboratory and hospital staff, the current model focusing on curative care and mainly on the biochemical and biophysical hospital in aggression at the expense of outpatient and primary care;
- Degradation of human health, due to inadequate health services, including cases caused by aggression biochemical and biophysical laboratories and hospitals;
- Increased damage to human health in communities increasingly larger national territory;
- Decreased biological indices, respectively disruption general human development because health services inadequate, substandard, derogatory increasing intensity;
- Poor control and poor management of health security status of biochemical and biophysical influence among the people, with the cumulative effects more common cases of mental trauma, injuries somatic biophysical effects, recessive genetic mutation, etc.;
- Biophysical mutagenic agents as operators of chromosomal translocations negative so as not to reach the long future periods to decrease the genetic quality of human evolution, etc.

The need for a new theory of management control structures Biochemistry and Biophysics confirms that lack strategic vision for the transition to sustainable development processes based on using advanced knowledge, human and natural resources in Romania.

Exemplary aspect involves replacing ascertaining above chlorinated organic insecticides and organo-mercury, increased fine chemical synthesis aiming clean industrial microbiology and molecular stereochemistry directed, health awareness achieving sustainability culture using modern information technologies, and especially encouraging that new biochemical and biophysical knowledge in the context of the information society and knowledge-building in Romania about to participate in the emergence of eco-technologies.

Degree of problem, from the perspective of strategic management of biochemical and biophysical control structures to ensure sustainability of health should be determined by focusing on doctrine, concepts, principles, developed so far in developing management models of control structures global sphere of public health and health sustainability.

As such, the economy and performance management solutions of biochemical and biophysical control structures to ensure sustainability of health contribute to deepening sense of development and more efficient organization and management in public health. [1]

Effective strategic management control structures biochemical and biophysical sustainability formalize health by performing correlative articulation of results and conclusions:

- complex analysis and conceptual approaches and theoretical grounding practical biochemical and biophysical control structures, public health and sustainability of health;
- Research management control structures biochemical and biophysical public health and health sustainability in terms of ensuring sustainable human health laboratories, hospitals and the environment by implementing control measures quasi-continuous health;
- Estimates of potential sustainability of health insurance under control biochemistry and biophysics quasi-continuous for a sustainable public health in Romania;
- Determining sanitary procedures implementing sustainability in the health system in Romania;

- Elucidation of the lack of sustainability impact health and human manifestation of poor health on economic development and the potential for development of the country competitive in the current environment.

The objectives in the strategic management of configuration control structures biochemical and biophysical sustainability sanitary Romania are: delineation and retention of what fits into the local plan of economic and managerial theory and practice of sustainable international health, identification and analysis sustainability features sanitary Romania, European and international level in terms of public health safeguards offered, determine the main mechanisms and the means to prevent and combat diseases of biochemistry and biophysics laboratories or hospitals nationwide, highlighting the importance biochemical and biophysical control measures to prevent and combat negative health conditions among the population and the environment.

In such a vision in sight invoice operational conceptual design requirement of a regulatory document, defining the operation of biochemistry, biophysics laboratories and hospitals in biosafety and biocontainment conditions.

Such an approach should take into account: scientific abstraction; classification and comparison; analysis and synthesis; group statistical formulas, and calculation using dynamic strings trends, induction and deduction management; tabular and graphic techniques; approaches profiles laboratories and hospitals system procedure compared, investigating evolutionary processes health management, private events and phenomena studied etc.

Advanced strategic management knowledge is quantified by the systematization of information, data, conclusions, recommendations validated managerial and economic literature specialist. It is useful to consider the legal system valences national, European and international governing work in healthcare and health.

Recourse to aggregate various statistical data, information materials of various professional bodies of public institutions, reports of bodies from Romania, the European and international (European Commission, National Statistics Institute, the World Health Organization, Ministry of Public Health, State Sanitary Inspection, Directorate General for Health and Consumer Protection of the European Commission, etc.), public authorities, scientific studies etc.

Moreover, the methodological basis of the approach may include a wide range of analytical approaches and synthesis for the determination of specific traits - particular and general medical processes, health and management control structures biochemical and biophysical assessments generalization particular etc.

As the main sources of information for research on formalization of strategic management control structures biochemical and biophysical sustainability plumbing can be used, predominantly, statistics Ministry of Public Health of Romania, National Institute of Statistics of Romania, national legislation and international statistical reports of international organizations, other sources of information in the field.

When selecting information sources is appropriate considering the field of study, but also the issues of updating and comparability of data used, relying on general knowledge of cyberspace, internet and intranet. [5]

It appears that most of the topics on the agenda of formalization approaches of strategic management control structures biochemical and biophysical sustainability sanitary include general aspects of organization and management of sustainable, coupled with the emergence of new knowledge-based economy, which liberalizes the basis for the study of management control structures in question.

Against such an alignment of approaches consisting in the field, is visible the preliminary conclusion that the issues addressed have focused on the analysis of theoretical

and methodological issues of economics and management control structures biochemical and biophysical.

It proves equally important factors that determine potential managerial analysis of biochemical and biophysical control structures to ensure sustainability of health, sustainability sustainability sanitary laboratories.

Management aspects of biochemical and biophysical structures that produce disturbances on health sustainability deducted closely with state general sustainability and health damage in biochemical and biophysical effects in some laboratories and hospitals in Romania.

Therefore, retained elements relating to management methods and techniques that fit to be proposed for health sustainability, combating biological risks, biochemical and biophysical laboratories and hospitals in Romania.

Public health assessment involves the use of indicators representing specific sizes measuring the likely developments and its determinants, including the biochemical and biophysical.

As a standardized unit of structured information, health indicators measured interrelations of phenomena associated with the data available in a form which permits identification of components and changes in the system of health care.

It appears that centralized decision making in the organization and management of the health system of the medical and laboratory, when applied to the new hospital reform conditions, is detrimental to the efficient functioning.

According to centralized management, the public health system in Romania is divided into different sectors with independent operation.

From this point of view, it is concluded that there is insufficient functional connections between primary and hospital care between health promotion and curative health.

It appears that the disadvantage form of organization and management described above is reflected in the plan mismanagement of the health system-specific information.

The public health system in Romania, according to the results of studies on the subject, there have been cases improperly managed makers, focussing on issues of patient safety, quality assurance and risk management in the medical field.

A major problem faced by healthcare centralized in Romania is that it has generated increasing number of medical units.

Hospital constitute legal entity which provides health services, preventive, curative and rehabilitation.

At this stage of the reform, we find that the health system in Romania still focus on hospital care at the expense of integrated service networks preventive, curative and rehabilitation.

It follows that the real plan, this approach has resulted in the transfer of responsibility to ensure the health and sustainability of health in local public authorities, who have faced a shortage of financial resources.

Studies and analyzes show indeed increasingly more that the effectiveness or hospital management in Romania is initiated by planning, forecasting or "planning" as a first step the cumulative decisions on defining objectives and its structural components establish the sequence of actions that are to take place circumscribed.

On this basis should spend the allocation of resources in line with operational stages, establishing responsibilities and timetable or schedule for implementation of activities.

Hospitals and biochemical-biophysical Romanian laboratories are funded by groups Diagnostic System (GDS / DRG), even if the criterion is invoked declaratively or financing principle "money follows the patient".

The system for allocating funds SGD type, patients are divided into homogeneous diagnostic groups in terms of clinical disease and of treatment, and the hospital is

reimbursed a rate per weighted case (TCP), which is an average cost, pre-calculated and weighted, that diagnosis group.

Diagnostic groups are designed to cover acute type associated pathology patients who require hospitalization.

Authorship of this system is attributed to Yale University in the USA and emerged from the need to create a unified framework to monitor the use of hospital services.

However, it appears that while the medical system in Romania is designed and based on considerable territorial dispersion, the 8 regions in that it has a wide range of actions (county hospitals, township, etc.) management must prioritize the use of information flows (IT) rather than direct observation, which typically alter or delay the relevant information so necessary control, including biochemistry and biophysics, in the substantiation and adopting optimal healthcare decisions.

From this point of view, we consider that nationally there is still an integrated, efficient, collection and management of medical and health information.

Research on the economics and management of biochemical and biophysical control structures to ensure sustainability of health, with applications in economic and productive environment in Romania, biochemical and biophysical laboratories, hospitals, based on the theoretical considerations and economic realities and managerial above .

It is noted that in Romania health services affected by biochemical and biophysical structures, along with the education and equality of opportunity or opportunities or human rights, their distribution fit the local resources in human society.

In such a framework affecting sustainability occurs because health inequalities on the distribution of health services in Romania in the same generation of people.

In the literature of economics and common management, resource distribution and inequality issues are discussed and analyzed frequently, especially in revenue.

Romania is still negative valence position in Europe according to the inequality of income distribution.

Some opinions state that in fact most of the people can live better, in a sustainable manner (including health), if there is a domestic social contract whereby rich categories of the population to agree to cede a portion of their income categories poor.

In fact, *Christine Lagarde*, managing director of the *International Monetary Fund* (IMF), in a presentation made to the *Financial Times* (21 September 2012) requires the leaders of the world "to remember that in too many countries the benefits of growth advantage less people. This is not a recipe for sustainability and stability."

On the same line of ideas and concepts in the field, *Byanyma Winnie*, Director General of the International Confederation Oxfam, the World Economic Forum in Davos stated in the report "Working for the few" (quoted by *Ioana Tudor Bogdan Cojocaru* in the publication ZF International Bussiness, Jan. 21, 2014, p.1) that "the growing disparity of income is due dtistribuirii monopolization of power by elites, which would be taken over the political process to manipulate the rules of the economic system in their favor." That is 1% of households own 46% of world wealth.

It legitimized the view that providing uncompromised ability of future generations to meet their own health needs should benefit equally the same intensity and importance of activities related to other resources of society as possible in their entirety.

#### **4. Conclusions**

- Sustainability of Health has distributed original meaning in health services according to the needs of local subsistence and human biosocial find that participating in the operational framework of sustainable development, including the application of medical instruments and hospital laboratories.

- We conclude that biochemical and biophysical phenomena and processes occurring naturally and among those artificial, man-made and its direct or indirect activities, units, participate in defining or health sustainability.

- Technical, technological, procedural, phenomenological, etc. Biochemical and biophysical laboratories and hospitals are found to participate in the sustainable development of Romania, namely having constructive role, the factors generating added value, utility and consumer uses, production, reproduction and functioning of human societies and related infrastructure or serve aggressive, intrusive, detrimental, destructive, etc. structures of human life. When the proportion of records equivalence trends above, then it is considered operationality health as zero sum.

- Control structures (in this case specialized structures for biochemical control or biophysical laboratories and hospitals in Romania), in turn, be organized and managed.

- By creating proposals to formalize the strategy of ensuring sustainable health, we recommend that management control structures toward the establishment of as many loops reactive (reverse side) input corrections or adjusting the final ordering processors attainment scheduled, planned synthetic characterized health sustainability ensured.

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# PUBLIC EXPENDITURES EVOLUTION. POSITIVE OR NEGATIVE ASPECTS?

Mihai-Bogdan, Petrișor<sup>1</sup>

## Abstract:

*This article analyzes the situation of public spending and the transformations that occurred in state budgets over the past ten years in Romania. Data are collected from eurostat, state budgets laws and corrections occurred. Simultaneously, there is a parallel with the evolution of public debt.*

**Keywords:** public expenditures, public debt, capital investments

**JEL Classification:** H50 – General, H53 - Government Expenditures and Welfare Programs

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## 1. Introduction

The evolution of society after 1990 marked the obvious manifestation of public spending financial phenomenon. Addressing the issue of public spending occurs usually in the context of fiscal policy alternatives promoted by governments. This means their options on different actions or objectives that spending financed from public budgets, determining relationships involving knowledge of them as trigger, and financial resources coverings, including finding solutions to their correlation, which differ considerably in real terms time and space. In this context, it is noteworthy that the very public spending choices are made to achieve the targets assumed by government programs and priorities in relation to a period or another, is to decide on needs to be financed, as and opportunities; funding.

A comprehensive characterization of public spending should be done, both in terms of public expenditure, and by analyzing their structure and dynamics.

For the present article, we propose to analyze the evolution of public spending in recent years comparing the situation before and after the crisis years. In this analysis we rely on comparing to its neighbor Bulgaria but the average recorded in the 28 EU Member States.

## 2. Analysis of public spending in the last decade

The first table shows the situation analyzed the share of public expenditure as a percentage of GDP. Considered time series refers to the five years leading up to the onset of the economic crisis and the last five years after this time (table 1).

**Table 1. Evolution of public expenditure in the period 2003-2013 as a share of GDP**

Country/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU 28	47,2	46,7	46,7	46,2	45,5	47,0	51,0	50,6	49,0	49,4	49,1
Bulgaria	39,1	38,6	37,3	34,4	39,2	38,4	41,4	37,4	35,6	35,7	38,7
Romania	33,5	33,6	33,6	35,5	38,2	39,3	41,1	40,1	39,4	36,7	35

Source: eurostat

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For Romania it is found that a 10-year period the share of public expenditure in GDP increased 1.5 percent. In 2007 and 2008, represented the first time the growth of public spending as a share of GDP. In 2009, Romania recorded for the largest share of the entire analyzed period. This increase is, we believe, given the natural recoil and automatic entire world economy and the Romanian economy. Thus, both the GDP in real terms declined but increased government efforts to meet the needs of increased economic stability. Year 2013 recorded a 35% share of public spending in GDP, close to the 2003 level, which leads us to believe that the economy is on a positive path that GDP is growing. Both Bulgaria and the EU average 28 reported a similar trend to that of Romania. Thus, in 2009 the record year up to the share of public spending in GDP: 41.4 and in the case of Bulgaria the EU (28) 51%.

Subsequent to this analysis, it is presented in Table 2 the status deficits or surpluses recorded by the state in this period in order to deepen the previous analysis.

**Table 2. Situation deficits / surpluses in 2003-2013 (percentage of GDP)**

Country/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (28 countries)	-3,2	-2,9	-2,5	-1,5	-0,9	-2,4	-6,9	-6,5	-4,4	-3,9	-3,3
Bulgaria	-0,4	1,9	1	1,9	1,2	1,7	-4,3	-3,1	-2	-0,8	-1,5
Romania	-1,5	-1,2	-1,2	-2,2	-2,9	-5,7	-9	-6,8	-5,5	-3	-2,3

Source: eurostat

It may be noted immediately in the case of Romania, the fact that 2009 was a deficit maximum recorded (-9). As can be seen, since 2008 deficit was, on average, more than 5%. In 2013, a decrease consistency of our state deficit (-2.3), which gives us some hope for the future and look forward to the results reported at the end of the year. Bulgaria, from the perspective of the figures presented in Table 2, it shows that a country with a stable economy, although the reality is different. Thus, fluctuations in terms of deficits were very small, registering a peak in 2009 of 4.3. The average of EU member states gives us the picture Overall, the situation of difficult crisis since 2009 effects were not fully overcome but a number of signs that indicate a positive trend, including the decrease of deficit states.

Once with the situation deficits, each state public debt has changed. Table 3 shows the public debt situation and its evolution in the last decade.

**Table 3 The Evolution of Public Debt (% of GDP)**

Country/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (28 countries)	61,8	62,1	62,6	61,4	58,8	62	74,4	79,9	82,4	85,2	87,1
Bulgaria	44,4	37	27,5	21,6	17,2	13,7	14,6	16,2	16,3	18,4	18,9
Romania	21,5	18,7	15,8	12,4	12,8	13,4	23,6	30,5	34,7	38	38,4

Source: eurostat

The data in the table does not present the whole dramatic situation experienced by several countries, even European Union member states such as Spain and Greece. On average, since 2008, public debt recorded by the EU 28 rose 20% share in GDP. Thus, if in 2008 the share was 62%, in the year 2013, the average of the EU countries is over 87%. Bulgarian state situation is one worthy of consideration in future studies because in the years 2003-2008 recorded a strong a decrease in public debt from 44% to a low of 13.7% in 2008. Years of crisis produced for the Bulgarian state public debt increased by 5 percentage points to 18.9%, which ranks it in the states leading from the perspective of a low level of public debt. In case of Romania, the evolutionary line is similar to most EU Member States and thus the EU 28 average, increasing public debt by 20% in the years of

crisis. Level of 38% is not yet worrying through comparatie with other EU member states but should not induce the idea that the results have been most positive.

The situation presented in Table 4, on the evolution of different types of public spending can give us an insight into areas where they have made compromises and reductions which were mainly targeted public investments.

In light of the importance but also the segment that are directly concerned, education segment will explore the social and cultural expenditure shares. These are presented as a substantial share of budget expenditure, reflected in relatively high share of total public spending, particularly in terms of their contribution to the development of the nation and even humanity in general. As a feature of this category of public spending, we note that it has a specific doctrinal in that foundation is directly related to the role of the state interventionist conception.

Depending on its specific action is social-cultural public may materialize in terms of public expenditure budget by financing activities (services) that the benefit target (eg creation of libraries, theaters, orchestras, stadiums, meeting sports, etc.) or by making payments to beneficiaries (for example, to grant allowances, benefits, pensions, scholarships, allowances, subsidies, etc.).

**Table 4 The evolution of public expenditures 2003-2012 (Functional Structure, % of GDP)**

Public expenditures/ Category	Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General public services	BG	4,3	5,5	6,1	4,7	7,6	5,0	7,4	3,6	3,8	3,7
General public services	RO	4,1	3,9	3,3	3,3	4,3	4,7	4,2	4,4	4,8	4,9
Defence	BG	2,5	1,8	2,1	1,7	1,5	1,3	1,3	1,8	1,3	1,1
Defence	RO	2,5	2,2	3,0	2,3	1,8	1,5	1,5	1,5	0,9	0,7
Public order and safety	BG	2,8	2,8	2,7	2,6	3,0	2,8	3,0	2,7	2,5	2,3
Public order and safety	RO	1,9	1,8	2,1	2,4	2,4	2,2	2,2	2,4	2,2	2,2
Economic affairs	BG	5,2	5,0	4,3	4,2	5,2	6,5	4,4	5,0	4,3	5,1
Economic affairs	RO	4,9	5,6	5,3	6,9	8,3	7,8	7,7	6,8	6,7	6,2
Environment protection	BG	0,9	0,8	0,7	1,2	1,3	0,7	1,1	0,7	0,7	0,7
Environment protection	RO	0,2	0,1	0,3	0,4	0,4	0,5	0,6	0,7	0,9	0,8
Housing and community amenities	BG	0,6	0,6	0,7	0,6	1,4	1,5	1,4	1,0	1,2	1,0
Housing and community amenities	RO	2,1	2,1	1,6	1,5	1,6	1,3	1,4	1,3	1,2	1,1
Health	BG	5,3	5,2	4,8	4,0	4,1	4,5	4,2	4,7	4,5	4,6
Health	RO	3,5	2,5	2,7	2,7	3,1	3,2	3,8	3,6	3,4	3,1
Recreation, culture and religion	BG	0,9	0,8	0,7	0,7	0,7	0,9	0,7	0,8	0,7	0,8
Recreation, culture and religion	RO	0,7	0,7	0,7	1,0	1,1	1,1	1,1	1,1	1,1	1,0
Education	BG	4,2	4,1	4,3	3,7	3,8	4,1	4,3	3,8	3,6	3,5
Education	RO	3,5	3,6	3,6	4,1	3,9	4,5	4,1	3,3	4,1	3,0
Social protection	BG	12,4	12,0	11,0	10,9	10,7	11,2	13,6	13,5	12,9	12,8
Social protection	RO	10,0	11,0	11,1	11,0	11,2	12,4	14,6	14,9	14,1	13,6

Source: eurostat; state budget laws – own calculations

Legend: RO – Romania; BG - Bulgaria

Education expenditure segment, shows a troubling reality from two perspectives. The first reality is seen, and is not encouraging for Romania refers to a simple comparison with the Bulgarian State. We know that the educational system in Romania is underfunded but,

however, the amounts allocated are even lower than they allocate including Bulgarian State. With few exceptions, the entire analyzed period of 10 years the Bulgarian State directed up to 0.5% of GDP more to educational segment. The second reality refers to the fact that the crisis years were hard on the education system in Romania and the government was forced to reduce, and more funding to this area. Thus, if in the years 2007-2008 funding to this area reaches 4.5% of GDP, the reality of our current years expressing difficult situation where we are: 3% of GDP. However, there are a number of areas whose a funding increased but not the case in this study as an opportunity to develop additional funding or those from other areas, such as education, that we consider true engines of economic recovery short term and long term.

Health System shows even harsher reality; Bulgarian state finances up almost 2% more this area to our state and within 10 years, financing the health system declined. Thus, if the health system reported a maximum funding of 3.8% of GDP in the year 2012 it dropped to 3.1%, ranking it well below the developed countries.

As expected, in crisis, social protection expenditure increased consider consistent. If in 2003 they account for 10% of GDP, in 2012 they reached a maximum of 13.6%.

### 3. Conclusions

In the broader context of the evolution of public spending, their analysis highlights the influence of several factors with different meanings. There is a growing trend of public spending to GDP growth. From the perspective of the evolution of public spending as a share of GDP, we can mention positive aspects. Thus, the share recorded in the year 2013 has returned to the pre-crisis years, allowing the government to not be overly burdensome beyond the capacity of financing. This situation is shown and deficits, which shows us that the 2013 deficit is 2.3%. From the perspective of public debt can count all positive. Romanian State to meet the costs had to resort to loans. The state debt increased by almost 20% reaching a level of 38%. Not worth worrying, particularly when we look at this compared to developed countries in Europe that have exceeded 100% of GDP.

Public Expenditure Review functional structure presents but another reality. Areas of strategic, long-term drivers of growth but short, such as education and health were the most affected by the economic crisis. Additionally, it can be seen that the neighboring state finances these areas in a manner consistent with nearly 2% of GDP to more than our state.

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# ECONOMIC DEVELOPMENT FROM THE PERSPECTIVE OF REGIONAL POLICIES

Andra-Mădălina, Pantilie<sup>1</sup>

## Abstract:

*Changing processes in today's society have led to a new dynamic of adaptation to present conditions of the specific elements of social, economic and civic. Starting from the premise that social and economic development at the regional level is more efficient and realistic than the national average, since the creation of the European Community worries arose and also the regional development policies to combat them. The objective of the paper is to analyze the regional policies, programmes related to this matter, financial instruments and the results of them in the European Union economies.*

**Keywords:** *Economic development, regional policy, international organizations, financial instruments*

**JEL Classifications:** *O18, O19, R11*

## 1. Introduction

Since the creation of the European Community in 1957, regional policies began to develop in order to combat the economic and social concerns at the regional level. Defined as a process of stimulating and diversifying economic activities and private sector investments, regional development process brings significant contributions in reducing the unemployment and increasing the quality of life and standard living conditions. The main objective of the regional policies should include support for capital injections in regions with low population density, low GDP, strengthening and development of the whole activities system in the undeveloped areas.

### 1.1. Overview concepts

Analyzing the regional policies that have marked European Union economies is necessary to define the specific concepts in comparison with the past experience and the present situation. Regional development in Europe had two directions: horizontal and vertical. Vertical development was made between regions and institutions represented by the European Union and the Council of Europe, while the horizontal development took place between European regions. The consequence of regional development has led to the importance of the idea of a „Europe of Regions”, a study case where the region is more than the part between the state and the local authority, becoming a significant element in the sustainable economic development.

The Council of Europe presented the concept of the region as „homogeneous geographical range”, representing the relation between the territory and human characteristic emphasis emerged as a result of the homogenous regional awareness. European Union has defined the region as the immediately below state indicator dealing with the administrative and political part of a unit and local community of different sizes one from another. In practice, it is not very important the region size, but the competencies and skills of the human resources. The lack of an universally accepted definition of the concept of the region due to the diversity perspectives have enabled the collection of a data collection of common elements. The common elements of all definitions contain the undelimited accurately space, the corresponding human community and the identity assigned region.

Regarding sustainable development derived from the english term, it first appeared in the Brundtland Report, at Stockholm in 1987. The term was defined by the opportunities

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development for effects self- reproduction, with the possibility of supporting a long- time horizon, diversification and economic and social activities development in the region through effective use of the existing resources and energies.

The concept of regional development aims, according to the Regional Development and Public Administration Ministry, the stimulation and diversifying economic activities through private investments and contributions in the employment market to improve the quality of life.

Regional policy has been defined by the European Commission as an investment policy that supports the job creation, competitiveness, economic development, population life quality, contributing also to the 2020 Europe Strategy. By definition, regional policy seeks the reduction of economic disparities, social and territorial with a significant importance in the regions.

## **2. Regional Development in the European Union**

Regional policies of the European economies has a longer history than the European Union policy, starting since 1934 in United Kingdom through the special areas laws that aimed the rehabilitation of the industrial areas that were significantly affected by the high unemployment rates.

Following the post-war period, there were created the majority of the national regional development policies, the role of the state at that time being represented as a significant element through its importance in the redistribution of the economic activities by providing the infrastructure investments.

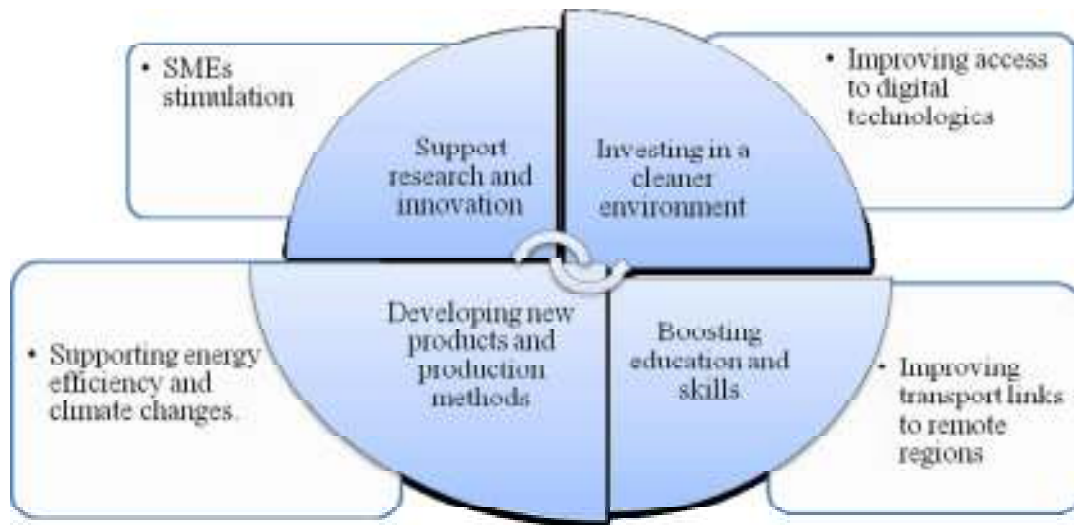
Since the 70s, it was gradually reduced the state intervention, modifying the position of the regional policy, the state intervention being replaced with strong economic liberalization policies.

These new changes have allowed the granting of some indirect assistance to businesses through direct support modification, reduction of tax levels, have provided training assistance on the side of employees and advisory services and the stimulation of the innovative activities.

Apostoloche M. (2014) supports regional development as an element that attaches great importance on stimulating and diversifying economic activities, stimulating investments mainly in the private sector, aimed to reduce socio- economic differences between regions in order to increase the standard of living and the quality of the services offered to the public. The experience of regional development policy has shown that the regional policies must correspond to constant changes in full correlation with matters relating to the restructuring of production and increase the competitiveness of a region. The trend in recent years of regional policy objectives is to combine regional structural policies to promote national and regional competitiveness.

Sleuwaegen L. and Boiardi P. (2014) showed in a scientific paper in the field, the relevance of innovation as a fundamental element of regional development in the European Union.

The study concluded that the system characterized by a innovative dynamic on four basic plans of regional policy: institutions, infrastructure, intelligence and inspiration leads to a positive regional development.

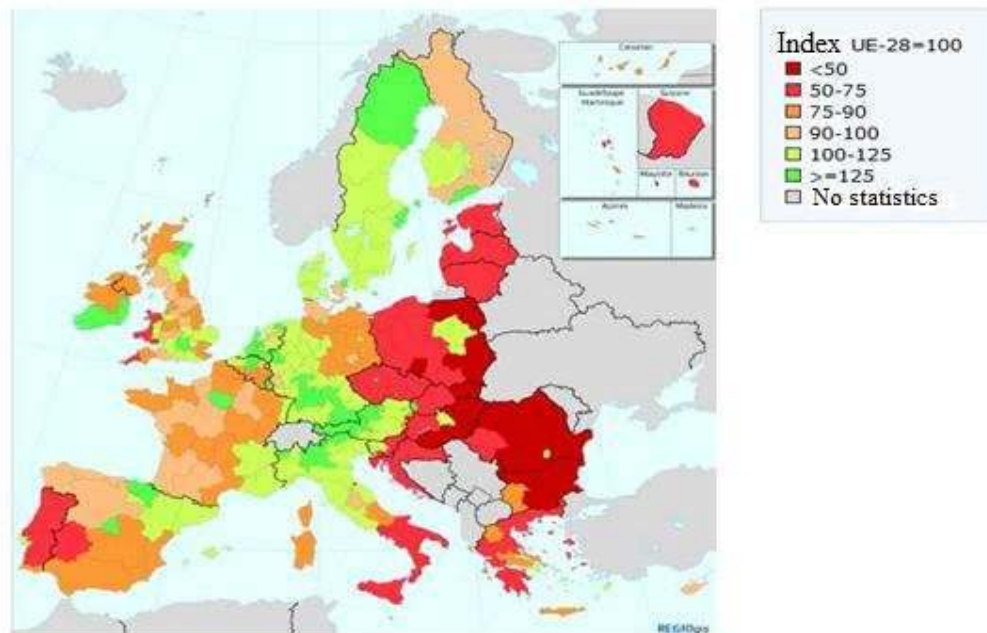


**Figure No. 1 Areas funded by the EU Regional Policy**

Source: Author, with the European Commission [http://ec.europa.eu/regional\\_policy/what/index\\_ro.cfm](http://ec.europa.eu/regional_policy/what/index_ro.cfm)

Regional policy targets the reducing of the economic disparities between regions (see Figure No. 1) traced problem to be addressed through capital injections from specific financial instruments of regional policy.

GDP and regional disparities, 2010



**Figure No. 2 Regional Disparities European Union-28 countries, 2010**

Source: Eurostat.

The situation of the regional disparities in the 28 countries European Union was analyzed by Eurostat in 2010, and can be seen in Figure No. 2.

### **2.1. Significant events. Financial instruments**

Signing the Rome Treaty in 1957 announced a series of principles of a future regional development policy at the European level, especially in the six signatory countries, the Netherlands, Luxembourg, Italy, Germany, France, Belgium, which at that time considered the need to reduce disparities between regions and providing sustained support for less favored areas. These measures were meant to establish the Community economy, strong unitary features.

Measures were considered in force since 1958, when the creation of social Community policy instrument, the European Social Fund aimed to improve the functioning of the labor market and the integration of unemployed in it.

Later, in 1962, was created Common Agriculture policy funding instrument, the European Agricultural Guidance and Guarantee Fund (EAGGF) in order to support the development of rural areas and the improvement of agricultural structures.

In order to redistribute budgetary contributions to the poorer regions of the Member States, in 1975 it established the European Regional Development Fund in order to support them in terms of economic development. Its role was to make productive investments in areas like infrastructure, and the creation of new sustainable jobs.

After more than ten years trying to eliminate economic disparities between regions by introducing the notion of economic cohesion in the adoption of the Single European Act (1986), at which time came the creation of a social and economic cohesion policy which had as main aim to achieve European single market and facilitate the accession of the countries of southern Europe. Two years after the Single European Act, the European Council establishes the importance of the tools to reduce disparities between regions at EU level, solidarity funds from the Community budget were expanded and renamed as the Structural Funds.

Once out of the communist space, Poland and Hungary, in 1989, there are created programs with a view to support the reconstruction of the two economies, in 2000, the programme being revised to support the candidate countries in terms of regional development.

Economic and social cohesion, economic and monetary union and the single European market represents European Union Treaty objectives (1993), in base of which is formed the Cohesion Fund which aims primarily to support environmental projects and transport infrastructure in the countries characterized by a very low level of development. The fourth financial instrument created, the Financial Instrument for Fisheries Guidance (FIFG) -1994, brings contributions towards EU in fishing enlargement. Also in 1994 he created the Committee of Regions, with the role of offering consultation and offer opinions in decision-making processes for regional development for the European Commission. Economic and social cohesion policy acquires significance by the Treaty of Amsterdam (1997), and confirmed significant component of reducing disparities between the living standards of the population, emphasizing the need for complex actions supported by the reduction in the level of unemployment.

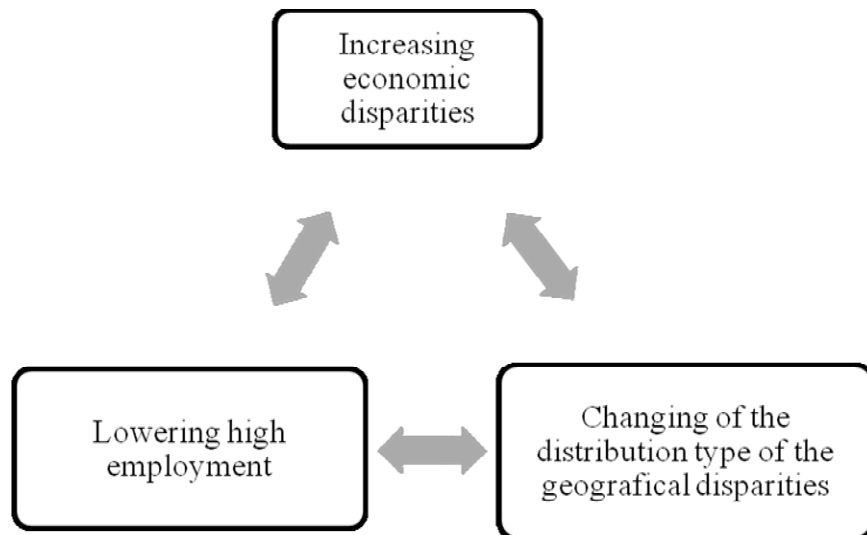
Berlin Summit in 1999 promoted a series of structural funds reform process to increase community support and join the two instruments Phare pre-accession Instrument for Structural Pre-Accession (ISPA) and the Special Programme for Agriculture and Rural Development (SAPARD) designed to assist the economic and social development of future EU candidate countries.

The year 2002 brought a new financial instrument of solidarity in major natural disasters that presents significant effects on quality of life in the affected areas, the environment or present economic activities.

## 2.2. Challenges and Trends

The challenge of regional development is represented by the sharp change in Community policies and the extensive application of more and more countries candidates for EU enlargement.

The main challenge for the European Union is the maintenance of the ideal level in terms of economic and social cohesion in the Community. The factors that allow this trend are seen by increasing economic disparities between economic regions of the European Union member countries, changing the distribution model of the geographical disparities and rising unemployment to a significant degree of concern in European countries. Ulltveit-Moe K. H. (2007) shows that the effectiveness of regional policy depends on the level of intra-industry knowledge, the inter-industry knowledge and marketing costs thereof. The analysis consists of the view that the European proposal of reducing the regional disparities can be a very expensive alternative.



**Fig. No. 3 The causes of the problematic aspects in regional development**

Source: author

The three aspects mentioned in figure Fig. No. 3 are significant challenges in the degree of economic and social cohesion in Europe.

Becker and Fuest (2010) believes that the European Union supports the coordination and financing of trans-European infrastructure networks, roads and railways linking the EU member states and get to cut transportation costs. They raise questions about whether the EU's involvement in these areas is justified by national infrastructure inefficiencies related policies. Survey conclusion is that regional policy at EU level is sensible to support infrastructure development in the member countries of the Union.

Another challenge is the rapidly rising competition between companies, which leads to companies relocating to areas much more developed in terms of infrastructure, human resource quality or high quality of services offered at regional level. We conclude that regional development funds requires effective management and clearly targeted to disadvantaged regions. The link between economic development and regional policy is one close, the latter having a significant influence on first.

Significant differences between European regions were analyzed by Del Campo et. al. (2008) in a study aimed to classify adjusted european regions using different socioeconomic development axes. Classification has made numerous contributions to regional policy objectives.



### **3. Regional policies in the European Union**

#### **3.1. Regional development and cohesion in the European Union**

The diversity of social, historical and cultural is one of the fundamental values of the EU. The welfare of the community can be ensured through free movement in the European economic plan with promoting competitiveness. Since 1957, the Community Treaties followed continuous harmonious development and also the reducing of the regional economic disparities. Regarding the Economic and Monetary Union and the single currency, economic condition has become a fundamental one. The role of regional and cohesion policy is to support underdeveloped regions, to reduce regional economic disparities.

Regional development objectives are:

- Supporting social and economic development zones with the GDP that does not exceed 75% of the average of the last three years.
- Support the through capital injection the reconversions to new professions for regions characterized by a significant decline in traditional industry.
- Support the integration of young people into the labor market and persons exposed to exclusion from it.
- Support workforce by adapting to industrial change.
- Allowing adoption of structures to achieve the transfer and the marketing of products such as those from agricultural and fishing activities.
- Boosting economic diversification and structural adjustment of rural areas vulnerable having low population density, low GDP, most of the population employed in agriculture.
- Support low-density regions.

The funds that compose the financial instruments mentioned in section 2.1, are the import taxes on agricultural products, customs duties, VAT, quota contributions of each Member State, calculated on the basis of Gross National Product.

#### **4. Conclusions**

The core objective of supporting development in disadvantaged regions of the country, specific regional development policy was achieved by supporting the capital injections in the reconversion to new professions in the regions characterized by the decline of traditional industries, supporting young people in the labor market integration work, and persons likely to exclusion from the labor market due to failure to meet current professional conditions. Regional development policy in disadvantaged regions by supporting the labor performed by the processes of adaptation to industrial changes. The proposed recommendations from the analysis are the adoption of structures to achieve transfer and marketing structures for agricultural products, but also those from fishing.

Regional development policy should increase capital injections in regions with low density and, more importantly, boost economic diversification and structural adjustment of vulnerable rural areas having low population density, low GDP, where most employment comes from the agriculture.

#### **Acknowledgement**

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# WHAT DOES THE NEW INEQUALITY HDI TELL US ABOUT EUROPE?

Adina, Moise-Titei<sup>1</sup>

## Abstract:

*Like all averages, the HDI masks inequality in the distribution of human development across the population at the country level. Starting from this hypothesis, we chose to bring to your attention the new Inequality-adjusted Human Development Index (IHDI) which was adopted in the 20th anniversary edition of Human Development Reports, in 2010. In this article we proposed to make some comparisons between the ranks of European Countries in the hierarchy of Inequality-adjusted HDI and also, we proposed to highlight the loss in values compared with traditional HDI.*

**Keywords:** human development, inequality, composite index, hierarchy

**JEL Classification:** O15

## 1. Introduction

In 1990, the United Nations Development Program (UNDP) published first annual *Human Development Report (HDR)* and introduced *the Human Development Index (HDI)*. This index provides a broader characterization of “development” than is possible by focusing on national income alone. Traditionally, the achievements in health, education and material wellbeing were associated with such variables as life expectancy at birth, a combination of literacy rate and gross enrolment rate for measuring knowledge and, for a decent standard of living, was used GDP per capita in purchasing power parity (PPP) terms in US dollars. Until the 2010 edition of the Human Development Report (HDR), the Human Development Index (HDI) was calculated like an arithmetic mean of the normalized values of those three variables.

Among other things, the HDI has been criticized for the fact that it uses the wrong variables, and that it does not reflect the human development idea accurately (Chibber and Laajaj, 2007 or Dasgupta and Weale, 1992). It has also been criticized for the arbitrariness of its weighting scheme. Using the Human Development Index (HDI), Foster, McGillivray and Seth illustrated the robustness relations for various sets of weighting vectors and demonstrated how some rankings are fully robust to changes in weights while others are quite fragile [4].

For example, Chibber and Laajaj consider it is necessary that HDI brings to light a broader set of basic dimensions of human development and they proposed to add the fourth dimension of development which measures environmental sustainability as one of the priorities. On the list of indicators are CO<sub>2</sub> emissions per capita, renewable energy, SO<sub>2</sub> emission per km<sup>2</sup> and water scarcity [1].

Many authors consider insufficient and inadequate to use only GDP or GNP per capita for measuring the well-being. In this regard, D and W proposed to include indices of political and civil liberties based on the observation that improvements in per capita national income, life expectancy at birth, and infant mortality are positively correlated with the extent of political and civil liberties enjoyed by citizens, while improvements in literacy are negatively correlated with these liberties [2].

Ranis, Stewart and Samman explored empirical correlations between 11 categories of indices that seem to encompass all the major dimensions of human development. Here, we can mention mental well-being, political freedom, inequality, work conditions, economic stability, political security etc. They find that under-five mortality rates perform

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equally as well as the HDI, and income per capita is less representative of other dimensions of human development. [6]

With the occasion of the 20th anniversary edition of HDR, the United Nations Development Programme (UNDP) introduced several minor but still significant adjustments in the indicators and methodology used to calculate the Human Development Index.

The access to knowledge is now measured by: mean years of adult education, which is the average number of years of education received in a life-time by people aged 25 years or older and expected years of schooling for children of school-entrance age. The second represents the total number of years of schooling a child of school-entrance age can expect to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life.

Also, the standard of living is now measured by Gross National Income (GNI) per capita in PPP US\$, instead of Gross Domestic Product (GDP) per capita in PPP US\$. This change was necessary because GDP is a measure of economic output, and it does not reflect a country's disposable income — some profits may be repatriated abroad, some residents receive remittances from abroad, and in some cases inbound aid flows may be sizeable. GNI adjusts the GDP for these factors and it is therefore a better measure of a country's level of income.

We also mention that the new HDI is calculated after 2010 using the geometric mean, thus penalizing unequal achievements across dimensions.

## **2. The Inequality-adjusted Human Development Index (IHDI)**

The HDR has always recognised that inequality in human development deserves serious consideration, and that averages can be misleading. Joint deprivations exist where inequality in health and education coincide with inequality in income — which in turn may overlap with ethnicity and gender [3]. Since 1997, Hicks proposed a new index and offered ways to measure such inequality. He considered that in dimensions of life such as income, education, and health/longevity, inequality is significant for economic and ethical analysis. “Relative” deprivations resulting from inequalities are distinct from (though related to) “absolute” deprivations; thus alongside knowing a society's total or average endowment of particular goods like income, education, and healthcare, information can also be obtained about the distribution of those goods across the population [5].

For correction, in 2010, UNDP introduced a new index, named Inequality-Adjusted Human Development Index (IHDI), which conceals disparities in human development across the population within the same country. Accordingly, it takes into account not only the average achievements of a country on health, education and income, but also how those achievements are distributed among its citizens.

The inequality in distribution of the HDI dimensions is estimated for:

- Life expectancy, which uses data from abridged life tables provided by United Nations Department of Economic and Social Affairs (UNDESA). This distribution is available across age intervals (0–1, 1–5, 5–10, ..., 85+), with the mortality rates and average age at death specified for each interval.
- Years of schooling and household income (or consumption), which use household survey data harmonized in international databases;
- The inequality in standard of living dimension, which uses disposable household income per capita, household consumption per capita or income imputed based on an asset index matching methodology.

## **3. Calculating the Inequality-Adjusted Human Development Index**

As we mentioned above, HDR for 2010 introduced the Inequality-adjusted Human Development (IHDI) for measuring the inequality in distribution of each dimension across

the population. It is based on a distribution-sensitive class of composite indices, which draws on the Atkinson (1970) family of inequality measures [7].

It is computed as a geometric mean of geometric means, calculated across the population for each dimension separately. The IHDI equals the HDI when there is no inequality across people but it is less than the HDI as inequality rises. In this sense, the IHDI is the actual level of human development (accounting for this inequality), while the HDI can be viewed as an index of “potential” human development (or the maximum level of HDI) that could be achieved if there was no inequality. The “loss” in potential human development due to inequality is given by the difference between the HDI and the IHDI and can be expressed as a percentage.

In the first step the inequality measure is  $A = 1 - g/\mu$ , where  $g$  is the geometric mean and  $\mu$  is the arithmetic mean of the distribution, following the formula:

$$A_x = 1 - \frac{\sqrt[n]{x_1 \cdot x_2 \cdot \dots \cdot x_n}}{\bar{x}} \quad (1)$$

where  $\{X_1, \dots, X_n\}$  denotes the underlying distribution in the dimensions of interest.  $A_x$  is obtained for each variable (life expectancy, mean years of schooling and disposable income or consumption per capita). If there is perfect equality in the distribution of achievement  $X$ , then  $A_x = 0$  and if there is at least some inequality in the distribution of achievement  $X$ , then  $A_x < 0$ .

In the second step each dimension-index is adjusted by the loss due to inequality, following the formula:

$$I_x^* = (1 - A_x) \cdot I_x \quad (2)$$

Finally, the IHDI is the geometric mean of the three dimension indices adjusted for inequality:

$$\begin{aligned} IHDI &= (I_{Health}^* I_{Education}^* I_{Income}^*)^{1/3} = \\ &= [(1 - A_{Health})(1 - A_{Education})(1 - A_{Income})]^{1/3} \cdot HDI \end{aligned} \quad (3)$$

The loss in the Human Development Index due to inequality is:

$$Loss_{\%} = 1 - [(1 - A_{Health})(1 - A_{Education})(1 - A_{Income})]^{1/3} \quad (4)$$

Overall loss can be also approximated with the coefficient of human inequality:

$$Coefficient\ of\ human\ inequality = \frac{A_{Health} + A_{Education} + A_{Income}}{3} \quad (5)$$

When all inequalities in dimensions are of a similar magnitude, the coefficient of human inequality and the loss in HDI differ negligible. When inequalities differ in magnitude, the loss in HDI tends to be higher than the coefficient of human inequality [8].

#### 4. The Inequality-adjusted HDI for the European Countries

Like all averages, the HDI masks inequality in the distribution of human development across the population at the country level. Starting from this hypothesis, we choose to bring to attention the new Inequality-adjusted Human Development Index (IHDI) which was adopted in the 20th anniversary edition of the Human Development Reports, in 2010.

On the assumption that inequality makes its presence felt increasingly, even in countries with high levels of human development, we intend to draw some comparisons between the ranks of European Countries in the hierarchy of Inequality-adjusted HDI and also, we wish to highlight the loss in values compared with traditional HDI.

When there is no inequality in the HDI dimensions or no aversion to inequality, the average level of human development is reflected in the HDI. In this respect, the HDI can be viewed as an index of 'potential' human development and IHDI as an index of actual human development. The 'loss' in potential human development due to inequality is given by the difference between the HDI and the IHDI, and can be expressed as a percentage.

**Table 1 – The Value for HDI, IHDI and % loss in 2013, for EU Countries**

Country	HDI for 2013	IHDI for 2013	Percentage loss	Difference from HDI rank
<i>Netherlands</i>	0,915	0,854	6,7	1
<i>Germany</i>	0,911	0,846	7,1	1
<i>Denmark</i>	0,900	0,838	6,9	0
<i>Ireland</i>	0,899	0,832	7,5	-1
<i>Sweden</i>	0,898	0,840	6,5	3
<i>United Kingdom</i>	0,892	0,812	8,9	-4
<i>France</i>	0,884	0,804	9,0	-2
<i>Austria</i>	0,881	0,818	7,2	4
<i>Belgium</i>	0,881	0,806	8,5	0
<i>Luxembourg</i>	0,881	0,814	7,6	3
<i>Finland</i>	0,879	0,830	5,5	9
<i>Slovenia</i>	0,874	0,824	5,8	9
<i>Italy</i>	0,872	0,768	11,9	-1
<i>Spain</i>	0,869	0,775	10,9	1
<i>Czech Republic</i>	0,861	0,813	5,6	9
<i>Greece</i>	0,853	0,762	10,6	0
<i>Cyprus</i>	0,845	0,752	11,0	-3
<i>Estonia</i>	0,840	0,767	8,7	3
<i>Lithuania</i>	0,834	0,746	10,6	-3
<i>Poland</i>	0,834	0,751	9,9	-2
<i>Slovakia</i>	0,830	0,778	6,3	9
<i>Malta</i>	0,829	0,760	8,3	5
<i>Portugal</i>	0,822	0,739	10,1	0
<i>Hungary</i>	0,818	0,757	7,4	7
<i>Croatia</i>	0,812	0,721	11,2	-2
<i>Latvia</i>	0,810	0,725	10,6	0
<i>Romania</i>	0,785	0,702	10,5	4
<i>Bulgaria</i>	0,777	0,692	11,0	5

Source: Human Development Report 2014

As you see in Table 1, for some EU Countries the loss was minor and for the others the loss was consistent. The loss percentages fewer than 7% are for 7 countries, like Finland, Slovenia and Czech Republic; the loss percentages between 7% and 10 % are for 11 countries, like Germany or France, and values above 10% are for 10 countries. The last group includes the countries with the highest inequality; we mention here countries like Romania and Bulgaria, but also Italy or Spain. This percentage loss determines a new hierarchy. For example Finland and Slovenia growth nine positions, since the United Kingdom loses four positions and Cyprus and Lithuania lose three positions.

Even if Romania recorded a loss of 10.5%, it won 4 seats in the hierarchy. So for Bulgaria, this won five places in the hierarchy, even if a loss of 11%.

## 5. Conclusions

The new version of the Human Development Index, introduced in the 2010 edition of the HDR, brings changes. The main one is the switch from the original additive aggregation function (the arithmetic mean of the three components) to a multiplicative

function (their geometric mean). The prevailing reason given for this change was to allow for imperfect substitutability between the HDI's three components.

As a supplement, in 2010, The Human Development Report introduced IHDI. As shown, this one captures the losses in human development due to inequality in health, education and income. But, unfortunately, the inequalities can be reinforced. In the end unequal societies, democratic or not, are societies where power is more concentrated in the hands of elites, so it is not surprising that economic and political institutions work in their favour. Therefore, we can state that an inequitable development is not human development.

Generally countries in the low human development group also tend to have higher inequality and thus larger losses in human development due to inequality, while countries in the very high group experience the least inequality in human development.

In addition, the Human Development Index, also focuses almost exclusively on national performance and ranking, but does not pay much attention to development from a global perspective.

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# INEQUALITY IN HUMAN DEVELOPMENT – CASE STUDY FOR ROMANIA

Adina, Moise-Titei<sup>1</sup>

## Abstract:

*The purpose of the present paper is to highlight the human development progress and the inequality in human development for Romania. We also want to emphasize the biggest or the smallest losses, making a brief analysis of inequality on the three components: health, education and welfare. In our research we start from the idea that an objective measurement of inequality is necessary for policy makers and not only.*

**Keywords:** human development, progress, inequality in human development

**JEL Classification:** O15

## 1. Introduction

The Human Development Index (HDI) aims are not only to monitor human development, but also to encourage countries to take actions that promote it. Year after year most countries have registered a significant human development. The 2014 Report shows that the overall global trends are positive and that progress is continuing. In line with the human development paradigm, it takes into consideration the disparities between and within countries and it identifies the ‘structurally vulnerable’ groups of people who are more vulnerable than others by virtue of their history or of their unequal treatment by the rest of society. Also, it makes a number of important recommendations for achieving a world which addresses vulnerabilities and builds resilience to future shocks [2].

Starting from these considerations, in our paper, we make a brief analysis of the human development progress in Romania and we bring into question the inequality in human development and also the losses in the three dimensions: health, education and welfare.

## 2. Inequality Problems

Over time, many authors brought to attention the increasing inequality and its detrimental social effects. In their work they discussed the inequality in individual dimensions such as income (Atkinson 1999, Ram 1992, Theil 1981), health (Bartley 2004, Deaton 1998), and education (Prasartpornsirichoke and Takahashi 2012, Brock-Utne 2011) to name but a few.

If we talk about the income inequality, we must know that about 65 per cent of total income inequality in the non-communist world is accounted for by international inequality and about 35 per cent by inequality within nations. More than 70 per cent of international inequality is accounted for by the inequality of two major regions [5].

If we talk about health inequality and life expectancy, we know from many studies that there are large differences in life expectancy between the most privileged and the most disadvantaged social groups in industrial societies. But we need to look beyond the figures to the social and biological processes that underlie them in order to understand why this is so [1].

The relationship between income and health is well established: the higher an individual's income, the better his or her health. However, recent research suggests that health may also be affected by the distribution of income within society. The effects of income inequality on health may be explained by underinvestment in social goods, such as public education and health care or disruption of social cohesion and the erosion of social capital [3].

The list of inequalities in human development must be filled with inequality in education. These because, in Europe for example, despite an important increase in number

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of years of schooling in the post-war period, research still shows important differences between social and ethnic groups and even a widening of the gap between the most advantaged and most disadvantaged in some countries [6].

Inequality in different dimensions may be caused by different factors. Jensen and Nielsen, for example, identified that the income distribution is related to employment structure, minimum wage, social security provision, etc. and that the school enrollment depends on the provision of public schools, legislation of child labour or labour markets [2].

So measuring the inequality in human development is part of the concern of numerous experts, and the results of their studies arouse public interest, especially in the current context, of globalization, and competition among nations. According to the new perspective of human development, since 2010, United Nation Development Program (UNDP) started to calculate the Inequality-adjusted Development Index (IHDI). The purpose is to account for the loss in potential human development due to inequality.

### 3. The Romania's Progress in Human Development

The HDI is not designed to assess progress in human development over a short period of time because some of its component indicators do not change rapidly in response to policy changes, especially for mean years of schooling and life expectancy at birth.

So, in order to characterize the progress in human development it is useful to review HDI advance from medium to long term. Between 1990 and 2013, Romania's HDI value increased from 0.703 to 0.785, a total increase of 11 per cent or average annual increase of about 0.5 per cent. Romania's HDI value for 2013 positions the country at 54 out of 187 countries and territories.

For the year 2013, we mention that HDI was calculated taking into account the four well-known indicators: life expectancy at birth, mean years of schooling, expected years of schooling and gross national income per capita. According to the 2014 HDR the situation most favourable to Romania refers to mean years of schooling and expected years of schooling. For the first indicators, the value 10.7 years situated our country on the top of ranking, near the countries with high human development. A good value was also registered for expected years of schooling. With the value 14.1 years, Romania is situated, and this time, on the top ranking.

Since 2010 UNDP changed the methodology for calculating the HDI. The list of indicators on education was completed with expected years of schooling for children of school-entrance age, GNI per capita is used as an indicator that measures wellbeing in place instead of GDP per capita and HDI is calculated as a geometric mean, and not as an arithmetic mean as it was previously.

Taking into account these changes to the HDR 2010, we found it necessary to emphasize the stage of human development in Romania and that what happened in the recent years.

In Table 1 we present the evolution of the Human Development Index and its components for Romania. As you see the value for the indicators life expectancy at birth, mean years of schooling and expected years of schooling have been relatively constant.

**Table 1 – Human Development Index and its components for Romania**

Year	Life expectancy at birth	Mean years of schooling	Expected years of schooling	Gross national income per capita	HDI value	HDI Ranking
2010	73.2	10.6	14.8	12 844	0.767	50
2011	74.0	10.4	14.9	11 046	0.781	50
2012	74.2	10.4	14.5	11 011	0.786	56
2013	73.8	10.7	14.1	17 433	0.785	54

Sources: Human Development Reports, 2011-2014

Differences occur at the indicator GNI per capita when this one registered a consistent decrease of 14% in 2011 compared to 2010. The large value of the indicator under discussion for the year 2013 is explained by the fact that the value calculated according to the purchasing power parity of the dollar in 2011, compared with the previous years when the purchasing power was calculated according to 2005. That explains the substantial increase to 11,011 in 2013 from 2012 to 17,433. Another possible explanation is that Romanians are less numerically, as the result of the last census, and when we calculate the GNI per capita dividing the GNI to a lower number, the result is a higher value.

Explanations for the GNI per capita indicator are needed not to get the impression that the Romanian economy grew miraculously. However, we cannot ignore its positive trend as reflected in official statistics.

In this context, it is important to mention that Romania has always kept the position between the countries with high human development.

#### **4. Inequality in Human Development – Case Study for Romanian**

To complement the array of human development, in 2010, UNDP introduced a new index, named Inequality-adjusted Human Development Index (IHDI), which it conceals disparities in human development across the population within the same country. Accordingly, it takes into account not only the average achievements of a country on health, education and income, but also how those achievements are distributed among its citizens.

Milanovik argued and described the problem of income inequality and what happened with these during the transition to capitalism in 18 countries, including Romanian. He examined what happened to the real incomes of the population, to the inequality with which incomes and expenditures are distributed. In looking ahead, he concluded that if growth is to make a substantial dent in poverty relatively quickly, it will be necessary to stabilize income inequality at current levels. Assuming that inequality remains at current levels, and using the average growth rate of 5 percent per capita per year, poverty appears to be staying in these transition economies still many years. [4]

As we can see in Table 2, Romania's HDI for 2013 is 0.785. However, when the value is discounted for inequality, the HDI falls to 0.702, a loss of 10.5 per cent due to inequality in the distribution of the dimension indices.

The inequality manifests for all HDI components, but these occur mainly in the area of income. Therefore, if in 2010 the percentage loss due to income inequality was 27.8, for the year 2013 the percentage loss has been 17.3, decreasing year by year.

For the other two dimensions, education and life expectancy, the evolution was similar. Consequently, for education the percentage loss in 2010 was 10.4, but it immediately decreased to 5 per cent the next year, keeping the loss value at that level for the next two years. For inequality in life expectancy the percentage loss in 2010 was 10.9, but in the next years the loss value was lower, arriving in 2013 at 8.8 per cent.

**Table 2 – Inequality-adjusted Human Development Index and its components for Romania, 2012**

<b>Indicators \ Year</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
HDI	0.785	0.786	0.781	0.767
IHDI	0.702	0.687	0.683	0.675
Overall Loss (%) for HDI	10.5	12.6	12.6	12.1
Difference from HDI rank	+4	+2	+1	+3
Inequality-adjusted life expectancy index	0.755	0.770	0.770	0.751
Overall loss (%) for inequality in life expectancy	8.8	9.6	9.6	10.9
Inequality-adjusted education	0.710	0.779	0.789	0.636

<b>Indicators \ Year</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
index				
Overall loss (%) for inequality in education	5.0	5.0	5.0	10.4
Inequality-adjusted income index	0.645	0.540	0.524	0.512
Overall loss (%) for inequality in income	17.3	22.2	22.2	27.8

Source: Human Development Report 2010-2014

## 5. Conclusions

The human development level for a country at a given time depends on what happens in other countries. The aim is a high level for HDI and also for IHDI, but for Romania to reach a top position in this respect can be considered for the moment a utopia. However, the actions must converge in order to provide a high position in the hierarchy and more favorable results for the entire population of the country.

Romania's position after HDI ranking, according to HDR 2014, is 54, which places it on the first third of the list, but international comparisons with other European Union countries or with other Europe countries, show us a disadvantage in sustainable development in general and especially in human development.

Things are even more worrying, as our position is after countries that have a potential much more modest than ours. Unexploited potential is one of the causes of "backwardness" and among the culprits are the deficient political management and the ineffective governance.

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# COMPETITIVENESS - KEY ISSUES OF THE ROMANIAN ECONOMY

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## Abstract:

*Based on the theory that competitiveness plays an increasingly powerful role in creating prosperity / wealth, a large number of economists, researchers, scientists, highlight a number of approaches aimed, on the one hand, on the analysis of competitiveness at national or regional level, and on the other hand, on the ability of local firms to achieve competitive products and to commercialize them in the external markets. In this context we aim to analyze and develop strategies and methods to help identify competitive areas at a national level. This is necessary because in our opinion the competitiveness of a company and / or country is more than wealth itself; it means a systematic process of wealth creation, plus a social system in which most citizens have access to material wealth. We consider in this respect that a country cannot automatically be considered competitive only if it is rich in natural resources. In our view, a competitive country creates wealth through labor, talent and organization and thus it manages to have a productive and creative potential making it independent of material resources.*

**Keywords:** *competitiveness, innovation, global competitiveness index, factors of efficiency, innovation factors, basic factors.*

**JEL Classification:** F00, O10, O30

## 1. Introduction

A theoretical analysis of classical and modern theories of competitiveness highlights the main factors influencing it at micro and macro level. We talk about competition - concept that lead to progress and prosperity in the lives of individuals, organizations and countries around the world. This theory is supported by the evolution of society, both traditional capitalist society and post-capitalist society of Peter Drucker, Alvin Toffler etc. We consider therefore the competitive advantage of countries towards the natural potential of them, and the level of technological development, innovation, research and development etc. The results reinforce the idea that competitive advantage is held not only by countries that are endowed with natural resources or other items, but is found mainly in countries that stimulate investment in infrastructure, research and development, in creating a favorable business environment and an investment climate to encourage firms to specialize and become world leaders.

All these theories thus lead to the idea that "developed countries have a comparative advantage in both goods and knowledge-intensive services, while developing countries have an advantage in labor intensive goods and services" (Gibbs, 1990).

In my view, competitiveness is not just wealth itself, it can and should be a systematic process of wealth creation and a social system that allows most people to have access to material wealth. Complementing these theories, Franziska Blunk believes that "for a company, competitiveness is the ability to provide goods and services more efficiently than those of relevant competitors to a sector - national companies' ability to achieve success against foreign competitors, and for a country - ability of its citizens to achieve a high standard of living".

In this context we mention the fact that the foundations of theory and research aimed at competitive advantage can be found in the work of Michael Porter (1990), "Competitive Advantage of Nations", a work that tries to answer the question: "Why do some nations

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succeed in particular industries and which are the implications of these on firms and national economies?"

To answer this question, Porter believes that the political, institutional and economic framework of the nation plays an important role in the development of a competitive industry. Porter also argues that "the differences between the structures, values, cultures, institutions and histories contribute profoundly to the success of a nation's competitiveness."

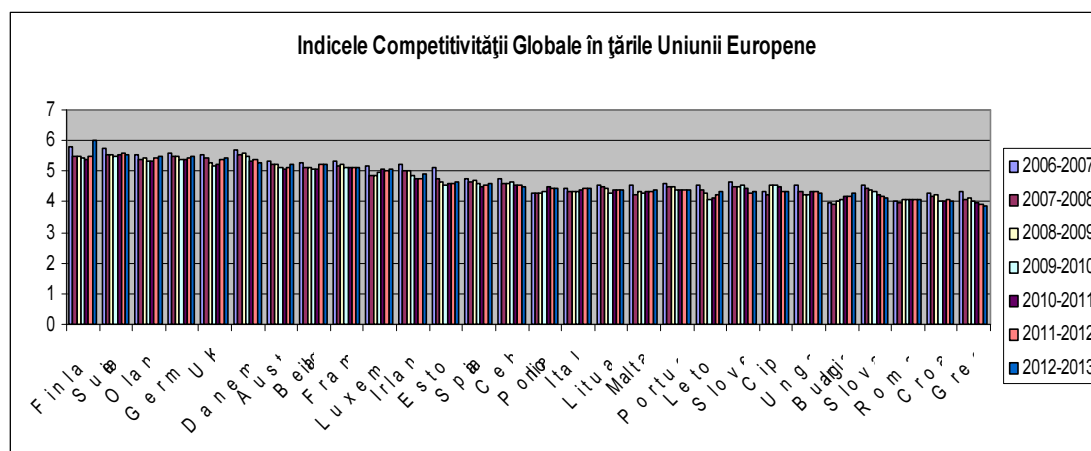
Making a complete picture of holding competitive advantage by a country of the world is analyzed using the Global Competitiveness Index (GCI - Global Competitiveness Index).

## 2. Elements with direct effects on competitiveness

In my view the progress required to be obtained as a result of investments made in areas with high potential of competitiveness will be included in the achievement of proposed indicators in Europe 2020 Strategy:

- Reaching the 75% of population aged 20-64 that must be employed;
- Allocating 3% of EU GDP on research and development;
- Achieving climate and energy objectives "20/20/20";
- Reducing early school leaving to below 10%;
- Increase by up to 40% of young people with university education;
- Reduce by 20 million of people at risk of poverty).

Ensuring national competitiveness is obtained by creating a favorable climate for business development. We consider the improvement of economic, political and social factors that influence in a particular way the environment in which the economic agents activate and supporting competitive advantages. Please note that these factors are very different and one of the most complex calculation methodology of the national competitiveness of countries around the world, that tried to cover most of them, is regarded as the Global Competitiveness Index, developed by (WEF - [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2013.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013.pdf)) Global Economic Forum in Global Competitiveness Report (Chart no.1).



**Chart no. 1 The Global Competitiveness Index in EU countries**

Source: The Global Competitiveness Report 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013; World Economic Forum

Referring to Romania, according to the World Economic Forum - WEF notice that it has registered (2014-2015) an advance of 17 places, from number 76 (in 2013-2014) on 59th in the annual rankings of economic competitiveness compiled by the WEF, placing

above EU countries such as Hungary, Greece, Croatia, Slovakia and Slovenia. The report mentions the fact that Romania is surpassed by the Czech Republic (37), Poland (43) Bulgaria (located in position 54) and Cyprus (58) and that countries like Ukraine, Moldova and Serbia are not among the top 70 world economies, after the criterion of competitiveness.

This indicator takes into account a lot of factors of competitiveness, ranked in 12 categories - called "pillars of competitiveness". These pillars can be divided into three categories and they constitute the foundation of the development of any economy:

- Basic factors (institutions, infrastructure, macro economy, health and education);
- Efficiency factors (higher education and training of human resources, market efficiency, and responsiveness to new technologies);
- Innovation and sophistication factors (business environment quality and innovation).

Regarding these pillars of competitiveness is found that the levers used to increase competitiveness in a developed country will not be the same as in a less developed country. At the same time, the tools used to increase the efficiency of foreign trade, labor market, etc. will not have the desired results as long as there is not ensured proper functioning of the institutional system, the existence of a developed infrastructure, basic conditions for ensuring a satisfactory level of health and training people of this nation.

The Global Competitiveness Report ranks countries based on three levels according to income of population. Developed countries have economies considered innovative, Romania together with Bulgaria being found in the second category of economies based on essential factors, while the Baltic countries are in transition - from economies whose growth is based on efficiency factors to an innovation-based development (table no.1)

**Table no. 1 The importance of factors in ensuring competitiveness in different stages of development of the economy**

	<b>Development based on factors</b>	<b>Development based on efficiency</b>	<b>Development based on innovation</b>
Essential factors	60	40	20
Efficiency factors	35	50	50
Innovation factors	5	10	30

Source: [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15)

To maintain competitiveness in this stage there should be considered the following:

- The quality of the institutional system - legal and administrative framework within which individuals, firms and governments interact;
- Development of infrastructure - quality of transport infrastructure; road, air, rail and water and communication infrastructure;
- Macroeconomic stability - stability of the main macroeconomic indicators: national economies, public debt, inflation;
- Health and education level of employed - the health level of population and the quality of the education system.

Meanwhile, in the world rankings, Romania has one of the most modest achievements in terms of the quality of these pillars:

- 85th place in road infrastructure from 148 countries, being characterized by a very low level of infrastructure quality, which in the last three years has seen a slight evolution (at the quality indicator of the infrastructure has been recorded the position - 145 of 148 countries analyzed);

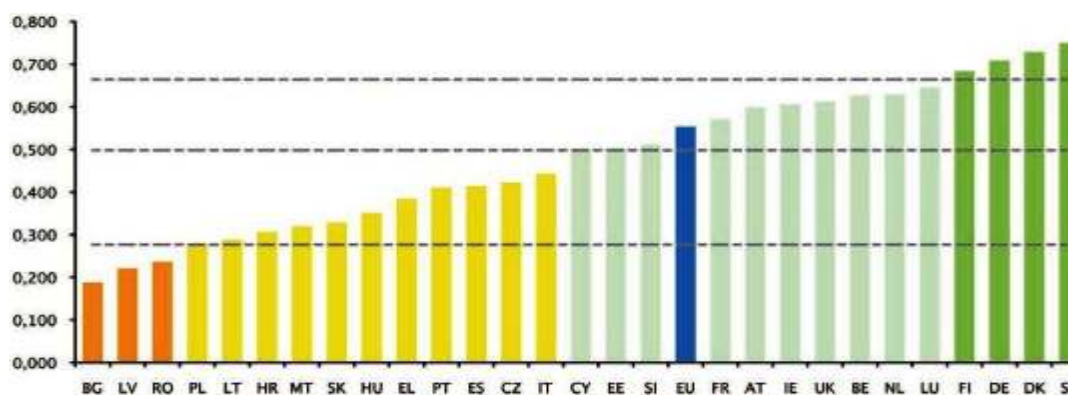
- poor quality of public institutions caused by deficiencies in: favoritism in decisions of government officials (place 137), waste in government spending (ranked 134), independence of the judiciary system (ranked 114), property rights (ranked 82).

**Table no. 2 The evolution of Romania in the Global Competitiveness Report ranking**

Pillar	GCI 2011-2012	GCI 2012-2013	GCI 2013-2014	GCI 2014-2015
	From 142 analyzed countries	From 144 analyzed countries	From 148 analyzed countries	From 148 analyzed countries
GCI	77	78	76	59
Essential factors	89	90	87	77
Institutions	99	116	114	88
Infrastructure	95	97	100	85
Macroeconomic environment	87	58	47	46
Health and primary education	66	83	84	88
Efficiency factors	62	64	63	50
High education and training	55	59	59	58
Efficiency of market of goods	96	113	117	89
Efficiency of labor market	92	104	110	90
Development of financial market	84	77	72	64
Technological training	60	59	54	47
Market dimension	44	43	46	45
Innovation and sophistication factors	99	106	103	78
Grade of sophistication of businesses	102	110	101	90
Innovations	95	102	97	66

Source: own development based of data available in Global Competitiveness Report 2011-2012...2014-2015, available at: [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15)

In the context presented, innovations have become an engine of economic development and a decisive factor in achieving competitive advantages, particularly for developed countries of the world. This was possible due to the creation of necessary conditions for their development. In case of Romania, we cannot speak of an innovative sector development as research intensity and other indicators of private sector innovation evolve with a negative rate. The report shows that Romania is classified for the third consecutive year in the last group, of the modest innovators in the European Union (Innovation Union Scoreboard 2014), along with Latvia and Bulgaria (Chart no.2).



**Chart no. 2: The innovation capacity of member states of the EU**

Source: Innovation Union Scoreboard 2014

[http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014\\_en.pdf](http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf)

From the above chart we see that the place that it occupies Romania, 78, in the world positions it on the antepenultimate positions held within the EU. It requires the adoption of meaningful reforms in this area of research - development –innovation, since the early 90s, the national management of scientific research rather imposed restrictions than facilitated its development. During the same period it decreased the attention to science, focusing on the idea that it is a simply consumer of scarce resources, ignoring the role it plays in economic and social development. Legislation shall be implemented consistent with the European Commission to encourage such services because in Romania we have witnessed a drastic decrease in the number of employees in research-development-innovation, from 71,000 people (1990) to 26,171 in 2010, situation that can be found detailed in the table below (table no.3).

**Table no. 3 Employees from CD-I activity by occupation and level of education**

<b>Employees from CD-I activity by occupation and level of education (full-time equivalent)</b>						
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>I. Employees from CD-I activity by level of education TOTAL</b>	33222	29340	28977	30390	28398	26171
1. Superior studies from which:	24361	21532	21369	22128	22468	
*holders of doctor title	-	11882	14228	14851	14916	20963
2. Post secondary studies	8861	2218	2278	2134	1566	
3. High-school studies	-	4677	4710	5250	3822	5208
4. Other situations	-	913	620	878	542	
<b>II. Employees from CD-I by occupation: TOTAL</b>	33222	29340	28977	30390	28398	26171
1. Certified researchers	22958	19021	18808	19394	19271	19780
2. Technicians and associates	4988	4496	4361	4620	3991	3139
3. Other categories of employees	5266	5823	5808	6376	5136	3252

Source: Processed by the author after the Annual Statistic Yearbook of Romania 2011, pp. 406-407

From the above table it is noted that the employees with higher education have the highest share by levels of training, being the only category that saw growth from 2006 to 2009 (about 4.34%), while for the year 2010 is noted a reduction of employees by about 6.7%. The same trend is seen for higher education staff of doctorate degree holders (4.34% in 2009). Certified researchers have the largest share by occupations (75.57%), their number increasing by only 1.03% in 2010 compared to 2006.

Regarding the financial resources of government revenue, the gaps at the situation in the EU are worrisome; For example, in 2010, Romania has been allocated 0.49% of GDP, while in the EU the value was of 2% of GDP. In other words, Romania allocates four times fewer financial resources relative to GDP than the EU average. Regarding research units, their number increased due to higher institutes being split into smaller units, especially to the establishment of companies specialized in the research; From this point of view, Romania is ranked 22 (with 33.30% of innovative firms from the total) among EU 27 countries (51.6% of innovative firms) and is regarded as a modest innovator, along with Bulgaria, Lithuania and Latvia.

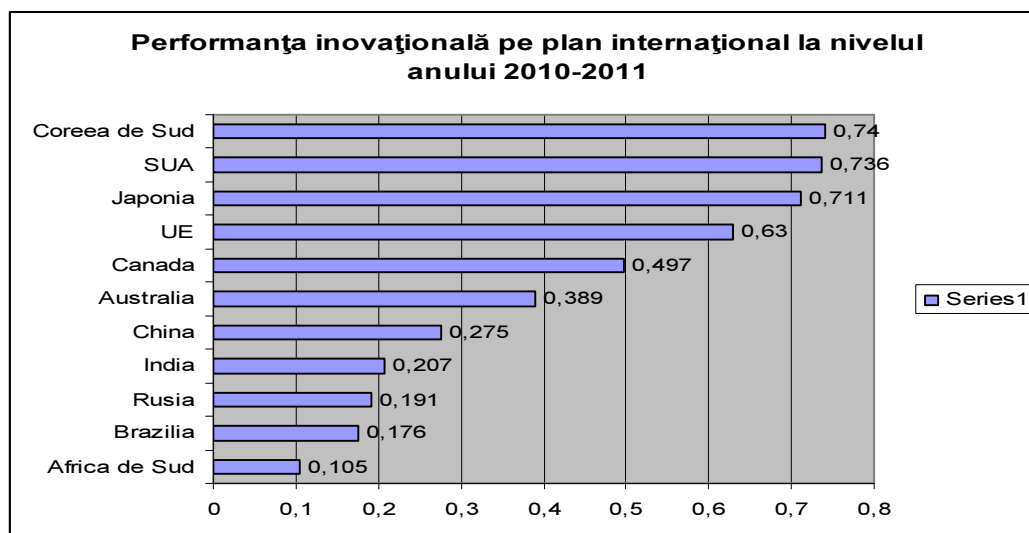
Regarding the performance of the EU Member States in innovation (innovation chapter covers both implicit aspect of innovation brought by the local economy and the sophistication of business) it is regarded an average annual growth rate of 1, 7% in the period 2006-2013. This increase is considered by officials as unsatisfactory. Thus, the analysis of the growth rate divided EU member states into four groups (chart no. 2): innovative leaders, innovators rank II, moderate innovators and modest innovators. Under these conditions we see that in the group of leading innovators can be found: Denmark (DK), Finland (FI), Germany (DE) and Sweden (SE); the echelon II – innovators rank II,



countries including: Austria (AT), Belgium (BE), Cyprus, Estonia, France, Ireland, Luxembourg, the Netherlands, Slovenia and the UK; third echelon - moderate innovators: Italy (IT), Czech Republic (CY), Spain (ES), Portugal (PT), Croatia, Greece (GR), Hungary (HU), Lithuania (LT), Malta (MT), Poland (PL).

Doing a comparative analysis on the innovative performances, we find that their improvement occurred with the launch of the Europe 2020 strategy (European Commission, 2010) and the launch of the Innovation Union (European Commission, 2013). In this context, we emphasize that innovation performance of leaders are the result of a national research and development and innovation balanced, aspect that should be considered by policy makers of each country. In this context we mention that those from the group of innovation leaders share a number of strengths of their national research and innovation systems, a key role starring enterprise activity and collaboration between the public and private sectors. Although there is not only one way to achieve peak performance in innovation, it is clear that all the leaders in innovation characterize by high expenditures on research development, including businesses.

The results obtained at EU level can be extrapolated and also compared to the performance of innovation worldwide (chart no. 3).



**Chart no. 3. Innovation performance on international level of year 2010**

Data Source: EC – Innovation Union Scoreboard 2014,

[http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014\\_en.pdf](http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf)

Comparisons reveal that the performance of the United States, Japan and South Korea in innovation exceeded those of the EU-27. In exchange, those of China were lower. To achieve these assessments there were used 12 simple indicators that formed a composite index; These indicators are: the number of new PhDs, the number of university graduates, the number of international joint publications, the most cited publications, research and development expenses in the public sector, research and development expenditures in the private sector, joint sector publications of public and private sectors, the number of patents obtained under PCT (Patent Cooperation Treaty - Treaty International patent Cooperation investment), changes in society brought by patents in PCT regime, the contribution of exports of medium and high technology products (MHT) in the balance of trade, knowledge-intensive service sector exports, foreign income from patents and licenses.

The place achieved by the European Union regarding the performance of the innovative forces EU policy makers to address the systemic problems that persist in innovation, to achieve a better balance of performance between all categories of indicators that make up the composite indicator used to assess performance of innovations in Innovation Scoreboard.

As consequence of the issues raised by us, we explicitly emphasize the idea that the prosperity evaluation at the individual, families and organizations in modern society cannot be summarized, we believe, only to the precise quantifiable indicators that differentiate countries of the world. This is because the "equation" of technological progress for all Western countries not only within about 3 centuries revealed by itself some faces less favorable for the economic development. For example, reputable analysts discuss today more strongly the need to promote "moral capitalism" through which to reconcile the corporate interest (aimed at maximizing profits and conceives welfare only in terms of USD per capita with public interest) that with the common good of some groups / classes of the population range (we consider social groups at the margins of material subsistence even in rich countries such as retired, unemployed, disabled, etc.). (Young, 2008).

### **3. Conclusions**

According to the European Commission almost all EU Member States have improved their innovation performance, but, however, increase innovation performance has slowed, and the EU does not cover the persistent gap in relation to world leaders in innovation, USA Japan and South Korea. For EU-27, the biggest gap remains at the innovation from the private sector. Innovation activities of enterprises are distinguished as an important factor to achieve leading positions in the EU and internationally.

In conclusion we believe that a country can not be considered truly competitive, using as instruments: cheap labor, subsidies, currency depreciation and economic development based on external borrowings. At one point, cheap labor can boost penetration of new markets, devaluation of the national currency - boosting exports, obtaining relative price advantages, contracting loans - funding expenditures. However, these tools do not contribute to the increase of total productivity of factors of production and can not ensure sustainable development of an economy. Following national competitiveness, the tools should be geared towards increasing productivity that would provide real higher incomes. Also, productivity can be achieved only by using skilled labor, implementation of modern technologies and innovations: process, product, system management, etc.

In this context, the national competitiveness found in the literature may be determined by several factors of internal economic environment.

I believe that the results confirm the need for more efforts to stimulate innovation to provide businesses an environment proper to innovation. Differences between the EU and the USA require urgent presence of a European Research Area for sending a new wave of competition to attract and retain top talent.

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# ELEMENTS ANALYSIS OF INDICATORS FOR FIRMS IN NEW NETWORK BASED ECONOMY

Ioan I. Gâf-Deac<sup>1</sup>

## Abstract:

*Network – as a comprehensive structure - can be considered "unconventional formula" and intercessory actions to reduce transaction costs between operators of composition. Elements of analytical indicators for the business at the new economy concerns: network company related new economy; potential network; internal resources of knowledge; networked learning facilities; external sources of knowledge; network relationships; new intellectual capital; complementarities of knowledge; network global indicators and indicators for corporate networking. In this context, the aim is conceptual preoccupations for commitment guarantee for the establishment in the scientific, economic and managerial Romania's competitive advantage in absolute terms compared to relativity concerns only obtain comparative advantages.*

**Keywords and key phrases:** *knowledge-based economy, economics networking / network optimization decision documents, organizational culture, management, knowledge, risk, new economy.*

**JEL Classification:** A1/A10

## 1. Introduction

In the context of the evolving global economy and human development conditions in the new knowledge society consider that appropriate towards a new axiomatization approach of Romania and European management economy.

As such, it aims to guarantee the commitment to establish conceptual preoccupations in the scientific, economic and managerial Romania's competitive advantage in absolute terms compared to relativity concerns only obtain comparative advantages.

## 2. Examination of networking relationships for the new economy

New kinds of sharing or distributing economic results are accompanied by the emergence of new social risks and increasing eco-risks in the context of financial globalization.

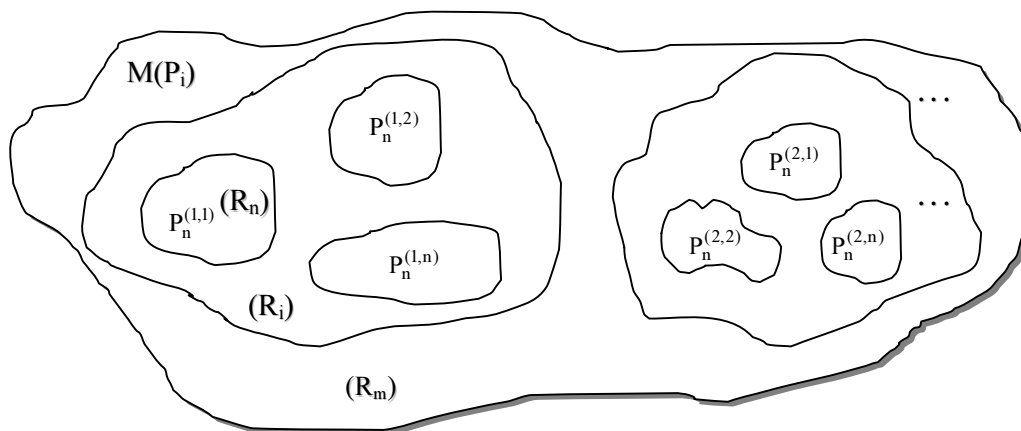
The analysis of the Romanian transition from centralized to decentralized economic system, remark assessments of work Gâf-Deac, I.I., *-New Economy between knowledge and risk (Ed. Infomine, Deva, 2010)*, it is inferred that the first determinative factor in the transformation is financial, for the financial sector.

Monetary financial instruments are handy or possibly reinvented, or deployed in a production-reproduction and distribution in relation to a transformation among the community people.

Network economy is operationalized forward in relation to the changes occurring in the today financial markets. (*Figure 1.*).

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**Fig.1. Inserting financial markets risks at differential levels in the new networking economy**

$M(P_i)$  = set of international financial markets;  $(R_n)$  = national financial markets risks;  
 $P_i^{(1)}; P_i^{(2)}, \dots$  = international markets;  $(R_i)$  = international financial markets risk;  
 $\{P_n^{(1,1)}; P_n^{(1,2)}; \dots\}; \{P_n^{(2,1)}; P_n^{(2,2)}; \dots\}$  = set of international markets;  
 $(R_m)$  = global financial markets / global risks.

Financial innovations are found in the contemporary in a significant process of multiplication.

Market risks are currently sharing: a) exchange risks, b) risk of interest and c) risks of the market rate.

Financial Euromarket system is already integrated in global process.

The network economy and general management aims is to reduce barriers to the movement of capital by a) homogenizing corporate strategy (using modern telecommunication technologies) and b) by allowing deregulation event, which opens opportunities for solving productive activities / reproduction and distribution / consumption.

In Romania, according to the European situational elements meets a financial system characterized by a lot of specialized institutional entities: commercial banks, unions credit, insurance entity / reinsurance, investment funds and guarantee etc.

Diversification of financial assets is influenced by competition in the internationally, globally field.

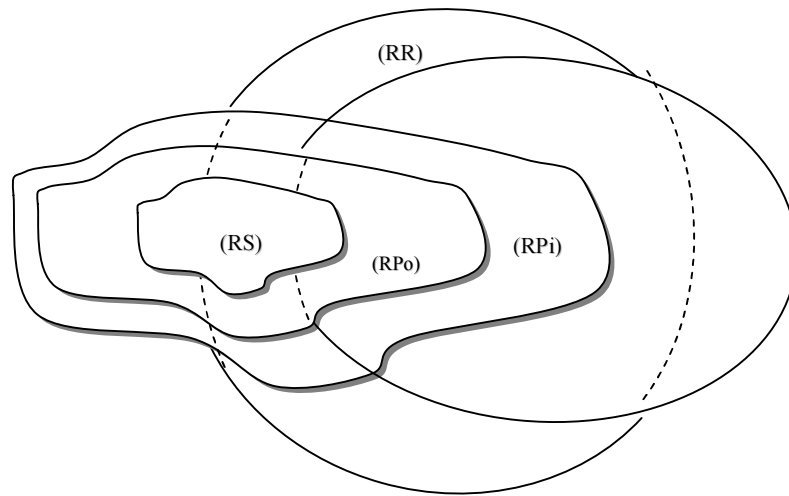
Prudential regulations become more stringent in terms of sufficiency of own funds.

Prices released, issued restrictions are regulator subject, guiding / motivating the behavior of markets, causing removal / containment / eradication of inefficiencies and procedural weaknesses.

The economy is the body that establishes operational research strategies to advance the best individual in one area or another.

We appreciate that if in 1920 there was an attempt to replace the term "political economy" by "economics" in the new economy it is possible to introduce new conceptual economics term, relying on the potential elimination of stereotyped images related to the analysis of economic relations.

It advances the thesis that in the medium and long term, networking relationships analysis is useful for the new economy (*Figure 2*).



**Fig.2. Define networking relationships for the new knowledge based economy**

( $R_S$ ) = social relations; ( $R_{Po}$ ) = political relations; ( $R_{Pi}$ ) = market relations; ( $R_e$ ) = economic relations;  
 ( $R_R$ ) = networking relations.

In this new concept aims to change networking indicator, which itself contains elements of operational indicators of economic relations and of the intangible tangible assets.

Therefore, new types of sharing / distribution of economic outcomes in terms of introducing new risks and increasing risks in the context of financial globalization marks the conceptual separation of economic quantitative assessment of production / reproduction and distribution / consumption.

Organization and management based on knowledge.

Besides, organizational learning is the basic premise for the creation and manifestation of culture.

Once organized, a structure must be led.

Learning leadership culture leading causes formalization.

In such a framework, it is necessary to generate knowledge, ie knowledge management systems.

The premises for the generation of knowledge management systems relating is to: economic and managerial knowledge source; secondary economic and management issues; tertiary economic and managerial knowledge; natural non-balance; natural balance; natural imbalance; economic and managerial reflections; economic and management self-reflections; endogenous and exogenous knowledge management.

In such a structure, takes place the original, basic knowledge of the primary management crystallization.

Elements of knowledge (data, information, etc.) are subject to a process of storage and / or operational endogenous marked by self-reflection.

If management structure is maintained at this stage, autarchic stagnation resulting in methods, techniques and management of classic traditional procedures.

Managers, however, concern the extension set of formulas of organization and management. Extension is happening offensive name (competition) or in relation to the objective conditions of constantly adapting to the 'new environmental conditions outside the firm '.

This concern is expressed in the "reflection of management" (R), which give rise to the manifestation of the phenomenon of exogeneity.

In fact, the emergence of a complex dissipative external management structure, give rise to early manifestation of a natural imbalance in structural entity; is forced to displace, to be located by extension or relocate the positive trends compared to conventionally accepted management for operation.

The area dissipative decant "secondary knowledge management."

The above situation is a favorable opportunity for natural management equilibration, the "tertiary knowledge management" in addition to being complex envelope, legitimate upper tier of management itself teaching.

The entire system operates in a global, comprehensive complex, on non-equilibrium marked by natural management.

All items listed above are essential for objectifying network management processes in the new economy.

Mainly managerial processes must achieve stability and optimality conditions.

This goal aims to articulate the vision management, that conjugate traditional classical (stability) with the modern, dynamic (optimality) view.

It appears that the management process is available for reproducibility scale / multiplication of proceedings.

The trends towards achieving quasi-stability management processes networking economy refers to reproducibility management scale by multiplying trial management; circularity reproducibility management; decrease or increase in entropy management; identify limits for quasi-stability management.

The trends for obtaining quasi-optimality management processes aimed at networking economy: the set of critical criteria intra-contextual management process; set relations / management gaps; integrability management; exogeneity management entropy; globalization management; limits for quasi-optimality of management.

In fact, there is reproducibility limits for the management to achieve the quasi-stability of the management process.

Similarly menus steps to obtain quasi-optimality managerial processes to the extent that globalization formalize management.

Therefore, between the quasi-stability and quasi-optimality is establishing a two-way flow of influences on subsidiarity in organizational structures and management processes.

In this framework, assessing the economic performance resulting largely inferred from economic cooperation, they have the potential to generate strong networking emergence of complex structures.

Actually receives the event viewer phenomenon like "network power".

In the field of management and economic research recourse to formalize the theoretical framework or theoretical networks to explain the actual power networks based on cooperation.

The New Economy based on cooperative networking regulated requirement appears to encourage productive economic stability processes.

Coordination, supervision, ie network management, lies, the compound of tracking by each and by all events favorable for practical implementation of the law of high economic performance.

Strategic networks are considered highly integrated, while the consensus networks turn poorly structured.

Network members, in fact, are free options on rallying bases which they adopt when entering a network.

It is noted, however, that is always felt a certain consensus of sub-sets of participants in relation to the total set of constituents of a structure.

Networking is possible to record individual performance levels based on empirical operational and implications of the participants.

It is believed that such performances are still highlights the contributory role in limiting the number of events characterized by low performance.

Mitigation sub-goals / sub-goals is informal phenomenon of great importance in a network.

In practice, often proceed from sliding (translating) sub-goals / sub-goals in the sub-optimality be sought in the allocation of resources.

Each node of the network may be separated in concentrations attention / efforts on a) decisions of a strategic nature, planning and control, and b) operational decisions.

At the event of networking process builds new functions and are operational and strategic management.

Managers are those who fall under the economic logic of the accumulation of functions / networking functions.

What proves important conceptual approaches mentioned above refers to the ability to obtain the necessary balance between strategic formulas and consensual constitution of modern clustered networks.

So, with the entry into self-saturation formulations institutionalization productive capitalist economic entities are inferred to be felt more and more alternative crowd of self-organization, self-sufficiency under strategic firms in clustered networks, by co-integration.

"Capitalist integration" could be replaced by "self-formalized network" production, distribution and consumption.

### **3. Conclusions**

- The network is a mechanism that outsource consequences transaction between actors (firms), eliminating mesh relational economic processes of production / reproduction and distribution / consumption.

- In the new economy single mobilization (self-mobilization) are to economic proves increasingly difficult / restrictive operational firms.

- Networking is a phenomenon where firms are found united in families / classes based on partnerships that are designed to generate three common contextual situations: 1) "transaction" become "a transaction" (singular, osmotic); 2) initial transactions considered distinct visible through their articulation in a "singularity transactional" become invisible, and 3) networking meeting offers the opportunity single transaction running, invisible at a time / moment instantly.

- In Romania, we think, in fact, the most important requirement in the context of the new economy networking is to identify ways of conceptualization / formalization of network / networks.

- Network must be "a whole structure." If an "anomaly" (eg, a shortcoming, a realizable, dysfunction, etc.) related to a firm-element / network group member aims to "rectify market" and "hierarchy" so that the whole associations, (ie for all components) to register the expected positivity.

- It is noted that a network is a hybrid form, but rather a composition of forms, among which profitability is establishing as manifested closing / close / formal articulation of components that realize a compensatory transfer, mitigating the conventionally accepted positivity productive economic processes.



- Economic freedom, in fact, the most relevant among the operators manifest in clusters and networks behave operational "certain uncertainty" in the market.
- We believe that the widening network of the new economy (through sub-rețelizarea range by multivalent clustering) determines occupying areas as large as the new economy, which reflects the operational safe from disruption of uncertainties and risks, either unidentified or unresolved in the economically pragmatic context.
- Network system is a means of decision ("unit" decision) for behavioral adaptations coherent economic entity productive environment state and disturbance.
- Elements of analytical indicators for the business at the new economy rețelizată concerns: network company related new economy; potential network; internal resources of knowledge; networked learning facilities; external sources of knowledge; network relationships; new intellectual capital; complementarities of knowledge; network global indicators and indicators for corporate networking.

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# CORPORATE MANAGEMENT IN THE NEW ECONOMY OF ROMANIA

Maria, Gâf-Deac<sup>1</sup>

## **Abstract:**

*The paper deals with corporate management which is the set of processes and systems implemented to organize, direct and control firms, with the objective of increasing their value and performance or eliminate barriers and obstacles to development.*

*In fact, there is a concentration of attention on the efficient management systems, the concern being found on improving business board of directors, leading the company to operational non-sustainability.*

*It concludes that, in fact, the worst situation is seen when officials from outside partners (strategic investors) can not understand how far advanced the classic structure of local economic interests, to what kind of market economy is heading Romania, as this framework does not feel attracted to develop business and significant investment in modernization.*

**Keywords and key phrases:** corporate management, management, risk, shareholders new economy.

**JEL Classification:** A1/A10

## **1. Introduction**

In recent years increasingly placed on identification of concepts, methods, techniques, solutions, alternatives, scenarios etc. to combat misconduct, unlawful managers and companies, not necessarily the way "punishment", but the new procedures organization and management more controlled and directed to productive economic and social entities, respecting political and economic freedom.

Basic concepts in contemporary corporate management focuses on addressing theoretical and methodological generalized and peculiarities in the vicinity of Romania and the geographical area of the country on corporate management organization are retained as contributory factors to the managerial process high resolution.

Timing for implementation of corporate management in the modern world is in the early 1990s.

The concept of corporate management is relatively new in management and literature meet meanings that show the processes by which companies are directed and controlled organizations on base fair, transparent, free from conflict of interest and corruption-free.

## **2. Conceptual framework for corporate management**

The scientific literature of the field, briefly meet different definitions for corporate management, and finally, by adding interpretations and meanings of this expression features Note the definition of the most expressive, that corporate management is the system by which companies are directed and controlled.

Thus, corporate management is an area of economic management which mainly addresses the issues of separation of ownership in the company and provides independent pursuit correct operating control of the company.

Corporate management provides the mechanisms by which shareholders exercise control over those inside the company (employees, especially managers) and those outside (strategic investors, financial intermediaries) to their interests (shareholders) to be defended and carried out end.

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To be understood and applied corporate management, the theoretical and methodological point of view, the European Regional geographically, it is intended to explain the content of conflicts of interest involving members of organizations such as owners, managers, employees or consumers who "alienates" active material and financial sides of the undertakings concerned.

On the other hand, corporate management is considered an internal company policies, processes and people employed, that meets the needs of shareholders by closely supervising the activities of management.

Shareholders of different companies in Romania, often passive, of neglect, of lack of interest and business development firm and thus give managers opportunity to practice corruption.

It is estimated that if managers are not controlled, they often take risky decisions, subjective errors.

Administrators companies sometimes have unclear legal status and thus have a certain freedom to adopt negative regulation firm in their interests and loved ones.

Following deepening practical studies on the organization and management deficiencies subjective reasons firms underground interest group, it is considered that further insights into the methods of management and managers have manifested new quality to global competitive economic environment.

Long-term interests of all businesses (shareholders, managers, employees) are more important than short-term interests and the environment.

Some views on the economic environment in Romania is the fact that modern enterprise should be understood as a network or a cluster of contracts located in global economic and social structures in increasingly competitive.

Corporate management is so important to restore national capital markets system.

We believe it is important not to show confusion between the following concepts: 1) corporatism, 2) the corporation and / or 3) corporate management. Thus, note that, in fact:

- Corporatism is a social, political and economic doctrine that appeared after World War I, which provided replacing labor unions with corporations, professional organizations to join both workers and employers, and replace parliament with a national representation of corporations.

- Corporation usually means optimal form of organization on a large scale industrial production of goods and services.

- Corporate management as set out in international theory and practice, is "management system by which companies are directed and controlled in the interests of shareholders, stakeholders, spiritual ethics, fairness and transparency of information provided to the public in economic performance"

It is estimated that corporate management clearly does not mean statism or state intervention in economic and business processes, but the introduction of a new management that determines firms and organizations to accept a certain behavior legal, transparent, ethical people benefit shareholders and social communities is located and operated businesses.

From observations made in the economic and social production in Romania, among firms in the 8 regions of the country, we find that, in fact, conflict of interest ranks first in the set of factors that determine negative situations, cases of dishonesty, corruption, failures or deviations from corporate behavior characterized by ethics and fairness.

Of scientific investigations paper, that the operation productive economic and social undertakings in contemporary Romania is influenced by a spirit of participation still less people, employees in decisions, the organization and management of firms effective way, scheduled.

Briefly, the analysis on corporate management and its regional peculiarities in Romania, we can draw conclusions, findings, observations and new scientific contributions in the field, which mainly controls and guidelines are recommended: 1) control structures the firm, 2) modern management and organization, 3) how providers are treated, 4) are treated as consumers and customers, 5) the importance of stakeholders (stakeholders) and 6) are treated as salaried employees.

Structures and elements above must agree with managerial forms of behavior such as: 1) require that financial responsibility, 2) their actions must be characterized by ethics, 3) should show increased confidence in the way employees and shareholders operation of the enterprise, 4) must be respected investors, 5) it is necessary to pursue the overall interests of the company and 6) must be ensured transparency of data, information released and those interested in the company.

In this context, it is treated significantly updated corporate management experience and peculiarities in some developed countries and presents a case study on the Specifics of corporate management in developing regions of Romania, national and European level.

In systematize observations in the field, it appears that in Romania in 2011-2013, in fact, not enough programs and policies meet effective coordination, clearer and effective internationalization and regionalization Romanian firms, to corporate management practice more meaningful relationships production and performance contracts with companies.

The main conclusion of scientific research that we conducted in the case study is that the concerns of trends and effective interest companies in the local economic space (from Romania) for corporate management is geographically European regional boundary between unsatisfactory and satisfactory .

The final assessment is approximated to the problem of interest investigated semi-satisfactory.

More specifically, the interest of Romanian companies for corporate management is only 46-60% of the total.

In this context, managers of companies in Romania have no particular interest for its organizational and management skills of managers of firms in highly developed countries of the European Union, however have very high interest for their markets in Western Europe. The case study shows that the management of internationalization and regionalization of European corporate management practices of firms in Romania with strong interest proves that provide location businesses in an environment conducive to new achievements.

Indigenous research that, in fact, de-bureaucratization consistently pursued in the contemporary socio-economic, is contrary to corporate management.

Corporate management firms in Romania, as a distinct feature, means a type of "new bureaucracy", but the background is a positive development, useful for controlling and slewing Romanian enterprises to performance.

Thus, corporate management is a major issue for government leaders and managers of firms, especially for the medium and large firms, and investors.

Peculiarities of corporate management in Romania and the European regional level refers to the legal framework for corporate management in Romania as EU member, is formalized organization and corporate management in the economic peculiarities of its organization in Romania.

It concludes that, basically, the future European legislation on companies need to meet the needs of increasingly global economic environment in which it finds and Romania with its businesses.

As such, we consider that it should be developed and adopted a number of rules common to all European countries in the geographical area in which it is Romania, to provide protection of shareholders and stakeholders of businesses across the EU.

In this way it ensures safety, reliability and feasibility functioning legal firms, including those in Romania, based on corporate management.

Doing illustrative analysis of how insurance and protection of shareholders' rights in companies in Romania, it appears that they are found mainly in the ability to attend and vote at the General Meeting of Shareholders (GMS), directly or through a representative.

In the contemporary economic conditions good corporate management involves the establishment of safeguards against possible abuse of proxy voting.

However, now, according to Romanian legislation in the field General Shareholders have an unfettered right to appoint such person to attend and vote on their behalf at the general meeting.

In fact, the existing laws, corporate management companies in Romania provides strategic guidance of the company, the effective monitoring of management exercised by the board of directors and managers responsible measures to the company and its shareholders.

On this importance is the finding that in accepting corporate management operation based company is important to ensure the ongoing quality statutory audits provided by European Community law, as compliance audits conducted only Romanian laws are simple and do not reveal seriously difficult problems of the company.

However, statutory audits should be conducted based on International Standards on Auditing.

To enhance the independence of auditors of companies and especially public organizations, the auditing should rotate.

To organize such rotation should be required change partner (s) dealing with key audit firm audited.

We believe that more radical management activities in the short term are not always fully appropriate, and not in accordance with good corporate management.

Quality statements on corporate management, diversity of board members, shareholders' involvement in decisions, all of which can be continually improved in companies in Romania.

Operation of the Board of Directors through its mixed composition, encouraging gender diversity (women and men), extended skills, while driving greater consumption of directors, risk management and remuneration fair, equitable administrators, encouragement to be interested in obtaining the lasting results are positive elements on the agenda of corporate management firms to be promoted higher in the economic environment in Romania.

Making analyzes find that in practice it is very difficult to achieve the above recommendations, and conclude that the Romanian economic environment meet organizations, companies, businesses, companies, etc. not meeting national recommendations on corporate management, not explaining why their wrong decisions, only rarely.

As such, national monitoring bodies should prove stronger engagement in connection with the statements on the application management firms and corporate managers.

Based on the observations and conclusions drawn from theoretical, methodological and practical investigations, if firms in Romania not apply more relevant corporate management will soon become business partners in Western Europe to be reluctant to cooperate with Romanian companies not declare their adherence to the concept and practice of corporate management in the EU already almost required.

Equally, in Romania, the economic and social environment have recognized the shift from local accounting standards in the application of International Standards (IFRS).

Cases often meet situations of impropriety in the functioning of companies, which as a feature mentality explains the shortcomings of the lack of freedom or lack of economic democracy.

Such negative phenomena are the result of lack of firm commitment of shareholders to participate more actively in control, continuous improvement, performance evaluation.

Prove inconclusive references to passivity shareholders Romanian enterprises and the consequences of this attitude in terms of corporate management.

In this framework, the main problems faced currently (2014) companies in Romania on corporate management are:

- Companies can not boast of a satisfactory level of corporate management accuses its relatively high cost;
- Low levels of corporate management is the lack of transparency causes profound economic information;
- As firms from Romania are strategic interaction in the market, they fear that the disclosure of certain information may have negative consequences by lowering their competitive advantage, competitive.

Of course, there can be no single model of corporate management in all companies, since each country, including Romania, and organizations individuals.

However, corporate management principles issued by the OECD can be used as pillars for any type of corporate management in any country, including Romania.

In Romania measurement level corporate management has been the subject of a still small number of studies and refers only to the rules of organization and corporate governance, particularly by companies listed on the stock market and how they transmit information to the public related to adoption and application of the principles of organization and management proper ethics.

We believe that identifying features of corporate management and business economic environment in Romania and neighboring geographic regional plan requires research of "model" of the domain.

To the concept of corporate control is issued thesis that the firm's management team should be monitored by the shareholders by means of the corporate management.

In fact, shareholders' wealth is higher, but this increase can be achieved only through strategic business decisions healthy, sustainable.

Therefore, we consider an example, that corporate management accounting in Romanian companies is better to be under critical scientific investigations, on at least the following issues:

- About achieving financial objectives of the company;
- Description of critical real situations correlated production and financial
- Emphasizing technological solutions in the enterprise, considered the best to record favorable financial statements;
- Scientific investigation decisions with a high degree of influence on future financial developments of the company.

Based on the above issues, the present paper has conducted a case study that was chosen and compiled a list of 41 large and medium-sized enterprises, which are each in a county of Romania and the capital of the country, the purpose the main investigation is to obtain information about corporate management geographically national regional, Romania, in the country, in areas of economic and social development.

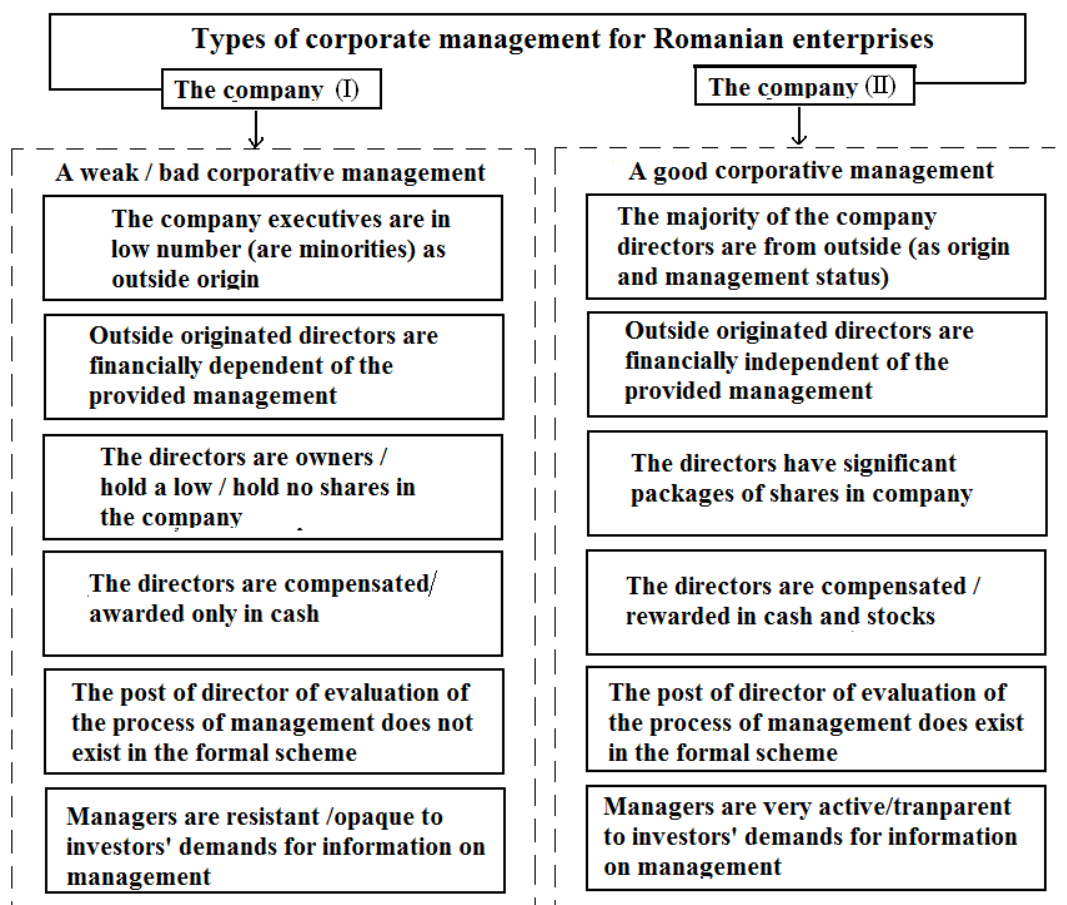
On this basis weight areas to graph positive and negative corporate management in the productive economic and business in Romania and has developed an equational model highlighting the characteristics and peculiarities of corporate management on national territory.

It finds conclusive and private companies in Romania that lack of management, corporate management that can be considered significant, since over 15% of firms operating situations are negative.

If we consider the findings in absolute value, the situation is worrying, since only 46% apply corporate management companies in Romania.

In fact, it is necessary to understand better, clearer, more precise between shareholders and company managers about accepting introducing corporate management.

Practical recommendation is to maintain, as emphasized possible distance between owners and corporate control transaction, as shown in the following in *Figure 1*.



**Fig. 1. Types of good corporate management recommended for businesses in Romania**

The analyzes and reports consulted are retained some results that have influenced in political and economic growth in Romania in the last 20 to 23 years by the presence of large corporate companies type in the country and the region (big banks, Coca Cola, IBM, Dacia-Renault OMV-Petrom, etc.):

- The Romanian economy has been moving activities in the real economy of production, monetary economy, and as such, there was a general dependence of money;
- Large corporate type companies holding economic power in certain areas in Romania caused influences on local natural resources, contributes to their depletion (oil, forests, minerals, etc.) on the national territory;
- Large corporate owners have transferred agricultural land, forests and fisheries in their corporate wealth (property redistribution occurred by elite corporate management).

Fairness corporate management occurs differently in each type large corporate firm.



The presence of large international corporate type companies in Romania, it is observed that often assist a de-moralizing (negative affect moral) of the local economy and a politicization of the framework in which it operates.

Therefore, it is necessary to re-moralization Romania's economy, but it can occur almost always the re-politicization.

The proposed measure, the front lines analyzed context is re-moralization of corporate structures of firms and the local economy by de-politicization.

We believe that the content of expression that refers to the corporate social responsibility of corporations (large enterprises) to meet interest and different meanings: on the one hand, the social situation refers to the factor "individual" (man) and, on the other hand, the economic environment, dominated by very large companies integrate corporate type individualities, which so dominates easier.

In this context, it is useful to develop the concept that it is possible politicization of corporate type company, but is definitely more useful, even strictly necessary depoliticizing its business.

To obtain such a result, proposed that the first conclusive opinion on the above lines are necessary agents of change.

Therefore, the business environment in Romania is the organizational changes necessary to produce economic, face to face with powerful transnational companies with large corporate type.

Synthetic concludes that corporate management is a system whereby companies in Romania are directed and controlled, being assured objectives, long term strategic plans, the adequate management, the functionality of each structure to maintain the integrity, reputation and their public accountability.

On the other hand, the development of organizational structures and companies in Romania by corporate management "is favorable directions for improving the organization of corporate management in Romania.

The current situation of small and medium enterprises (SMEs) in Romania is followed typically by undertaking structural statistics, the National Institute of Statistics (INS) and Eurostat, the European regional level, since the country is an EU member.

Business segment under study examples for corporate development model is that of the SME belonging to Romanian Employers.

In Romania, the total number of active enterprises legally rises, according to the statistical situation at 31 December 2012, a total of 975,808 registered traders in the Commercial Register, which is not in any of the cases of suspension, liquidation, reorganization, bankruptcy, insolvency as required by law.

Of course, the particularities of organizing modern conduceii meet enterprise size classes and administrative territorial development regions.

Number of companies for various reasons and difficulties have temporarily suspended activity amounts to 66-70 thousand / year, and voluntary dissolution 6-7 thousand / year, while voluntary removals are about 60-70 thousand companies / year.

From investigations among regional firms in Romania regarding corporate management can be traced to deepen and stage directions such as:

- Evaluating corporate management in European regional geographically and Romania;
- Development of key recommendations for improving corporate management companies in Romania in accordance with international standards and principles of the OECD in the field;
- Increased understanding of current practices of corporate management.

### 3. Conclusions

Briefly, preliminary recommendations include the following area:

- The necessary measures to improve the Romanian laws and regulations that relate to corporate management;
- It is necessary to boost companies to apply existing laws and regulations effective in Romania, in corporate management.
- I have put a new emphasis on private sector development with effective ownership and control structures that efficiently meet the requirements of corporate management;
- Have developed and applied a model clear plan to improve corporate management in national companies.
- Investors and shareholders should have created the conditions for participation in corporate management;
- Transparency is needed on the role of different stakeholders in the company, based on corporate management;
- Must ensure the protection of employees who campaign to end illegal practices and misuse of company management;
- Creditors must be honored rights, including bankruptcy can be used;
- Consultation and communication with employees should prove effective;
- Disseminating information about the firm and the system must be transparent;
- Is necessary to ensure the accuracy of accounting and audit activities in the company;
- Is necessary to move from Romanian accounting standards to International Financial Reporting Standards (IFRS);
- Enterprises must have a sufficient number of independent directors;
- In fact, clustering enterprises nationally and, equally regionally in areas of interest are characterized by corporate management, using best management practices can be achieved by taking measures which removed some obstacles and barriers in the process of actual auditing correct.

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# THE SUBSTANTIATION OF THE REGIONAL DEVELOPMENT STRATEGIES, PREMISE FOR THE ABSORPTION OF THE STRUCTURAL AND COHESION FUNDS IN ROMANIA

Aida, Catană<sup>1</sup>

## **Abstract:**

*The process of the elaboration and the implementation of the regional development strategies is facing challenges coming both from the limits of the instruments which are used for the substantiation of the planning documents and the lack of the most efficient evaluation methods of the implementation measures impact. The regional development strategies developed within 2007 – 2013 programming period as parts of the Regional Development Plans were based on a series of statistical analyses of the available statistical data. The specific details of the administrative system, the capacity of the national and local public administration to lead the management and control system created for the absorption of the EU funds in Romania were missing from the regional development strategies. These are the problems identified both within the annual implementation reports and national strategic reports as the main causes of the low rate of absorption. As a conclusion, there are more different aspects such as capacity of the public management or the coherence of the legal system that should take into account in the process of the substantiation of the regional development strategies.*

**Keywords:** regional development, statistical analysis, growth pole

**JEL Classification:** H7, P4, R5

The programming period 2007-2013 offered the authorities in Romania the possibility to get acquainted with the planning system proposed at European level by means of the regulations underlying the modality in which the structural and cohesion funds are allocated and can also be used later by the adopted specific national legislation. The existence of a mechanism proposed at European level is not a restriction, the Member States having the possibility to improve the mechanism, depending on the specificity of the administrative system. Thus, at national level the elaboration of the National Development Plan 2007 – 2013 (NDP), or of the Regional Development Plans (RDP) complied with the established structure at national level, the fulfilling of the objectives of the RDP was not translated into a regional development strategy adapted to the local, regional and national context, that affects in a determinant manner the execution of the plans.

## **1. The institutional framework and the regional planning documents for the programming period 2007-2013**

The regional development policy has experienced a first regulation after 1989, in 1998. The Law no. 151 *on regional development in Romania* establishes its basic objectives, among which we recall: a) the reduction of the existing regional imbalances by stimulating the balanced development, through the accelerated recovery of the delays in the development of the disadvantaged areas due to historical, geographical, economic, social, political conditions, and the prevention of new imbalances; b) the preparation of the institutional framework to meet the criteria for integration into the European Union structures and access to the structural funds and to the Cohesion Fund of the European Union; and c) correlating the government sectoral activities and policies in the regions by stimulating initiatives and capitalizing on local and regional resources for their sustainable economic and social development and their cultural development. The established

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development regions become the implementation and evaluation framework of the regional development policy, with especially created regional development structures. The development regions were created in response to the necessity of compliance with the existing NUTS classification system at the level of the European Union, respectively the level NUTS 2, representing the basic regions for the implementation of regional policies, having a population between 800,000 and 3,000,000 inhabitants.

### **1.1 Relevant institutional framework aspects**

The most important regional forum is the Regional Development Council (RDC) consisting of the presidents of the county councils and one representative of each category of local councils, either municipality, town and village councils, appointed from each county during their mandate, which analyses and determines the strategy and regional development programs; approves the regional development projects and monitors the compliance with the regional objectives. The same law provides the establishment of Regional Development Agencies (RDA), which are non-governmental bodies, non-profit, of public utility, with legal personality, that operate under the coordination of the Regional Development Councils. The RDAs have, under to this law, among the main powers the CDR's development and proposal, for approval, of the regional development strategy, of the regional development programs as well as the funds management plans; and the implementation and achievement of regional development programs and of the funds management plans in accordance with the decisions adopted by the Regional Development Council. In 2004, a new law was adopted for the regional development, Law no. 315, which brings a series of changes, among which: the Regional Development Council supports the elaboration in partnership of the National Development Plan and the RDAs prepare and propose to the CDR, for approval, the strategy, the plan and the regional development programs as well as the funds management plans. It is important that the National Development Plan approval is one of the tasks of the National Regional Development Council, composed of the presidents and vice-presidents of the regional development councils and in parity with their numbers, Government representatives appointed by Government decision, including the President. But, in the same year, it was also adopted the Governmental Decision no. 497 *on the institutional framework for the coordination, the implementation and the management of the structural instruments* (art. 4) which states that a new institution, respectively the Managing Authority for the Community Support Framework (respectively the Ministry of Public Finance) is developing, in partnership with the central and regional institutions involved, as well as with socio-economic partners, the National Development Plan and, based on this policy document, approved by the Government of Romania, negotiates the Community Support Framework with the European Commission and ensures the correlation between the operational programs. Although through the Decision no. 1323 from 2002 of the Romanian Government *on the development in partnership of the National Development Plan* it was established that the NDP is the document of strategic planning and financial programming of Romania, approved by the Government, developed in partnership, based on regional development plans, creating a programming of the economic and social development of the country (art. 3 paragraph (3)), it is repealed by Governmental Decision no. 1115/2004 on the development in partnership of the National Development Plan, also repealed by Governmental Decision no. 497/2004 (art. 25).

A special structure to provide a link between the institutional component and the financial support to the objective of regional development was the Regional Committee for Strategic Evaluation and Correlation CRESC, established under Governmental Decision no. 764/2007 for the approval of the establishment of the Regional Committees for

Strategic Evaluation and Correlation and of the Framework- regulation for their organization and functioning, with duties on assessing the contribution level that each project can make to achieve the regional objectives, as well as to correlate investments from public funds. The stage of the prioritization of projects that would be financed under the ROP was subsequently removed to combat the problem identified in the 2008 Annual Implementation Report (AIR) 2007-2013 of Regional Operational Programme (ROP) 2007-2013, respectively the lengthy evaluation process of projects proposed for funding (AIR 2008, p. 38).

### **1.2 Planning documents at regional level**

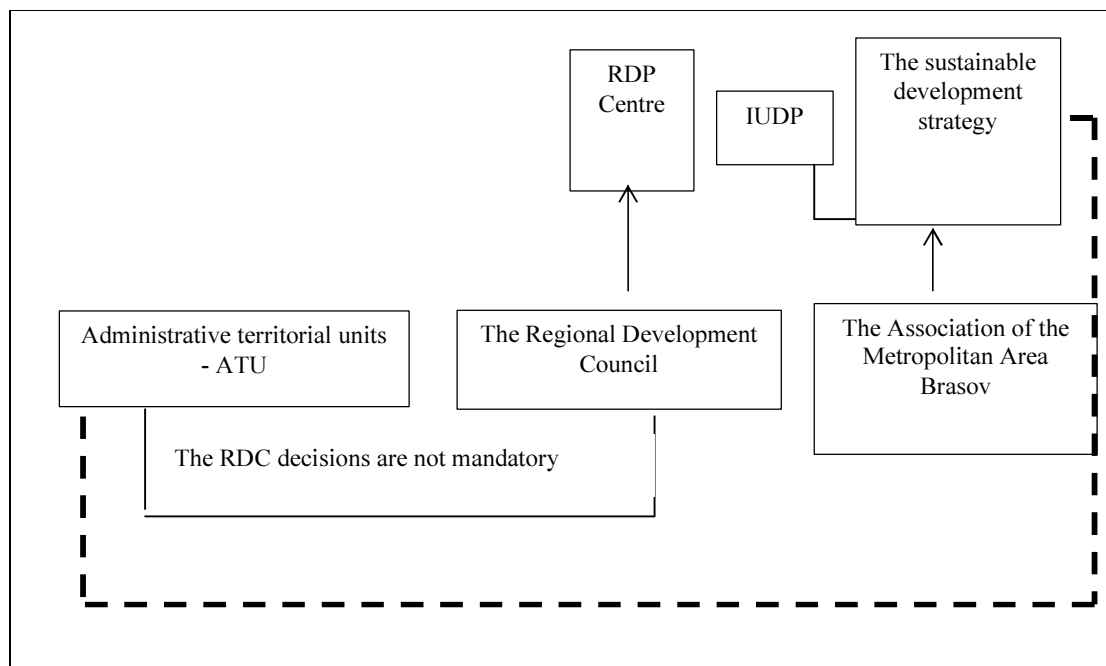
The Regional Development Plan was and still is the basic document in the regional planning process, developed in a wider process of partnership, a process that has evolved itself along with the evolution of the development policy at the level of the European Union. The regional development plans for the programming period 2007 - 2013 have been developed in an ambiguous institutional framework in which the national institutions had played a major decisional role, the bottom-up process being affected by this aspect. In terms of local planning, by 2007 there were few laws to allow or to regulate the manner in which a strategic planning document should be elaborated, respectively: Governmental Decision no. 1006/2001 *for the approval of the Government Strategy for accelerating the public administration reform*, which represents also the Framework-strategy of development of a local collectivity (GD no.1006/2001, p. 18), the Law no. 326/2001 *of public utility services for communes* according to which the principle of elaboration of the strategy and of the local policies regarding these services under the principle of subsidiarity (L no. 326/2001, p. 8) is observed, and subsequently the Law no. 51/2006 *of community services of public utilities* according to which the local authorities take decisions about the elaboration and approval of their own services development strategies. At the European level, there is an evolution of the manner in which the programming within each Member State must be made in the context of the use of structural and cohesion funds, correlated with the dynamics of the relationship between the national and the local/regional or sub-national level. Although the *Regulation (EC) no. 1260/1999* values the partnership principle much more than the previous one applicable in the Structural Funds, namely *Regulation (EEC) no. 2052/88*, its promoting does not change the local/regional national balance. Thus, the Member States must ensure the association of the relevant partners in the different stages of the programming taking into account the deadline established for each stage. The issue was underline by Allen (2005, p.239) “The implementation of the structural funds has encourage multi-level participation, but this should not be confused with multi-level governance.” As the other PDRs during 2007 - 2013, the Central Region Development Plan for 2007-2013 was developed based on and in accordance with the Government Decision 1115/2004 *regarding the development in partnership of the National Development Plan* (involving the institutions established (working groups and the Regional Planning Committee) and has the following structure: I. The social-economic analysis of the Centre Region (General description, Overall economic development, The demographic evolution and labor resources of the Centre Region, Agriculture and Rural Development, The environment situation, Territorial specificities and regional disparities, Equal Opportunities; II. The regional SWOT analysis; III The Central Region Reference Strategic Framework 2007- 2013 and IV. The implementation of the priorities and measures of the RDP. The first sections present several statistics to describe the situation, further suggesting the strategic objective of the region and the specific objectives, the priority axes completing the proposed intervention. We note that in terms of urban development, there is the priority axis VII, The Sustainable urban

development, with a single measure 7.1 Support for the integrated urban development, the pole of growth Brasov being one of the priority projects (RDP, p. 148). The original version was adopted by the Regional Development Council on 26.04.2006 and the updated version was approved by the Decision no.8 of April 15<sup>th</sup>, 2008. The Centre Region Development Plan for 2007-2013 does not include a strategy and operational measures to make possible the fulfillment of the objectives set, suggesting their dependence on the measures taken at national level. In addition, we note that both the adoption of the first revised version as well as the revised one was made after the approval of the National Development Plan 2007-2013, respectively December 2005. This planning document - the regional development plan does not have in addition a strategy that would make possible the fulfillment of its objectives, the administrative capacity, the enforcement of the subsidiarity principle or the public management performance at local or national level not being analyzed. In this context, the achievement of the regional objectives, being primarily the responsibility of the local/regional authorities, depends exclusively on the measures taken at national level, thus marking the authority of institutions at this level. We are facing the authority-responsibility relationship that needs to be located at the same level to achieve the fulfillment of the objectives; otherwise there are chances for failure. The approach manner to urban development through the growth poles demonstrates the authority of the national level adopting a measure (Governmental Decision no. 998/2008 *for the designation of the national growth poles* in which the investments of community and national funding programs are achieved with priority, subsequently supplemented and modified by several successive acts), leading to the situation in which the Regional Development Plan must be updated, the top down approach cancelling the intent of enhancing the local or regional level. One more planning document was developed for the growth pole Brasov named the Integrated Urban Development Plan (IUDP) regulated by the Government Decision no. 1149/2008, article 3. The Growth Pole Brasov covered the Brasov Metropolitan Area, the associative structure made under the Law 215/2001 *on local public administration* amended and supplemented, respectively the association of community development established based on partnership between the Romanian capital or the 1<sup>st</sup> rank municipalities and the administrative units which are in the immediate area. The Integrated Urban Development Plan of the Growth Pole Brasov created within the ROP 2007-2013, Priority axis 1 DMI 1.1 Support for the sustainable development of cities - urban growth poles, determines as its development vision that "Brasov will become the model of sustainable development in the Central region, a development based on inter-territorial solidarity, interconnectivity, economic competitiveness and social cohesion."

Hence, there is a profound need in the correlation both between different level of institutions/authorities and their planning documents (Fig.no.1)

### **1.3 The statistical analysis relevant issues**

Both the Development Plan of the Central Region for the period 2007-2013, and the Integrated Urban Development Plan of the Growth Pole Brasov contain an analysis of the existing situation and based on the SWOT analysis, the proposed targets, measures and projects. But there are two issues to be highlighted: the first one refers to the use of the statistical analysis and the second one on the need for extensive substantiation in the proposal of the strategy.



**Fig. 1 The relationship local-regional -area level/ growth pole**

The formulation of the development vision, of the general or specific objectives at local or regional level is most often based on the statistical analyses, being necessary to overcome the challenge of transposing the managerial decision problem in statistical terms, its formulation being essential for the results of statistical analysis to provide what is necessary in choosing the right decision (Țițan, 2005). Thus, in the implementation of this RDP, as well as of other regional development plans, the existing situation is shown by the sequence of sections including statistical data, structured according to their development over time, which leads to the appearance of the dynamic or time series. These can help bring some variations occurred in time to influence the factors that caused the deviation from the normal evolution, the laws which occurred in the evolution of phenomena and processes (Anghelache, 2005, P157). The lack of methodology used in the achievement of the development plans or of those of urban development makes it possible to interpret that the method used was to extrapolate the time series, a method criticized by specialist statisticians, they were arguing that extrapolating means to adopt the hypothesis according to which the trends of the past will repeat similarly in the future, provided that all other remain unchanged (Cărbunaru, 2009). Therefore, developing local or regional planning documents should be based on a real scientific support. Regarding the establishment of the strategy through which the set objectives set can be achieved, it needs to extend the analysis to the specific elements of the administrative capacity, the coherence of the legal framework and the capacity of bringing together the effects of the proposed measures. The deficiencies have been reported since 2010 in the assessment report prepared within the project "Making assessments for 2009-2010", financed from the European Regional Development Fund through the Operational Programme Technical Assistance 2007-2013. The report "A formative evaluation of the Structural Instruments in Romania", sustains that "the implementation of the Structural Instruments seems to be negatively affected by a series of horizontal factors, at the level of public policies and, in particular, by the lack of correlation in strategic, legal and financial terms. The Strategies of the Structural Instruments (included in the NSRF and the individual OPs) appear not to be well anchored



in the overall national development strategy. This leads to a lack of correlation between the legislation governing the implementation of the Structural Instruments and other relevant national laws. In this context, it is illustrative that, although efforts have been made to ensure the pre-financing and co-financing of the projects through loans, in practice this mechanism is not working properly." The poor performance and rate of absorption of the funds allocated to Romania demonstrates the variety of the causes for the deficiencies.

## **2. The difficulties faced by local administrative units (growth poles) for absorption of the Structural and Cohesion Funds in Romania**

The calls for proposals were launched for Priority 1, DMI 1.1. Integrated urban development plans - Sub-category growth poles on 08.12.2008, two years late as it is mentioned by the Annual Implementation Report of the year (AIR) 2008 (published in June 2009) of the Regional Operational Programme (ROP) 2007-2013. Among the significant problems encountered were mentioned the lack of urban development strategies to substantiate the implementation of this priority axis of the ROP; the establishment of a common framework for financing the growth poles of all operational programs financed by Community funds; the limited capacity of local administrations to develop integrated urban development plans with metropolitan or regional impact as well as the reluctance of certain local public authorities in the area of influence of the cities - nucleus of growth poles to join and be part of the Association of Intercommunity Development of the growth pole. If for a part of them some measures of control have been identified, such as the appointment of a pole coordinator (as adopted under the European Commission's recommendations as stated in the RAI 2009), with support role in coordinating the preparation and implementation of the integrated development of the growth pole and of the projects included in the plan, for others there was no way to identify solutions, the reluctance for association being a clear evidence of the effects of the top-down process of the appearance of this component of the urban development. At the end of the year 2009, the Growth Pole Brasov lies between the 4 growth poles that had submitted a IUDP approved (with a list of related projects) by each administrative-territorial unit, component of the growth pole and had already received approval by the Committee of management for the coordination of the structural instruments, the total value of the proposed projects for funding under Priority Axis 1 ROP exceeding the indicative financial allocations for each of the 4 growth poles. Later, AIR 2013 mentions major delays in meeting the original schedule of implementation of certain individual projects from the integrated urban development plans related to the seven growth poles, translated into a low reimbursement rate.

### **2.1 National system problems according to National Strategic Reports proves the limits of local authorities efforts**

The implementation of the operational programs through which the objectives set in the National Strategic Reference Framework 2007 – 2013 are achieved, is monitored by the European Commission through the strategic reports requested to the Member States under Art. 29 of the EC Regulation No. 1083/2006. The 2009 National Strategic Report (NSR) on the implementation of the Structural and Cohesion Funds, of the Romanian Government, presented among the main difficulties the preparation of the projects' portfolio highlighting the relatively limited capacity of the public authorities (both central and local) regarding the identification, prioritization and preparation of the investment projects. Also the delayed launch of the calls for projects represented a problem, the relatively quick approval of the operational programs not being followed by an immediate launch of the funding lines. It is clearly stated that "Another difficulty with a direct impact on the launch of some of the calls for projects was the lack of national strategies in various

fields or the need to develop new strategies, innovative, strategies to ensure on the one hand the main landmark of projects' selection, and on the other hand, to ensure a coordinated and complementary implementation of the European funded projects and of those receiving other type of funding (national, local or foreign)."(NSR 2009, p.72). The growth poles and the lack of a national vision in the field of the territorial development is an example of local development delay due to national reasons, the specific normative documents for the functioning of these growth poles missing at the beginning of the programming period. The 2012 NSR maintains the identified problems in the 2009 NSR and adds the difficulties encountered in terms of budget legislation, respectively the required procedures by national legislation specific to the execution of the public budgets by Law no. 500/2002 of the public finances and the enforcement regulations. The granting rules of pre-financing, the public procurement procedures and procurement contracts, the influence of the institutions and procedures external to the structural instruments management system on the process of evaluation, contracting and implementation of projects, as well as the ability and responsibility to the beneficiaries have been invoked. All these issues were included also in the reports submitted by the European Commission: *The 2010 Strategic Report on the implementation of the programs for the period of 2007-2013* (COM (2010) 110 final, p.4) that mentions the unclear distribution of tasks nationally, the insufficient experience, the lack of administrative capacity both for the managing authorities as well as for the beneficiaries and the internal reorganization processes of the public administration – the case of Bulgaria, Romania and Lithuania; and in the 2013 Strategic Report on the implementation of the 2007-2013 program of the European Commission includes Romania among the countries that have experienced legislative changes, inconsistent political involvement and the effects of the national sectoral reforms. (COM (2013) 210 final, p. 3).

### **Conclusions**

The possible difficulties in achieving regional cohesion in its territorial dimension could be assessed in relation to the 3 Cs stated at European level since the beginning of the debates on territorial cohesion in 2006 when the EU Council adopted the Community Strategic Directives or even a longer time ago, in 1983 when the European Parliament adopted the Gendebien Report, relevant in the economy of the development of the unique territorial planning framework. Thus, the "focus" brings up front the urban-rural relationship and the challenges faced in solving urban problems and labor force often living in rural areas, next to the urban center where they develop their activity. The relationship economic development - environmental protection - social equity brings up the issue of sustainable development at regional and local scale, the growth poles created in Romania offering the micro image of this issue. "The Connection" involves besides the obvious link of the transport ways and access to energy, ICT, research & development for citizens and companies. The centers/poles of development or growth are a challenge for the achievement of the types of relationships, effective connections between resources and their users. The different level of autonomy of the administrative authorities, of accountability or of culture of dialogue and partnership makes it the most difficult for the states which are newer democracies to achieve the third C respectively, the "Cooperation". The existence of multiple levels of government, which however do not benefit from a balance between authority and responsibility, leads to the fact that achieving cooperation means actually achieving compliance with the decisions imposed at national level or based on the recommendations from European level.

The experience during 2007 - 2013 proved that in order to achieve performance in the structural and cohesion funds absorption it is required more than the desire to attract

money. It is necessary to increase the level of expertise in all phases, starting from the programming phase. The implementation phase brings to the fore all the difficulties and shortcomings of the system which wants to use European funding. The implementation reports show that the main problem is the lack of correlation between each part and facet of the management and control system of the funds and some relevant legislation. In addition, obviously, the degree of efficiency and especially of effectiveness of the use of funds is given by the national level in an area where the regional / local level is the main actor, the dichotomy of authority-responsibility being clear. In the evaluation phase, one of the lessons learned should be that an improvement of the substantiation of the planning documents is needed, in a real implementation of the principles of subsidiarity and partnership. In addition, it is required the awareness of the role that different areas - in this case the one of the statistics, can have to contribute by a profound use of all tools and methodologies that this domain can provide for the decision makers.

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# STATE INTERVENTION IN THE ECONOMY

Andreea-Elena, Burduf (Mierlaru)<sup>1</sup>

## Abstract:

*Starting from the definition of protectionism, an economic policy of restraining trade between states through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow, according to proponents fair competition between imports and goods and service produced domestically, I am compelled to find Manoilescu's vision of economy.*

*Was this system of political and economic measures of protection of national products from similar foreign products Manoilescu's vision?*

*In the spirit of classical protectionist doctrine, Manoilescu thought that the focal point of economy was the national economy, the sum of production assets and a conglomerate of individual traders. Amongst national production assets the foremost is the labour, capital and the others having only secondary importance in direct comparison.*

*After the great depression of 1929, his book, The theory of protectionism and international exchanges, was the basis for justifying protectionism in Brazil while in Romania he had to face hostility from authorities, making it impossible for him, even if for several months in 1931 he was the Governor of the National Bank, to apply his vision to end the economic crisis in Romania.*

*M. Manoilescu analyzed the state's economic role and how this is reflected in modern economic science.*

*He saw the state as having the role of setting certain convergent common goals for the whole society and to set rules that removes free will in economic decisions, thus creating the premises for a regulated economic space, based on the transition from little rationale of firms to big rationale of national economy.*

*He demonstrated the necessity of state interventionism, he has shared the conviction that through the alignment of the Romanian economic strategy to the one from the developed countries the lagging behind of Romania could be surpassed.*

*M. Manoilescu took the occidental type economic policies of the time, national and european corporatism as economic policy of internal relations between capital and labour and protectionism inside future Europe lead by Germany as international relations economic policy.*

**Keywords:** *economic thinking, protectionism, national economy.*

**JEL Classification:** D83

## 1. Introduction

The topic of state intervention is one that has been extensively debated by economists and policy-makers for a number of years. State intervention in the production process is very common in most developing countries. The justifications given by the state for this form of

intervention includes reasons which are based on a variety of market failures including imperfections in factor markets, the paucity of information and high risk aversion on part of the private entrepreneurs.

Public enterprises has been used as an instrument of state intervention by develop and developing countries alike. In many cases their intervention is a reaction of the market mechanism limitation, in case of weakness of private entrepreneurship.

Protectionism in its classic version during the continental blockade of England during the Napoleonic Wars belongs of the past.

Historically, protectionism was associated with economic theories such as mercantilism (that believed that it is beneficial to maintain a positive trade balance), and import substitution. During that time, Adam Smith famously warned against the "interested sophistry" of industry, seeking to gain advantage at the cost of the consumers.

Mainstream economists agree that protectionism is harmful in that its costs outweigh the benefits and that it impedes economic growth.

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The current post-crisis economy needs protectionism and publicly giving the measure is nothing but diplomacy.

Countries understand the need for a more balanced national economy will provide help domestic producers. In this case need not be necessarily duty system may be used as technical standards, forcing thus all exporters to meet these standards. Even though many countries use long these techniques to protect the market against competitive imports, it seems not always manage it.

## **2. Manoilescu's ideas on protectionism**

Following the evolution of economic thinking in Romania between the world wars I discovered romanian scientific and cultural personalities whose ideas had a powerful influence outside Romania but mostly ignored or underestimated locally. One of these personalities is Mihail Manoilescu, romanian journalist, engineer, economist, politician and memoirist.

Starting from the definition of protectionism, an economic policy of restraining trade between states through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow, according to proponents fair competition between imports and goods and service produced domestically, I am compelled to find Manoilescu's vision of economy.

Was this system of political and economic measures of protection of national products from similar foreign products Manoilescu's vision?

Fall of communism was a major political upheaval for Romanian society and intellectual challenge for researchers in social sciences - including economists.

Romanian situation of economic thought on the eve fall of communism was completely different and much more serious than other communist countries.

It contrasts also with the situation of economic thought in the interwar period, when some economists Romanian (V. Madgearu, V. Slăvescu, N. Manoilescu, S. Zeletin), trained at sunset schools were aware economic ideas of the time and participated in the exchange of ideas internationally and overseas publishing doctoral theses, but often other works.

As the economists who have written works in Romanian (M. Vulcanescu Zane, V. Jinga), they knew also economic work appeared in the world, and their work is, within certain limits, erudite and original.

The absence of any open debate about the functioning of the economy and economic situation negatively influenced economic thinking in the post-communist who had lost time.

M. Manoilescu analyzed the state's economic role and how this is reflected in modern economic science.

He linked politics to economy and shared the economicneoliberalism of the time.

He demonstrated the necessity of state interventionism, he has shared the conviction that through the alignment of the Romanian economic strategy to the one from the developed countries the lagging behind of Romania could be surpassed.

In Romania, the first law to encourage national industry was voted in 1887, after adopting a protectionist import tariffs the year before.

M. Manoilescu's ideas of economy were very popular and were implemented in Latin America, his works being mandatory references in brazilian industrial circles.

In the spirit of classical protectionist doctrine, Manoilescu thought that the focal point of economy was the national economy, the sum of production assets and a conglomerate of individual traders. Amongst national production assets the foremost is the labour, capital and the others having only secondary importance in direct comparison.

Manoilescu's protectionist theory was meant to represent an essential component of corporatist economic ideology, the theoretical support of economical policies of corporate states.

Nevertheless, for various reasons, his theories were never implemented in European corporate states.

In Romania, Manoilescu's ideas were rejected by the mainstream economic thinking and political forces of the time. Later, in the 8th and 9th decades of the XXth century, some of Manoilescu's concepts were used for organising and leading the centralised Romanian economy and fragments of his novel works were included in political propaganda writings.

After the second world war, Manoilescu's protectionist theory, removed from its corporate social and political context, would exercise a durable influence in economic thinking of radical orientation. The Romanian economist is seen, in many circles around the world, as the precursor of Latin-American radical economic theory.

In his economic analysis, M. Manoilescu started with the premise of labour productivity gap between agrarian and industrialised countries, claiming that the labour productivity in industry is far superior to that in agriculture in a 4 to 1 ratio because the capital value per industrial worker is much superior to that of agrarian worker.

The Romanian economist stated that the agriculture based revenue was up to 20% of the GDP in the analyzed countries and involved half of the active population – 52%, while the rest of 80% of the GDP was created by the other half – 48%.

As a consequence, half of the active population, the half involved in industry, produces four times more than the other half, involved in agriculture.

Manoilescu also noticed that the variance of productivity across various countries is much larger in agriculture than in industry.

This stems from the fact that modern industry has more or less the same technical and economic features, irrespective of the country, and the productivity in industry is less dependent on the local cultural factors, while agricultural is closely related to the general development of the people.

Therefore, the industrialized countries, having superior national productivity, gain from international commerce at the expense of lower productivity agrarian countries.

This raises the issue of industrial development of agrarian countries through policies of protection of national raw materials in international commerce.

Manoilescu analyzed the synthetic national advantage of certain production branches as an expression and result of two main components:

- Production output national advantage – linked to labour productivity ;
- International trade national advantage – linked to the idea of adding value through export.

Protectionism is the object of vast criticism, because, beside positive, has numerous negative aspects like suppressing an efficient stimulus represented by foreign competition. As a result of tough international competition and protectionist policies of many states, in 1948 the General Agreement on Tariffs and Trade was formed as an inter-governmental organism with the purpose of liberalization of international trade. As of January 1st 1995, G.A.T.T. was replaced by the World Trade Organization with the main objective of fighting protectionism and liberalization of international trade. Protectionism is the opposite of free trade.

Neoliberal in his thinking, Manoilescu has created a theory that it's both unitarian and original regarding protectionism and international trade, easily recognizable in international economic, political and intellectual societies.

Mihail Manoilescu supported protectionism as a means to develop industrial economy in agrarian societies.

After the great depression of 1929, his book, 'The theory of protectionism and international exchanges', was the basis for justifying protectionism in Brazil while in Romania he had to face hostility from authorities, making it impossible for him, even if for several months in 1931 he was the Governor of the National Bank, to apply his vision to end the economic crisis in Romania.

As M. Manoilescu's work was published between 1923 and 1941, an obvious question is whether and how his theories remained a reference in economic thinking, knowing that since then the economic science has known many changes through social, political and technological advances.

No matter how minimal the state wished to be as against the market, namely to limit itself to creation of the coherent, correct and stable legislative climate for the business, it cannot however let allocation of public resources, budget allocation, provision and consumption of public goods and services or provision or of social aid for the people in need exclusively up to the market.

The understanding of M. Manoilescu highlights the state and evolution of the Romanian modern economy as basis of the main features of the economic and sociological thought in the inter-war period.

He linked politics to economy and shared the economic neoliberalism of the time. At the end of the first world war, when M. Manoilescu began to work to his theses, the western type capitalism already demonstrated the limits of the free competition, because of the increasing vulnerability and contradictions concerning the monopolies, the non-monopolist owners, as well as the labour force, inside each country and on the international market.

For this reason, the state was transformed in an important economic player, intervening in and sweetening the conditions of competition through contracts, subventions, state ownership, fiscal systems, social expenditures, more or less, macro planning and obviously corresponding legislation.

There are reference figures of Romanian science and culture whose ideas have strong influence abroad, but are ignored or underestimated in the local area.

A case in point, is the scientist Mihail Manoilescu. Engineer, economist, sociologist, political scientist and historian, professor at the Polytechnic Institute of Bucharest, Chair, Political Economy - Organization and Rationalization, Manoilescu is an exceptional personality.

In the thirties of the last century his works were published in Spain, Portugal, Brazil and Chile. His ideas about economics were very popular and have been applied in Latin America, and therefore his works were mandatory benchmarks Brazilian industrial area.

M. Manoilescu took the occidental type economic policies of the time – national and european corporatism as economic policy of internal relations between capital and labour and protectionism inside future Europe lead by Germany as international relations economic policy.

In Brazil and other latin-american countries political and social elite proved pragmatic in thinking and in action, having the liberty to adopt Manoilescu's theories as fundaments of their economic development strategies.

Jeronimo Moscado, brazilian ambassador in Bucharest, urges: 'Romania should not be modest. Romania is a great cultural power. It remains to be seen if romanian elites will accept this reality'.

### **3. Applicability of protectionist measures in the current economy**

Protectionism is the economic policy of restraining trade between states through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow (according to proponents) fair competition between imports and goods and services produced domestically.



This policy contrasts with free trade, where government barriers to trade are kept to a minimum. In recent years, protectionism has become closely aligned with anti-globalization and anti-immigration. The term is mostly used in the context of economics, where protectionism refers to policies or doctrines which protect businesses and workers within a country by restricting or regulating trade with foreign nations.

Protectionists believe that infant industries must be protected in order to allow them to grow to a point where they can fairly compete with the larger mature industries established in foreign countries. They believe that without this protection, infant industries will die before they reach a size and age where economies of scale, industrial infrastructure, and skill in manufacturing have progressed sufficiently to allow the industry to compete in the global market.

Protectionists argue that comparative advantage has lost its legitimacy in a globally integrated world in which capital is free to move internationally.

Protectionists believe that allowing foreign goods to enter domestic markets without being subject to tariffs or other forms of taxation, leads to a situation where domestic goods are at a disadvantage, a kind of reverse protectionism. By ruling out revenue tariffs on foreign products, governments must rely solely on domestic taxation to provide its revenue, which falls disproportionately on domestic manufacturing.

Today, in a period of post-acute crisis, world leaders agreed not to impose new restrictions and measures directed against boost their exports by various methods.

Protectionist measures appeared even within the EU, which in principle should not exist. France has banned the import of new models of Mercedes cars in Germany. The official reason given is that the Germans were using other refrigerant for air conditioning in cars than allowed by the European Commission.

Dispute exists globally, such as patent war between Apple and Samsung, due to which the United States might prohibit sales of smartphones and tablets in South Korea, or the conflict between China and the EU that could lead to disappearance of European markets cheap solar panels and Chinese stores Italian and French wines.

Governments in many developing countries try to protect their consumers, which finally are deprived of freedom of choice. Most industrialized governments have long held that laissez-faire capitalism creates social evils that harm its citizens. To protect those citizens, these governments have enacted laws that restrict what companies can and can not do in pursuit of profit.

#### **4. Conclusions**

Manoilescu's protectionist doctrine could not be implemented in Romania because it wasn't acceptable in the geopolitical context of financing the Romanian state and, after 1944, the course of Romania's development was dictated by foreign powers.

M. Manoilescu analyzed the state's economic role and how this is reflected in modern economic science.

He saw the state as having the role of setting certain convergent common goals for the whole society and to set rules that removes free will in economic decisions, thus creating the premises for a regulated economic space, based on the transition from little rationale of firms to big rationale of national economy.

He demonstrated the necessity of state interventionism, he has shared the conviction that through the alignment of the Romanian economic strategy to the one from the developed countries the lagging behind of Romania could be surpassed.

Protectionism is frequently criticized by economists as harming the people it is meant to help. Mainstream economists instead support free trade.

Economic theory, under the principle of comparative advantage, shows that the gains from free trade outweigh any losses as free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage.

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# ECONOMIC DEVELOPMENT AND CONVERGENCE IN ROMANIA

Elena-Raluca, Moisescu (Duican)<sup>1</sup>

## Abstract:

*This paper presents the economic connection between nominal convergence, real convergence and economic development in Romania. It is shown that fulfilling the nominal criteria is not enough to enter the Economic Monetary Union. It needs to be accompanied by a sustainable economic development and an increasing labour productivity.*

**Keywords:** *economic development, convergence, real convergence, nominal convergence*

**JEL Classification:** F63, O47

## 1. Introduction

The integration of Romania in the eurozone requires a certain level of nominal and real convergence with the countries in this area, and reducing disparities between our country and the European Union average.

According to Raileanu and Marinescu (2010) empirical evidence shows that real convergence process influences the nominal convergence through productivity growth and openness of the economy.

Openness of an economy is one of the criteria the theory of optimum currency areas and is a factor that indicates growth. The contribution of labor to gross domestic product (GDP) can be measured by labor productivity growth. GDP growth rate highlights the absolute and conditional convergence, based on the initial GDP/capita.

In order to strengthen the euro area, the European Union (EU) has taken steps such as „Euro-Plus Pact” that support a better coordination of economic policies in order to increase the convergence and economic competitiveness. The main measures are referring to sustainable public finances and strengthen economic stability supports Niță (2014).

The financial and economic recent crisis has brought in discussion three coordination components for the economic policies affirms Ghizdeanu (2012):

- Structural reforms within Europe 2020 Strategy that refer to the kind of desirable economic growth, i.e. an intelligent, sustainable and socially inclusive one.
- The fiscal-budgetary supervision, within the Stability and Growth Pact – it refers to the obligation of the Member States to reach and maintain a medium-term budgetary objective. It presents constraints in the real convergence process by limiting public investment for the catching-up process.
- The macroeconomic imbalances supervision. It is introduced an index system that detects the macroeconomic imbalances.

Mere fulfillment of the nominal convergence criteria of the Maastricht Treaty does not guarantee entry and maintenance of a state in the eurozone. Therefore, it is necessary a deep analysis of economic and financial characteristics.

This article uses the example of countries like Romania, mainly, and Bulgaria, based on similarities between economies.

## 2. Literature review

Many works have the concept of economic convergence as a subject.

Figuert and Nenovsky (2006) investigates the case of Romania and Bulgaria in the context of the single currency and to what extent it is influenced the economic development by the convergence with the EU. There are analyzed the nominal and real

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convergence and EU business cycle synchronization using beta convergence. The results indicate that Bulgaria has a higher level of convergence in the studied period.

Allam (2009) points out that depreciation and slowing economic activities during the financial crisis hamper the situation of the new Member States of the European Union that aimed achieving nominal convergence criteria.

Miron, Tatomir and Alex (2013) analyze the structural convergence with the euro area of Central and Eastern European countries (CEE): Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia, between 2000 in 2010. Results indicate that real convergence has a positive effect on structural convergence. However, Romania and Bulgaria lags behind other CEE countries.

An important role in assessing a country's entry into Economic and Monetary Union (EMU) plays real convergence. Catching-up process depends on the initial condition of a state, and on its ability to catch-up the EU and the euro area. Real convergence has as main factors: GDP per capita at purchasing power parity, labor productivity, and price levels.

The same authors state that there are two important criteria which make structural convergence equally important. The first refers to the implications of the international transmission of business cycles, and the second criterion shows the importance of structural convergence in the economic development.

Sikulova and Páleník (2007) concluded in their paper that the time of adopting the euro in the new Member States remains an open question because the real convergence could cause risks of asymmetric shocks. The criteria set by the Maastricht Treaty are the basis for accession to the euro area. The relationship between real and nominal convergence is a close one. An increase in the productivity of a country leads to increased prices, jeopardizing the achievement of nominal convergence criteria.

Giving up control of its currency means for a country that it cannot use currency devaluation in order to stay competitive in the world market. There are some benefits of using common currency (eliminating foreign exchange risks, promoting significant economic growth and development). In contrary, in times of significant downturns, a government that uses its local currency can reduce the real interest rate to encourage investments in domestic businesses affirms Vodenska and Chitkushev (2013). In this paper, the authors analyse three groups of countries and they investigate the relationships between a group of macroeconomic indicators and sovereign debt as a percentage of GDP. The results show that even though the European Monetary Union is strategically, politically and economically important, the most recent European sovereign debt crisis has brought new challenges that need to be taken in consideration when considering the replacement of the countries local currencies with the euro.

Theories of economic growth are closely related to those of economic convergence. Besides the neo-classical theory (which emphasizes the idea of absolute convergence), appear neoliberal theories (where, first, the gap is widening, then, it arrives at a period of convergence from divergence). In the same work, Zaiț (2006) states that prudence regarding support convergence is found in the neo-classical theories improved (augmented). Endogenous growth is divided into two groups of theories: endogenous innovation (Schumpeterian endogenous innovation) and endogenous capital (endogenous broad capital). Finally, the existence of long-term divergence is supported by Myrdal, Kaldor, Perroux, as regional growth patterns.

In its initial form, the neoclassical model of economic growth suggests convergence to the same level of economic development of the states. Capital accumulation leads to faster growth in poor countries compared to rich ones.

On the other hand, the model refers to the increase in endogenous growth in different ways. Engine of economic growth can be called the effort made for research and

development. Policies also influence long-term growth as Kapetanovic and Ouardighi affirm (2009).

Dinga states that there are five distinct types of real convergence processes in the literature: gamma-convergence ( $\gamma$ ) which it has as a target the synchronization of business cycles, alpha-convergence ( $\alpha$ ) covering similar structure of the economy, delta-convergence ( $\delta$ ) that relates to similar levels of convergence, sigma-convergence ( $\sigma$ ) requires similar levels of GDP/capita between regions and countries, beta-convergence ( $\beta$ ) shows a negative correlation between the initial state and convergence speed sigma. The most common types are the sigma convergence and beta.

Sigma convergence measures the dispersion of GDP/capita between regions or countries based on standard deviation. When the difference between the GDP/capita in constant prices between regions or states decreases (standard deviation decreases over time) there is convergence. A second embodiment of the extent of convergence is the coefficient of variation. If it falls over a time period we can say there is convergence.

Beta convergence can be obtained through a regression analysis where it is estimated the growth of GDP/capita over a period of time to its initial level. The literature found two types of beta convergence: conditional (when countries converge to different stationary states) and unconditional (where regions converge to steady state).

### **3. Aspects on nominal convergence**

For adopting the euro, a country must meet the nominal convergence criteria. The recent financial crisis has raised new challenges for states that wish to adopt euro, asking them to meet difficult criteria. States seeking entry into the euro area should provide a real GDP growth similar to most developed countries in this area.

As well as the challenge to meet and maintain the nominal convergence indicators according to criteria set by the Maastricht Treaty, these countries face with the economic catching-up process, according to Ouardigha and Kapetanovic (2009).

The five nominal convergence criteria laid down in the Maastricht Treaty refers to:

- Price stability; inflation rate must not exceed by more than 1.5% average inflation rate for the first three EU Member States that had the best results in terms of price stability;

- Long-term interest rate: the average must not exceed by more than 2% average rate of the three Member States with the best results;

- Budgetary discipline: the budget deficit should not exceed 3% of GDP and public debt 60% of GDP;

- Exchange rate stability: the national currency must fall within a narrow fluctuation band of  $\pm 2.25\%$  and a broad band of  $\pm 15\%$  for two years before entering the European exchange rate mechanism ERM II.

#### **3.1. The inflation rate criterion**

According to the Statute of the National Bank of Romania (NBR), Law no. 312/2004, "the primary objective of the National Bank of Romania is to achieve and maintain price stability". The main focal point of the Romanian economy is given by inflation. In 2004 there was an inflation of 9.3%, the first year with inflation expressed by one figure after 1990.

In August 2005, the central bank adopted inflation targeting strategy. The reason for the change of strategy is that monetary targeting (based on aggregate M0 as an operational objective and M2 as an intermediate objective) was no longer an effective strategy.

Disinflation has slowed down in 2005. In late 2006 it reached the target of 4.87% and the average inflation rate was 6.56%. Inflation rate of nominal convergence criterion refers

to the average inflation rate rather than the rate on Consumption Price Index. It is noted that this criterion was not met either in 2010 or in 2011.

Inflation has seen a decrease in the second half of 2013 due to lower food prices and reduced value-added tax on bread and bakery products.

Inflation rate continues to decrease in 2014. However, in 2015 is expected to rise to 3.3% due to recovery in domestic demand.

It can be said that it is a criterion quite problematic for a country because there are many factors that may increase inflation (domestic demand, rising energy prices and food). In states which have monetary inflation targeting strategy (Czech Republic, Poland, Romania) values of inflation differ.

Among the possible reasons of missing the inflation target in the coming years we can mention the future conduct of fiscal policy, wage increases more than labor productivity growth and aggregate supply shocks (oil and natural gas price increase).

**Table number 1 - Inflation rate (Romania-EU-28)**  
(HIPC, in percentage)

Countries/Years	2010	2011	2012	2013	2014	2015 (estimate)
Bulgaria	3,0	3,4	2,4	0,4	-0,8	1,2
<b>Romania</b>	<b>6,1</b>	<b>5,8</b>	<b>3,4</b>	<b>3,2</b>	<b>2,5</b>	<b>3,3</b>
UE	2,1	3,1	2,6	1,5	1,0	1,5
Average of the three countries with the lowest inflation rate in the EU	0,9	1,5	1,2	0,3	0,3	0,6

Source: Eurostat Database, European Commission Forecast, 2014

### **3.2. The long-term interest rate criterion**

In Romania it is difficult to analyze the interest rate, in conditions of launch by 2006 of only two long-term bonds: in April 2005 at an interest rate of 6.75% and 2006 at an interest rate of 7,49% both with a maturity of ten years. It is noted that in the 2010-2014 period, the interest rate remains above the average of the first three countries with the lowest inflation rate in the EU, although a downward trend.

**Table number 2 – Long-term interest rate (Romania-EU-28)**  
(ten-years bonds as a percentage)

Countries/Years	2010	2011	2012	2013	2014
Bulgaria	6,0	5,3	4,5	3,4	-
<b>Romania</b>	<b>7,3</b>	<b>7,2</b>	<b>6,6</b>	<b>5,4</b>	-
Average of the three countries with the lowest inflation rate in the EU	2,8	2,3	1,5	1,7	-

Source: Eurostat Database

### **3.3. The budget deficit criterion**

In 2008, although the European Commission forecast was 3.2%, the consolidated budget deficit was 5.4%. Because this level was above the reference value of the Treaty of Maastricht, the European Commission recommended our country measures to reduce this indicator.

Deepening budget deficit in 2010 is due to cyclical and structural factors. Deficit criterion has been met since 2012.

Certain elements favoring fiscal imbalances such as wage policy imprudent rapid growth of pensions and fiscal policy inconsistency can be removed by the Ministry of Economy and Finance by taking structural measures to strengthen the role of fiscal policy, ie a plan of rationalization of public expenditure and implementing EU multiannual

budgetary planning process and discussions with the central bank monetary policy makers according to Socol (2009).

**Table Number 3 – Budgetary balance**  
(Romania – UE-28, as percentage)

Countries/Years	2010	2011	2012	2013	2014	2015 (estimate)
Bulgaria	-2,4	-1,2	0,1	-1,1	-0,7	-1,1
<b>Romania</b>	<b>-6,8</b>	<b>-5,5</b>	<b>-3,0</b>	<b>-2,3</b>	<b>-2,2</b>	<b>-1,9</b>
UE	-3,8	-1,5	-1,0	-0,5	0,2	0,2

Source: Eurostat Database, European Commission Forecast, 2014

### **3.4. Public debt criterion**

Low share of public debt to GDP, below the EU average, gives a possibility for upgrading Romanian economy by contracting foreign loans. However, from 2010 to 2014, public debt increased from 30.5% to 39.9%.

**Table Number 4 – Public debt**  
(Romania – UE-28)

Countries/Years	2010	2011	2012	2013	2014	2015 (estimate)
Bulgaria	16,2	16,3	18,4	18,9	23,1	22,7
<b>Romania</b>	<b>30,5</b>	<b>34,7</b>	<b>38,0</b>	<b>38,4</b>	<b>39,9</b>	<b>40,1</b>
UE	80,1	83,0	86,8	88,9	89,5	89,2

Source: Eurostat Database, European Commission Forecast, 2014

### **3.5. Exchange rate criterion**

Each Member State may decide entry into ERM II without fulfilling any formal preconditions. Importantly it is as at the entry into ERM II, the country has a favorable level of nominal and real convergence with the countries that are already in Economic and Monetary Union to avoid a currency crisis. In Romania, in November 2004 began the process of flexible exchange rate. This criterion depends on meeting inflation criterion. Regarding the stability of the exchange rate, the currency must fall within a narrow fluctuation band of  $\pm 2.25\%$  and a broad band of  $\pm 15\%$  for two years before entering the European exchange rate mechanism ERM II.

Domestic price stability is ensured by increasing the effectiveness of monetary policy. Balassa-Samuelson effect should not be offset by the exchange rate policy of the central bank. A sustained improvement in labor productivity, improved macroeconomic situation and international low yields lead to increased capital inflows, with unavoidable pressures for real appreciation of the domestic currency. Socol (2009) said that in order to maintain macroeconomic balance is recommended and appropriate fiscal policy (restrictive), besides the exchange rate policy applied.

By applying a restrictive fiscal policy when it comes to capital inflows: reducing aggregate demand, limiting real appreciation of the exchange rate, current account deficit limit, mitigate rising prices and increasing savings.

Although right now, our country meets the criteria of nominal convergence, Romania should not rush to join the euro area, but should wait until you have a level of real convergence (income per capita) in Euro area. It would also have to prove that it can maintain the level of those criteria.

#### **4. Aspects on real convergence**

The catching-up process of a country should not be seen as an automatic result of European Union accession. The structure of the economies has to become similar in real convergence. Both, the catching-up and the convergence, are based on economic growth.

The crisis period shows a period of stagnation for the real convergence process. Ghizdeanu (2012) states that Romania's potential gross domestic product will improve until 2020. The annual growing pace for the potential gross domestic product is estimated at 3% annually, as compared to almost 5% before 2008.

Even if the real convergence criteria are not stipulated in the Maastricht Treaty, they have an important role in adopting a common currency. Policy makers should give more attention to real convergence because of its importance in economic cohesion of a monetary union's Member States.

In terms of GDP/capita, Romania has made significant progress between 2001 (20%) and 2008 (43%), followed by a slight decrease in 2010 (40.6%). There are differences between the values of GDP in the euro zone and the European Union.

#### **5. Conclusions**

A main concern within European Union is to accomplish a sustainable economic growth. It is also

The financial crisis of 2007-2008 brought to light a number of weaknesses within the European Union and the euro area. Amid them, the need for better coordination between Member States' economic policies became evident. Fiscal and budgetary surveillance is the first component in the new coordination by introducing constraints in the real convergence process towards limit the public investment for catching-up process.

It is not enough to fulfill the nominal convergence criteria in order to have an economic performance in the euro zone. It has to be accompanied by fiscal and structural policies, by flexible domestic production factors.

A tricky problem for Romania is to adopt the euro. Given that the nominal convergence criteria are met, the question is how and when Romania would have to take this step. Little progress made by our country is not enough to meet the new status.

#### **Aknowledgement**

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# THE SOCIAL - ECONOMIC AND CULTURAL CHARACTERISTICS OF THE ROMANIAN - BELGIAN RELATIONSHIPS

Cristina-Maria, Pescaru<sup>1</sup>

## Abstract:

*Belgium may be, for some of the Romanians, an experience outside the home country borders. The adaptation is done in time, for each one, it matters very much how you got in the destination country. The circumstances and knowledge of the host country language are essential for adaptation. It's very important to be recommended both to the individuals and to those working in institutions, associations etc.*

**Keywords:** *economical relationships, cultural characteristics, cultural institutions.*

## 1. Introduction

Belgium has been a constitutional monarchy from 1831, with a bicameral parliamentary system at the federal level, located in Western Europe and consisting of three regions: Flanders, Wallonia and Brussels-The Capital. In Flanders, the official language is a Dutch dialect, in Wallonia the language is French, and in Brussels residents speak two official languages: Flemish and French. In Belgium there are three communities from the cultural point of view, namely Flemish, French and German (the latter, in the area bordering Germany). The English language is also widely used with greater frequency in business. The Roman Catholicism is the predominant religion.

### 1.1. Romanian - Belgian economical relationships

The year 2010 marked the 130th anniversary of bilateral diplomatic relations between Romania and Belgium. In 1838, Belgium established its first consulate in Galați, moved to Bucharest in 1842 and converted in the diplomatic agency in 1870. Consulates and vice-consulates are established after 1855 at: Brăila, Craiova, Iași, Constanța and Sulina. The establishment of the Romanian Legation in Brussels in March 1880 was followed by the opening, in 1881, of honorary consulates in Brussels and Liège, in Namur in 1921 and in 1932 in Louvain. However, the Belgian-Romanian Chamber of Commerce was founded at Brussels in 1919.

During the period of the Second World War the diplomatic relations were frozen, being resumed in 1946 and raised to the embassy level on the 3<sup>rd</sup> of December 1963.

Foreign companies enjoy the national treatment in Belgium, being assimilated to the indigenous ones. There are no restrictions on the repatriation of the capital and any requirements regarding the Belgian participation in setting up a company with foreign capital.

In terms of visa, Belgium is part of the countries that have signed the Schengen Agreement, the Romanian citizens do not need a visa for a stay not exceeding 90 days on the Belgian territory. Individuals arriving in Belgium are required to register with the municipal offices within eight days.

From the 1<sup>st</sup> of January 2007, Belgium has imposed transitional measures for a period of two years for the Romanian workers, extended in December 2008 for a period of another three years, until the 31<sup>st</sup> of December 2011. Thus, the Romanian workers who today intend to work in Belgium, do not benefit the principle of the free workers' movement, being forced to obtain a work permit.

In the case they want to get a job in one of the functions for which the Belgian labor market is unable to meet the demand of jobs, the Romanians have the same accelerated and simplified procedure (5 days ) for getting the work permit, introduced in July 2006 for workers from Member States that joined the EU in 2004.

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### **Institutions, organisms and socio - cultural Romanian - Belgian relationships**

Exchanges in culture, education, research and media were particularly low until 1990. According to the Cultural Cooperation Agreement between Romania and Belgium, cultural exchange programs were signed. Thus concerts, arts festivals, art exhibitions, etc... resulted. Romania is, after France and Quebec, ranked the 3<sup>rd</sup> among the Walloon Community's cultural partners from Belgium (the volume of trade and budget). The cooperation protocol between the Romanian Academy and the Royal Academy of Sciences, Letters and Fine Arts (Flemish) from Belgium are highlights in this respect. On 26 May 2000 at Antwerpen, the Center for Romanian Studies (Centrum voor Roemenie Studies - Ceres) had officially opened. On 14 February 2008 in Brussels, the Charter of Partnership between the Government of the French Community of Belgium and the Romanian Government as part of the "language and culture of origin" (LCO) was signed and it aims to extend the pilot project of the Ministry of Education, Research and Youth of teaching optional course of Romanian language, culture and civilization in schools from different European countries. Since 2010, in the Free University of Brussels (ULB) there is a Romanian language lectureship hosted by the Faculty of Philosophy and Letters operating under the Protocol signed in July 2010 between the Romanian Language Institute and the Free University of Brussels. The legal framework is similar to that existing between Belgium and other Central European countries. The legal basis of the bilateral relations strengthened in the period 1996-1998 by signing agreements to guarantee the investments, avoidance of double taxation, cultural, scientific and technological cooperation, legal assistance and cooperation with Flanders and Wallonia regions and communities. Commercial exchanges are mainly developed under the Treaty of Accession of Bulgaria and Romania to the EU, signed on 25 April 2005 in Luxembourg.

*ROMBEL – Romanians in Belgium* - [www.rombel.com](http://www.rombel.com) is the largest virtual community of Romanians living in Belgium, their main purpose is informing and the free exchange of views between them. Created in 2002 and currently numbering approximately 7000 members \* (number available in January 2011), ROMBEL uses the internet - the fastest and most practical way of communication between the Romanians from diaspora, with an endless coverage and audience.

During its nine years of existence, ROMBEL evolved from a simple discussion group to an information portal, becoming a "de facto" representative of the Romanian community in Belgium. Among its members, ROMBEL was involved in numerous charity activities, offering the unique chance for several sick children in Romania to benefit from complex operations in Belgium, fact that have saved their health or gave their life back. Members, administrators, moderators involved in humanitarian cases by raising funds for operations or treatments, appointments and accompanying administrative maze of the hospital family, translation and linguistic mediation, hosting families arrived in Belgium.<sup>1</sup>

Very important to keep the Romanian language is Romanian Government's concern to support educational projects. In the context of promoting the Romanian language and civilization in the European Union, the Ministry of Education has started with the 2007-2008 school year, a pilot project especially in areas where there are significant communities of Romanians.<sup>2</sup> If at first only Spain and Italy were concerned, starting with the school year of 2008-2009 the project was extended to Belgium, by signing a card partnership with the Ministry of the French Community of Belgium - The "Origin Language and Culture" Program. The project consists in the introduction in the Belgian education offer of a *Romanian language, culture and civilization course*, in the form of two hours per week and of an *intercultural opening course*. The parents are encouraged to

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<sup>1</sup> [www.rombel.org](http://www.rombel.org)

<sup>2</sup> [www.edu.ro](http://www.edu.ro), [www.ilr.ro](http://www.ilr.ro), [www.enseignement.be/LCO](http://www.enseignement.be/LCO).

register their children at this course which can be very beneficial. The project is a first, although there were Romanian language courses taught in European schools. This program applies to all levels of school education, and at the end of each year the students receive a certificate from the Ministry of National Education, which exempts them from certain other examinations in the case of the reintegration in the Romanian education. Complete information on this course is at: [www.edu.ro](http://www.edu.ro) / LCCR, [www.ilr.ro](http://www.ilr.ro) (Romanian Language Institute) and [www.enseignement.be](http://www.enseignement.be) / LCO, and the Romanian Embassy in Brussels.

Starting with 2010, there is a Romanian language lectureship hosted by the Faculty of Philosophy and Letters of the University of Letters in Bruxelles.

The Romanian Institute operates since 2004 under the name of the Romanian Information Centre, and in 2007 joined the ICR de facto network abroad. In October 2011, it was officially transformed in ICR Brussels. Since 2007 it is one of the most active members of the network in Brussels of the European Union Network of Institutes of Culture (EUNIC).<sup>1</sup>

Other Romanian socio-economical and cultural institutions from Belgium are:

- The Romanian Embassy in Belgium<sup>2</sup>;
- The Consular Section<sup>3</sup>;
- Honorary consulates at Antwerpen (Anvers), Liège (Luik), Mechelen (Malines), Brugge (Bruges)<sup>4</sup>;
- Permanent Representation of Romania to the European Union<sup>5</sup>;
- The Permanent Romanian Delegation to NATO<sup>6</sup>;
- The Romanian Office for Science and Technology to the EU (ORST)<sup>7</sup>;
- The National Union of the County Councils of Romania – The Brussels Representation Office<sup>8</sup>;
- The National Union of the Romanian Employers (UNPR)<sup>9</sup>;
- The Chamber of Commerce and Industry of Romania -Brussels Representation Office<sup>10</sup>

The Miorița<sup>11</sup> Belgian-Romanian socio-cultural association organizes: Romanian language courses, exhibitions of traditional and contemporary Romania (painting, ceramics, wooden objects, clothing, glass, ...); creative workshops of eggs' painting, ceramics, pan flutes making, Romanian cuisine, ...; Romanian musical activities with singers and contemporary authors; meetings between Romanians and Flemish; Romanian wine tasting, social and cultural symposia and special events, company parties ...; information sessions and seminars about Romania, in general.

Other Romanian socio-cultural associations in Belgium are:

- *The Romanian Diaspora in BENELUX*<sup>12</sup>; This association promotes “*The Belgian Gazette*”-, Romanian online edition<sup>13</sup> and “*Arthis*” - *La Maison Culturelle Belgo-Roumaine a.s.b.l.* <sup>14</sup> monthly publication «Quoi de Neuf ?» contains articles in 3

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<sup>1</sup> [www.icr.ro/bruxelles/](http://www.icr.ro/bruxelles/)

<sup>2</sup> <http://bruxelles.mae.ro>

<sup>3</sup> [consulat@roumanieamb.be](mailto:consulat@roumanieamb.be)

<sup>4</sup> [jmdenis@mscbelgium.com](mailto:jmdenis@mscbelgium.com), [lesman@drapantex.be](mailto:lesman@drapantex.be), [kv@verco-consulting.com](mailto:kv@verco-consulting.com),

<sup>5</sup> <http://ue.mae.ro/>

<sup>6</sup> <http://nato.mae.ro/>

<sup>7</sup> [www.rosteu.net](http://www.rosteu.net),

<sup>8</sup> [www.uncjr.org](http://www.uncjr.org)

<sup>9</sup> [www.unpr.ro](http://www.unpr.ro)

<sup>10</sup> <http://www.cciromania.eu>

<sup>11</sup> [www.miorita.be](http://www.miorita.be)

<sup>12</sup> [www.dirobenelu.com](http://www.dirobenelu.com)

<sup>13</sup> [www.belgianul.com](http://www.belgianul.com)

<sup>14</sup> [www.arthis.org](http://www.arthis.org)

languages: Romanian, French and și Dutch dialect organize language courses and professional training.

- « ROMANIA –EU » Bruxelles Club<sup>1</sup> - A Romanian initiative for a united Europe”;
- L’Alliance belgo-roumaine a.s.b.l.<sup>2</sup>;
- Hermes.ro Cultural association<sup>3</sup>;
- The Romanian Spiritual Cultural Centre<sup>4</sup>;
- EUROPULS<sup>5</sup> - launched in April 2010;
- THE ROMANIAN ACADEMIC CLUB IN BELGIUM<sup>6</sup> - launched in June 2010 –the

Romanian students, teachers, researchers association from Belgium.

*Romanian Cultural and religious associations and churches in Belgium:*

- B.O.R. Representation to EU Institutions<sup>7</sup>;
- Nicolas Orthodox Church in Bruxelles<sup>8</sup>.

From the parish life we can say that: the Saturday evening vespers followed by the Divine Liturgy and the Bible School classes every Sunday from 10:00 - broadcasts live by [www.Rombel.com](http://www.Rombel.com). The Parish School organizes free glass painting for adults and children, Romanian language, history and geography, French, English, folk dances classes. There is a monthly magazine “The Gift of the Word” (possibly repeated in the future). Within the Romanian Orthodox Metropolis of Western and Southern Europe, two youth associations activate and they are represented in Brussels also: NEPSIS Association was formed on November 13, 1999 at the initiative of Metropolitan Joseph, in order to keep the flame of faith alive or to wake up the faith among the young people<sup>9</sup> and AXIOS ASSOCIATION which aims to help children from two orphanages in Romania.

- The Romanian Centre of Orthodox Spirituality “Dumitru Stăniloae” –the parish school for children of 5-14 years old;

- “Buna Vestire” Orthodox Church in Bruxelles<sup>10</sup>;

- The Romanian Orthodox Parish “Sfântul Apostol Andrei și Sfântul Materne” – Aalst<sup>11</sup>;

- The Romanian Greek-Catholic Mission in Belgium<sup>12</sup>;

- “Nașterea Maicii Domnului” Parish – Antwerpen (Anvers)<sup>13</sup>; Parish established in March 1993 and recognized by the Belgian State in May 1996, is open for jobs in Romanian from 10.30.

- “Pogorârea Sfântului Duh” Romanian Orthodox Parish, Liège<sup>14</sup>;

- Sfânta Parascheva Church, Bruxelles; The first liturgy was celebrated by the priest Bogdan Popescu on the 8<sup>th</sup> of September 2010; the liturgical schedule is: Wednesday and Friday 18.00-unsettled, followed by the holy Sacrament of confession, Saturday, 09.00 - Memorial service (memory of the dead), Sunday 10:00 am, Divine Liturgy, 12:30; invitation to tea. The “St. Parascheva Parish School” offers from the 1<sup>st</sup> of October 2010, lessons for children - religion, music, painting and drawing, Romanian language and

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<sup>1</sup> [www.euro-club.org](http://www.euro-club.org)

<sup>2</sup> [www.abero.org](http://www.abero.org)

<sup>3</sup> [www.uniro.be](http://www.uniro.be)

<sup>4</sup> <http://cscrb.wordpress.com>; [www.valenteumane.ro](http://www.valenteumane.ro)

<sup>5</sup> [www.europuls.ro](http://www.europuls.ro)

<sup>6</sup> <http://www.caro-belgium.com/>

<sup>7</sup> [www.orthodoxero.eu](http://www.orthodoxero.eu)

<sup>8</sup> [www.biserica.be](http://www.biserica.be), [www.catedrala.be](http://www.catedrala.be)

<sup>9</sup> [www.nepsis.org](http://www.nepsis.org).

<sup>10</sup> [www.eglisebruxelles.com](http://www.eglisebruxelles.com)

<sup>11</sup> [www.parohiaaalst.be](http://www.parohiaaalst.be)

<sup>12</sup> [www.bisericagrecoatolica.be](http://www.bisericagrecoatolica.be).

<sup>13</sup> [www.biserica.nl](http://www.biserica.nl)

<sup>14</sup> <http://bisericaliege.wordpress.com/>

literature - and for adults - courses in spirituality and faith, biblical studies, painting and drawing.

- *The Romanian Christian Church “Elim” Bruxelles (the interdenominational evangelical church)*<sup>1</sup>;

- *The Romanian Christian Church “Betel”*-faithful Pentecostals, Baptists and Evangelicals.

### Conclusions

After 1989, the political dialogue had an upward trend, and areas of cooperation have diversified amid Belgium's constant support for the objectives of Romania in order to join the European Union and NATO. Taking into account the specific structure of the Belgian federal state, the Romanian Government has separate agreements with Flemish and Walloon entities.

Over the years, during the high-level contacts (Head of State, Prime Minister, Minister of Foreign Affairs), Belgium support has been reiterated for reforms in Romania, the excellent quality of the political relationships and the perfect dynamics of the economic and social relationships in recent years.

### ACKNOWLEDGMENT

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# THE PRIVATISATION AND THE ECONOMICAL ENVIRONMENT OF ARGES COUNTY

Cristina, Chiriac<sup>1</sup>

## Abstract:

*The privatisation process has generated over time a lot of controversial opinions of the specialists. The lack of a complete analysis of the privatisation process, even now, after more than 20 years from its beginning, has raised questions regarding the accomplishment of the goals of the macro-economic policy. This paper aims to enclose the analysis and evaluation function of the privatisation process in Arges County. Based on the information gathered, we will analyse individually the privatised companies in Arges County, we will try to estimate the success rate of the privatisation process but also what were the effects of the privatisation process with regards to employment. The purpose of this paper is the improvement of the evaluation frame of the privatisation process by creating an inventory of problems and techniques, establishing the success rate and the percent of failed privatisations. This is a complex subject whose causes and effects are connected in the Romanian context, sometimes in the European and even geopolitical one, as we will try to prove by analysing the most important privatised companies from Arges County: Automobile Dacia SA and ARO SA.*

**Keywords:** privatisation, employment, success rate

## 1. Introduction

Starting from the premises that the privatisation process has a direct impact on the national economies, it is important to analyse the transition of the Romanian economy from a centralised system to another one based on the private initiative, the process of property restructuring being essential for a healthy development of the Romanian society.

The transition from a planned system to one established on the free competition, the development of the private initiative, has brought in the first line the privatisation process. We can certainly say that the main line in the transition process was represented by the restructuring of the property, and from this point of view we can say that the privatisation process best reflects the flaws of the transition process in Romania.

The efficiency or lack of efficiency of the national economy from the transition period may be analysed also through the degree of employment, the decrease of the unemployment representing one of the conditions of achieving a macro-economic balance to develop healthily so as to generate working places and to concur at the economical evolution.

If we look closely to the success rate of the privatisation process in Romania we can conclude that, The privatisation and the restructuring of the state companies proved to be a special problem with a major impact on all the fields, economic, social, education, environment, etc. The adjustment to the new requirements of the competitive market led in the last two decades to a lot of changes on the labour market".(Chiriac C., Cornescu V., 2014).

This paper aims to enclose the analysis and evaluation function of the privatisation process in Arges County. Based on the information gathered, we will analyse individually the privatised companies from Arges County, we will try to estimate the success rate of the privatisation process but also what were the effects of the privatisation process with regards to employment. By analysing the privatisation process of the most important companies in Arges County we will try to emphasize the main reasons of success / failure, to determine the success rate and the percent of failed privatisations. The results obtained will contribute to the improvement of the evaluation frame of the privatisation process

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## 2. The Analysis of the Privatisation Process in Arges County

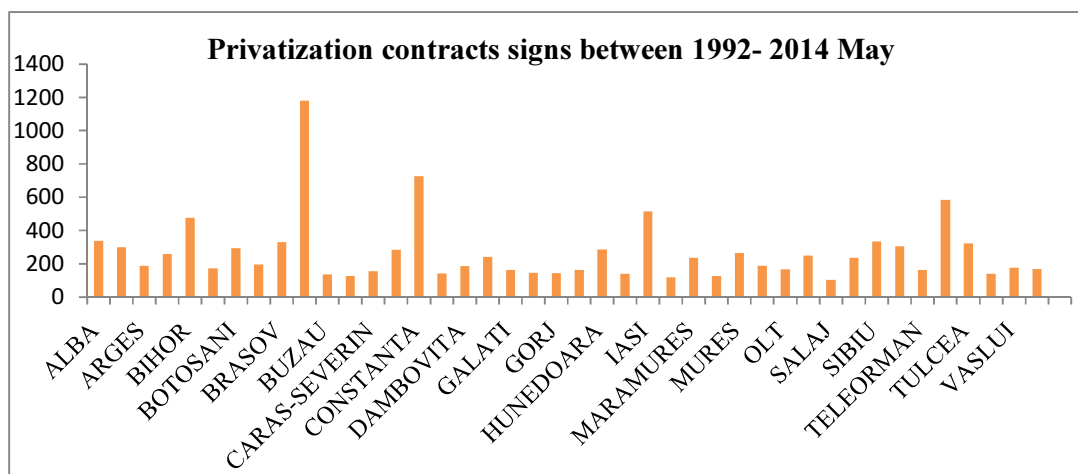
The progress of a country depends in a great extent on the economic policies adopted. A good economic policy is more important than any kind of assistance offered for the encouragement of the economic and social development.

The privatisation process is very complex and needs to be analysed from multiple perspectives. Although it is considered by many specialists as being the most innovator mechanism of the economic policy it has generated a lot of disputes. Most of the countries that chose to apply the privatisation process aimed to increase the economic efficiency and created their own instruments and a method adapted to their economic needs but until now there hasn't been patented a method or a unitary legislation to secure the absolute success.

The popularity of the privatisation process had different origins, mostly reflecting the different hopes of those that contribute to it. Most of the supporters of the privatisation process counted on the increase of the efficiency, the increase of production and the reduction of the unit prices.

We want to analyse among others what was the contribution of the privatisation process to the regional development.

The privatisation process in Romania started in 1992 and it is not even close to its end. More than 11.500 privatisation agreements were concluded for more than 7.500 companies (according to the statistics until May 2014). The documents obtained from AAAS helped us conclude that in Arges county were signed 188 privatisation agreements. In order to determine the success rate of the privatisation process in Arges County it is necessary to present the entire distribution of the privatisation process at national level. (fig.1).

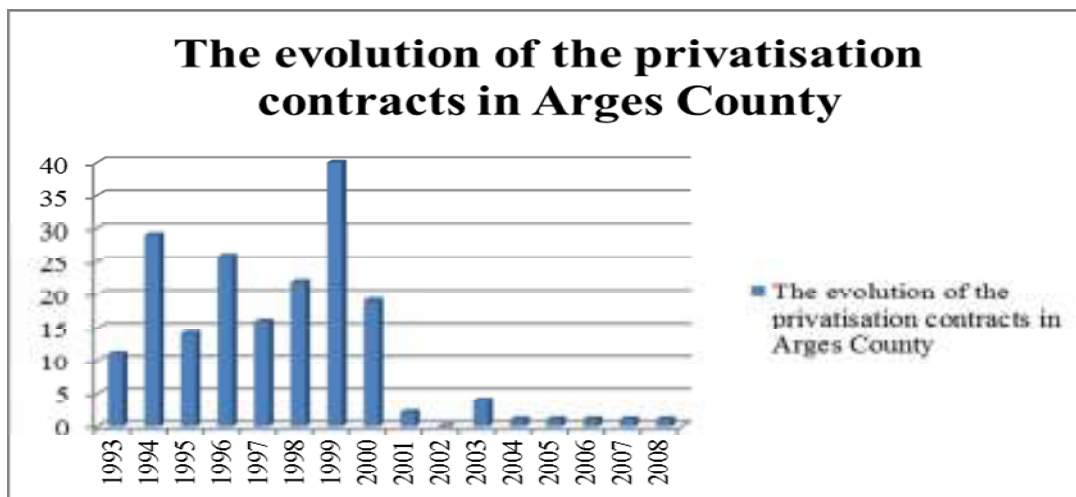


**Fig. 1 The distribution of the privatisation contracts on counties in Romania**

Source: The National Association of Entrepreneurs, data extracted from the website of the Ministry of Public Finances

As you can see from fig. 1, the percent of Arges county from the total of the privatisation contracts is very small, about 0,6 % out of the total. Although the privatisation process started in Romania in 1992, after the preparation of the legal framework and determining the main priorities, the first privatisation contracts were concluded in Arges County in 1993.

In figure 2 we will try to represent the evolution of the privatisation process for Arges County.



**Fig. 2 The evolution of the privatisation contracts in Arges County**

Source: The National Association of Entrepreneurs,  
data extracted from the website of the Ministry of Public Finances

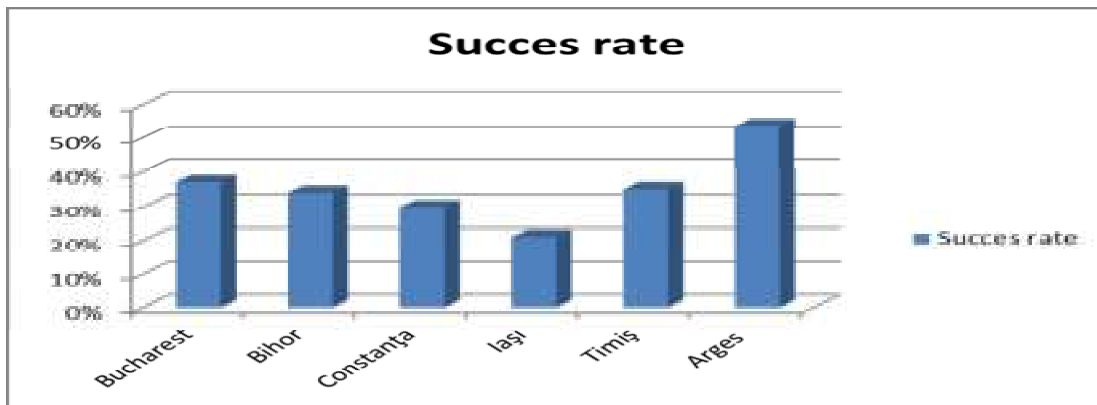
Analysing from this perspective we could say that the impact of the privatisation process on the economic development of Arges County was not that important, but the privatisation is not all the time about volumes.

„The privatisation raises a big problem: On the one hand is a sine-qua-non requirement for making the transfer to a competitive market and on the other hand its progress is conditioned by structures of the competitive market economy – the establishment of the prices based on the ratio between the request and the offer, the existence of financial institutions or the insurance of a legal framework concerning the guarantee of the ownership, the taxes, the social protection of the unemployed” (Ciurlau F. 2012).

In Romania, the beginning of the economic reformation proved that the market economy mechanisms cannot be introduced if the state owned companies own a majority. What can be discussed, that the rhythm and the practical methods of making that change, especially that the privatisation is not a purpose in itself but an essential mean to improve the economic, social and moral life; The purpose of the privatisation can only be considered achieved if it will have a major influence on a new quality of combining and using the production factors.

In order to be able to discuss about successful privatisations we should discuss about serious analysis performed, about the detailed knowledge of each company before the beginning of the privatisation process, about choosing the right moment but also about the transparency of the negotiations. Besides all that it is essential that the company which will be privatised to be prepared for it, the investors to manifest their interest, in order to maximise the price wanted. Unfortunately, the privatisation process in Romania had other main goals, one of them being the decrease of the debts to the state budget. The passing from a transition process to a free market has uncovered serious problems of the Romanian companies, especially those from the industry sector.

A privatisation program based on a vague knowledge of the company will create numerous problems therefore it is essential to know the causes of such a low success rate (fig. 3) of the privatisation process in Romania and what were the economic consequences.



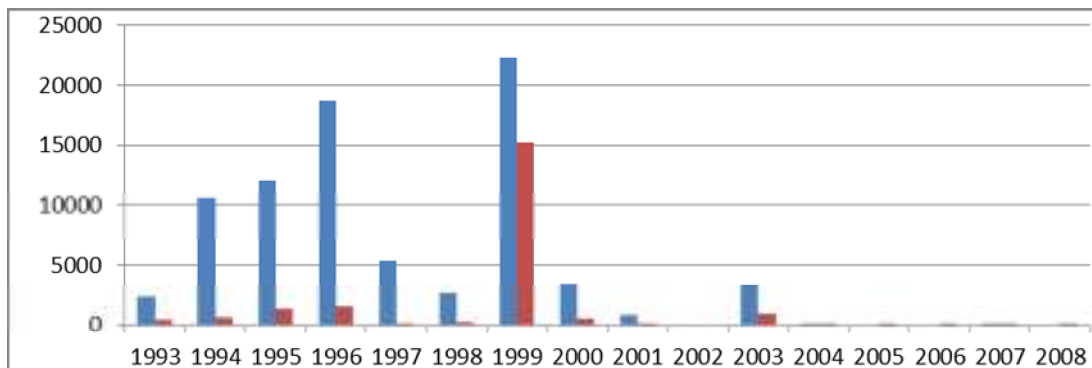
**Fig. 3 Success rate of the privatisation process**  
Source: National Trade Register, The Ministry of Public Finances

As shown in the above figure 3, the success rate of the privatisation process in Arges County was around 54%, above the rate of Iasi County for example. In order to determine the success rate all the privatised companies have been checked at the National Trade Register and the Ministry of Public Finances.

Another effect of the privatisation process together with the one of the deindustrialization of the national economy was the increase of the unemployment rate as well as the migration of the active population, a phenomenon encountered especially for the privatisations contracts with provisions regarding the social protection (without significant penalties ).

The labour force represented and represents a major factor in the economy of any country, being one of the most important resources of any company. The labour market and its evolution is a very present topic in the European Union, existing a set of policies regarding the employment. It is interesting to see the evolution of the employment rate in relation with the privatisation process.

In order to determine the impact of the privatisation process on the active population but also the evolution of the unemployment rate in relation to the rhythmicity of the privatisation process and the success rate, we will analyse for each year the total employed personnel in the companies that were about to be privatised (in blue) versus the total employed personnel in the same companies (in red) in August 2014 (fig.4).



**Fig. 4 The analysis of the evolution of the number of employees in the privatised companies**  
Source: information from the website of the Ministry of Labour and Ministry of Public Finances

As it results from the graphic representation above, even with a success rate of 54% of the privatisation process, the results envisioned to be obtained by applying the privatisation process regarding the employment have failed to deliver. In my opinion, in order to obtain

an increase of the employment rate and therefore an economic development, it would have been necessary a success rate of the privatisation process over 75%.

### **3. Comparative Analysis of the Privatisation Process (Automobile Dacia SA Versus Aro SA)**

**3.1 Automobile Dacia S.A.** is the most important automotive manufacturer from Romania, belonging since September 1999 to the French group Renault. The main object of activity is the manufacturing and selling of vehicles, spare parts, machines, tools and appliances for the automotive industry.

Automobile Dacia SA was started in 1966 in Colibași (today Mioveni), Argeș County, based on an agreement between the communist authorities and the French automotive producer Renault for producing a Renault model under Dacia brand. The building of the Automotive Plant in Mioveni started in 1966 and ended in a record time of only one and a half year.” ([http://ro.wikipedia.org/wiki/Automobile\\_Dacia\\_S.A.](http://ro.wikipedia.org/wiki/Automobile_Dacia_S.A.))

In 1999 started the procedures for the analysis and evaluation of the company Automobile Dacia SA for the privatisation.

Below is the declaration of Radu Sarbu, the president of the State Property Fund (FPS) at that date regarding the privatisation of Automobile Dacia SA:

„In the autumn of 1998, when F.P.S. launched the privatisation offer for DACIA plant, Hyundai, Volkswagen and Renault manifested their interest. The things were cleared up by the Prime Minister Radu Vasile, who – visiting France in October – declared at Paris, to our surprise, the ones involved in the privatisation process, that "RENAULT will buy Automobile Dacia SA”.

Under these circumstances, being the only one left at the table with FPS, Renault played his card very well. The manoeuvre space of the Romanian side was very small and – despite the efforts of the officials from the State Property Fund and The Ministry of Finances – Renault managed to enforce its terms: a very low price and important tax facilities. The failure of the privatisation meant the collapse of the plant with a devastating impact on the horizontal industries where 100,000 jobs depended on Dacia.

„If in the same year, Renault paid 6 billion dollars for 36,8% of NISSAN, which had huge debts (22 billion USD!), for 51% of DACIA paid less than one hundredth: 50 million dollars. In addition, for five years obtained fiscal and customs facilities equivalent with a credit without an interest of 150 million dollars per year thus waiving 5 laws – therefore required the approval of an emergency government ordinance” ([www.bursa.ro](http://www.bursa.ro)).

Therefore in 1999 it was concluded the contract no. 4072/02.07.1999, between the State Property Fund and Renault SA, having as main object the transfer of 51,005% of the registered capital of Automobile Dacia SA representing 349.754.551 shares with a nominal value of 0,100 RON. The privatisation stipulates a series of term and restrictions of the buyer Renault SA who was supposed to be monitored for 5 years by F.P.S.

The terms regarding the investments and the awarding of the tax facilities were included in the following laws: H.G. 445/1999, H.G. 524/1999, H.G. 898/1999 published in the Official Gazette.

Some of them were:

a) Exemption from the payment of the customs dues and of the VAT for the goods imported as well as the exemption from the VAT for the goods purchased from the national market, which are amortizable assets, defined in accordance with the Law no.15/1994 regarding the amortisement of the fixed capital in tangible and intangible assets with the following additions, as well as of the components that lead to their creation, representing in-kind capital contribution to the share capital or purchased from the in cash contribution to the share capital of the company, from the date of the complete payment of the price for the shares purchased from the State Property Fund;

b) the exemption from the payment of the Customs' dues and VAT for the import of technologies, machines and tools which represent amortizable assets in accordance with Law no.15/1994, with the following changes, starting with the date of the total payment for the shares transferred from the State Property Fund. The assets list presented in the Appendix to the Governments Decision no. 434/1999 for the approval of the List with the commercial name and the codes from the Romanian Customs Tariff corresponding to the assets that comes under art. 3 letter. b) of the Government's Emergency Ordinance no. 67/1999 regarding some measures for the development of the economic activity;

c) exemption from the payment of the profit tax for a period of 5 years starting with the first year with profit provided that this will happen in maximum 3 years from the date of the total payment of the shares bought from the State Property Fund;

d) Award of a 3 years postponement from the VAT payment for the vehicles sold on the internal market from their own production starting from the moment of the total payment of the shares bought from the State Property Fund.

The terms of Renault investment in Automobile Dacia S.A. are the following:

a) Total investment in the first year, including the acquisition price of the shares is of minimum 129,6 million USD, out of which:

- 35 million USD representing investments guaranteed by Renault S.A., made through in cash contribution to the capital of Automobile Dacia S.A., paid within 90 days from the date of the total payment of the shares package bought from the State Property Fund;

- 33,4 million USD, representing investments guaranteed by "Renault" S.A., performed through the increase of the capital within 12 months from the date of the total payment of the shares bought from the State Property Fund ;

- 11,2 million USD., representing investments from other funds, performed within 12 months from the date of the total payment of the shares bought from the State Property Fund .

b) The total investment, including the price of the shares package , for the next 5 years from the date of the total payment of the shares bought from the State Property Fund for "Automobile Dacia" S.A., by "Renault" S.A., is of minimum 269,7 million USD, including the investment mentioned under letter a).

Analysed in detail, the privatisation process concluded by Renault SA raises some questions:

- the price obtained following the surrender of an equity stake of 51% of the shared capital of Automobile Dacia SA, could have been maximised if the signing of the contract would have been made without offering tax facilities and other conditions ?

- Which was the total value of all tax facilities (customs dues, VAT, etc) offered by the Romanian state for the entire monitoring period?

A short analysis of the privatisation contract but also the analysis of the export indicators leads to the conclusion that the evolution of Automobile Dacia SA after the signing of the privatisation contract was a positive one, being in accordance with the obligations undertaken, all the economic indicators following an ascending trend.

### **3.2. S.C. ARO S.A.**

The second big automotive manufacturer in Arges County was Aro SA. As opposed to Automobile Dacia SA (that signed an agreement that the vehicles will be produced under Renault licence), Aro SA represented an entirely Romanian concept.

Marian Bădiță, former design engineer of the 100% Romanian vehicle says: "we designed Aro 24 from scratch. Our inspiration was Fiat Campagnola. In that period our car occupied the 4<sup>th</sup> place in the world for off road vehicles according to the classification of the specialised magazines. The classification was made based on the sales figures and the

area of coverage in the world. Aro was right after the American Jeep, the British Land Rover and Japanese Toyota.

In its 49 years of activity the factory from Câmpulung Muscel produced over 380.000 vehicles. In the '70, Aro was the fourth off-road vehicle in terms of performances in the world.

Aro was sold in Africa, South America (Columbia was the main importer of Aro), in Europe (mostly in Czechoslovakia and Democratic Republic of Germany) in the Arabian countries, USA, Canada. Practically, two cars out of three were being exported.

The cooperation with the United States of America started in the '70. The Americans liked the rough design of Aro and even send Ford engines for the Romanian engineers to learn to produce more efficient engines.” ([www.adevarul.ro](http://www.adevarul.ro))

After more analysis in 2003 appeared the first opportunities to privatise Aro SA; the high level of debts to the state budget and also the lack of the financial resources to invest in the retechnologisation of the company, the low economic productivity were only some of the main reasons. Thus, in 26.09.2003 was signed contract no. 45 with *CROSS LANDER U.S.A. INC. (presently GLOBAL VEHICLES USA INC)* for 74,17% of the shared capital of Aro SA. The signing of the privatisation contract 45/26.09.2003, was followed by the signing of several addendums changing different provisions such as: 1/23.10.2003, 2/23.12.2003, 3/05.01.2004, 4/18.06.2004, 5/29.09.2004, 6/01.11.2004, 7/20.12.2004, 8/18.02.2005, 9/10.03.2005, 10/15.03.2005 and 11/19.05.2005.

A very important aspect and lacking transparency is the selection of the investor *CROSS LANDER U.S.A. Inc*; although the law regarding the privatisation stated strict requirements regarding the reliability check of the investor and also of the selected company, a history of the company and also additional warranties, the evolution of the privatisation process raises a lot of serious questions marks regarding all these aspects. The price the parties agreed on for surrendering the total package of shares of 74,17% of the entire shared capital of Aro SA was of 196.496,21 U.S.D.

The negotiation and signing of the contract no. 45/2003 also implied the buyer to assume some obligations such as:

a) The Buyer, as shareholder of the company has the obligation for a period of 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (**05.01.2004**) not to restrict the activity of the Company as mentioned in the Articles of Incorporation of the company at the date of contract signing, without the written approval of the Seller.

b) The Buyer, as the main shareholder of the Company has the obligation that 70% of the turnover to be obtained from the main object of activity of the Company, as mentioned in the Articles of Incorporation at the date of contract signing, for 5 years from the date of the ownership transfer of the A.P.A.P.S. shares.

c) For 5 years from the date of the ownership transfer the Buyer undertakes to maintain the number of employees after lay-off, employed with continuous labour contract at the date of the ownership transfer of the A.P.A.P.S. shares (05.01.2004);

d) For 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (05.01.2004) the Buyer, as shareholder of the company undertakes not to decide and / or start the procedures for the volunteer dissolution or liquidation of the Company or start the process of legal reorganisation and bankruptcy at debtor's request in accordance with the legal procedures at that time;

e) The buyer undertakes to ensure for free and on its own expense, the know – how, which is the exclusive property of the buyer, in the production field, the technological methods ( except the licenses), marketing data, the access to the retail market, the qualification methods, the design methods (except the licenses), the human resources methods, the information system, the economic and financial instruments, etc. as far as they are not forbidden, without all of that to represent assumed investments;

f) The Buyer undertakes to fulfil its obligations related to the launching of a new model of off road vehicle and to take all the necessary measures for its production in accordance with Appendix 8 to the contract;

g) The Buyer, as shareholder of the Company undertakes to observe the legal provisions regarding the preparation of the national economy and of the territory for defence;

h) For 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (05.01.2004) the Buyer, as shareholder of the company undertakes not to sell under any circumstances the assets of the Company mentioned in the Appendix no. 1 that support the main activity of the company;

i) For 1 year from the date of the ownership transfer of the A.P.A.P.S. shares the Buyer undertakes to perform from any of the financing sources allowed by the law at the date of Contract signing, an investment for the environment protection in order to fulfil its obligations regarding the environment and the measures mentioned in the conformity program of the Environment Certificate for privatisation no.1/16.01.2003, presented in Appendix no. 5, in total amount of 600.000 USD;

j) For the support of the current activity of the Company, the Buyer has the obligation, in 1 year from the date of the ownership transfer of the A.P.A.P.S., to make an infusion of working capital in the Company of 3.000.000 USD;

k) The Buyer, undertakes for a period of 5 years from the date of the ownership transfer of the A.P.A.P.S. shares, to make investments for development from legal sources of 11.900.000 USD ;

l) The Buyer has the obligation for a period of 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (**05.01.2004**) to protect, promote and not to sell the brands of the manufacturer, the licenses and the patents of the company and not to change the name of the company and the logo without the written approval of the seller.

Although the investor paid the price and some provisions were observed, most of them were infringed. The first warning signal should have been the repeated requests of the investor to change or to postpone certain provisions of the agreement. All the undertaken obligations should have protected the company and ensure a successful privatisation. At 26.01.2005, after less than two years from the date of contract signing while the company was under monitoring, it was started the procedure of legal reorganisation and bankruptcy. Therefore all the obligations undertaken don't have support anymore (the state through APAPS calculates penalties), a lot of litigations arise, some assets proved to have been sold therefore the guarantee could not be executed and thousands of employees lost their jobs with important economic consequences on local level.

The value of the penalties the Romanian state was entitled due to the infringement of the contractual obligations should be over 18.000.000 USD!

#### **4. Conclusions**

Is there a success model in the world that can guarantee the positive finality of a privatisation process?

What is the success rate of the privatisation process that ensures a high degree of employment?

Although there is no success model, each country choosing its own method of privatisation, each approach generating different categories of problems, there are essential constraints that lead to a positive result such as: the existence of thorough economic analysis before the privatisation process, each company to be very well known before starting the privatisation process, the choice of the proper moment in time, the transparency in the selection and negotiation with the investors. Besides all that, to be a

request on behalf of the investors in order to maximise the price wanted under competitiveness circumstances but also the decrease of political involvement in the privatisation process

In fact, what is a successful privatisation?

To maintain in time the viability of the privatised company or to maintain the work places, the economical contribution on a certain area of activity or the involvement of other industries and why not even the complexity of a product, all of that concur directly to the success of a privatisation.

The analysis of the privatisation process and economic development of Arges County answers a question regarding the success rate of the privatisation but also to the fulfilment of the goals of the macroeconomic policy. As it comes out from the analysis presented, a success rate of approximately 54% of the privatisation process does not necessarily mean an increase of the employment rate, the effects failed to deliver. In order to increase the employment rate and therefore the economic development we should have more than 75% success rate of the privatisation process in Romania.

The compared analysis of the two big automotive companies in Arges County, Automobile Dacia SA and Aro SA brought up a few essential elements that outline the picture of the privatisation process, as follows:

- both in the first as well as in the second case the political influence played essential part in choosing the investor;
- both privatisation processes lacked transparency and competitiveness;
- both companies had an out of date technology and a lot of debts;
- the privatisation strategies for both companies were based on finding a strategic investor;
- the lack of competition lead to the restriction of the equity stake price;
- the first essential condition for a successful privatisation seems to be the reliability of the investor and a thorough analysis of its financial evolution;

We would have had most certainly other economic indicator today if both privatisation processes would have ended successfully.

We may conclude that the privatisation of Automobile Dacia SA was successful contributing directly to the economic development both horizontally and vertically of Arges County, but also to the development of the automotive industry and other related ones.

A very important consequence of the privatisation process is represented by the percent of the cars export in the Romanian economy:

- the strategic function of the exports which represent a factor of sustainable economic growth, has to be corroborated complementary and compatible with that of the internal intermediary and final consumption of the companies, people and public administration.
- the exports of the automotive industry have substantially contributed to the increase of the gross domestic product GDP and very important, the increase of the life quality and wellbeing of the population, but we have to consider also the fact that an important part or even the entire profits of the Romanian companies with foreign capital can be returned to the country where the company is based, that is why is important to focus more on the development of Romanian companies with Romanian capital;
- The Romanian companies with foreign capital that have a dominant position in most of the economic areas contribute to the economic development through the rate of employment and the salaries and taxes that they generate.

In the light of all the above analysed aspects, but also of the conclusions drawn, we strongly believe that it would have been necessary to make all the possible efforts to prevent the bankruptcy of Aro SA and to maximise the success rate.



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# REGIONAL DEVELOPMENT'S PERSPECTIVES IN EUROPE

Mihai, Oprescu<sup>1</sup>

## Abstract:

*Increasing regions' importance in Europe represents a striking phenomenon in the last years. Regional development is an evolving process that aims at reducing socio-economic disparities at the level of a certain territory, while boosting its potential.*

*One of the European Union objectives is to sustain balanced and sustainable economic and social progress, strengthening economic and social cohesion of member countries. An important role in this process is played by the regions, which are considered closer to the citizens.*

*In European states, the forms of regionalization correspond to different administrative and political realities existing in those countries. Models applied varies by the powers given to regional authorities, involved institutions, the degree of decentralization, being several types of regionalization.*

**Keywords:** regional development, European Union, citizens.

The action of regionalisation in Europe is the result of a number of phenomena and activities which lead to the formation of the regionalisation of forms, European States being in correspondence with the political and administrative realities existing in those countries (Popa, 2014).

Council of Europe designates the region as "a medium size range which is likely to be determined geographic and which is considered to be homogeneous" (Alexandru, 2008).

If it is assumed that the term "midsize" is totally subjective, you can't assign a region type. Instead, traffic between the territory and the human element that populates the element that appears as a homogeneous character of the region, is always present when it comes to defining it (Alexandru, Bădescu, 1997).

On the other hand, the European Union defines rather the region administratively as "immediately below that Echelon of the State".

According to the nomenclature of Territorial Statistical Units (NUTS) that identifies the territorial administrative units depending on the size of the territory there are: the level of departmental/regional level and regional level.

Assembly of European Regions (ARE) defined regions as "lower-level political entities of the State, which have certain powers exercised by a Government, which in turn is accountable to a democratically elected Assembly".

Fulfilling these aspects in the process of establishing a new European Union can signal the three decisive directions that define regional reality ascendancy:

- firstly, the regions contributes to economic development and to the achievement of the objective of economic and social cohesion;

- secondly, the regions contributing to the citizens of the European Union's reality, making possible a greater institutional democratization;

- Thirdly, the regions are exponents of a Europe in which pluralistic realities cohabit cultural, linguistic and social variety.

In an attempt to define the terms of regionalization and regionalism from the perspective of the European Union has appealed to the phenomena that have marked these terms over time.

Looking for a regional realities it lists four such phenomena:

- regional imbalances are one of the problems whose existence does not require lengthy demonstrations, almost all European States have differences in the territory;

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- ethno-cultural alienations have been recognised at the regional level by the community which it considers unjustified linguistic and cultural dependencies in relation to other regions. At the same time they do not agree with the affirmation of their inability to manage their own problems;

- centralism, having a close connection with the previous phenomenon is characterized by the process by which any decision, regardless of the scope of the directive, shall be taken at the level of the State;

- "socialization" of European policy (Tourraine, 1965) has a direct impact on regional phenomenon, representing the State's increasing importance in all sectors of social life and even individual.

These regional phenomena are the causes of regional dynamics that are felt in Europe, regional dynamics which have three phases in their development:

- our regional consciousness;

- regional or regionalist movements actions;

- development of institutions or regional powers (Alexandru, Bădescu, 1997).

Regionalism is a movement that comes from the bottom up in relation to the three phases of the regional process. Regionalism is the awareness of common interests (the region being perceived as a territory considered homogeneous by the people you live) and, at the same time, their aspiration to participate in the management of such interests. Regional consciousness is very close, on a wider scale, of the consciousness of "local affairs" which exists at the local level. From here you have a notion of the community naturally aspire to manage businesses because it considers to be most suitable to know them, understand them, and steer them to defend the interests of the region. In particular, this regional community is considered better able to solve these things in comparison with the State, considered as too distant and too big, accused of wants to impose a particularism model unit and in any case by not having a suitable size to resolve in an effective manner their problems.

Regionalism corresponds to a deep desire of communities to be responsible for solving the problems which concern them directly (Trăilescu, 2005).

Regionalisation, as opposed to regionalism, has a downward trajectory, has other goals and proposes other means of implementing the goals than those used in the case of regionalism. This is the fundamental difference that recurs in each phase of the "regional process".

In response to the regionalism movement, the State can thus recognize a regional identity (the region being seen this time as a territory considered homogeneous by the State) and may take the measures necessary to ensure that the regions to participate in the management of their own affairs.

In fact, the starting point of regionalisation is the regional imbalances or rather their awareness. This awareness is followed by a strategy of an appliance or state that starting suprastatal at different techniques, try to plan to decentralize, to deconcentrate at the regional level economic activities grouped in some ways too-from national or european space, can speak in this context even "portions of the plan."

The last stage of "regional process", the regional institution, is marked by obtaining decision-making power which only confirm, and in the case of regionalization, any such movement from top to bottom.

There are the inevitable interaction between the two movements: regionalism-come down and the regionalization of the top newcomer. Through a dynamic process, the needs of the regions are responding through a State policy which has repercussions on regional sentiment and give rise to reactions in the region.

Therefore, regionalism is a political speech whose purpose can lead to Federation-and the regionalisation of the administrative action, aimed at creating greater spaces for cooperation, and, last but not least, the establishment of new administrative-territorial units.

These are two different processes, the proof being that at the level of the Council of Europe was required to establish separate working groups for each.

In conclusion, it can be said that regionalisation has, as a rule, the importance of care they get, for a country or for Europe, a better balance in the distribution of riches by trying to raise the level of less developed areas. In turn, the regionalism golden rule enabling the region to the power of decision in all its components, affirmation under aspects of memory-identity and identity-action (Alexandru, Bădescu, 1997).

Regional decentralization takes into account existing regional differences in a country, as a result of factors of the various economic, demographic, traditions, historians, religious, ethnic, etc. This allows interested people to express freely their personality and to solve the most important problems are its own (Dvoracek, 1993).

Western contemporary doctrine (Wegener, Arbeit, 2006) identifies some common trends in European States regionalisation the regionalisation is starting to take shape and the traditional centralized States of Europe, on the basis of enhanced arrangements to promote and manage their own economic policy at regional level, politics tolerated and supported by the European Union, the trend that is likely to shorten the bottom-up traditional power of national and State to dissolve the traditional mindset confined to State boundaries. However it is still largely an illusory to imagine a Europe without borders State whereas State identities are very powerful yet manifests and decision-making institution of the European Union, the Council is composed of representatives of Member States.

A study of the European Parliament regarding the European Union administrative divisions identify four models of regionalization. This diversity of designs pose a challenge regarding the establishment of common development throughout the European Union (<http://cursdeguvernare.ro/regionalizarea-romaniei-modelele-europene-de-regionalizare-cum-s-a-reorganizat-polonia.html>).

1. Napoleonic Tradition. It is present in France, Italy, Spain, Greece, Central and Eastern Europe. this model is based on the centralization of authority, uniformity and symmetry.

2. German Tradition. It is present in Germany, Austria, Netherlands. This model supports-with a powerful State-intermediate entity of authority.

3. the Anglo-Saxon Tradition. Is present, especially in the United Kingdom. This model does not support the notion of the State as a legal entity.

4. the Scandinavian Tradition. Sweden and Finland applies the Scandinavian model. It has taken over from the French model the principle of uniformity, but applied in a somewhat more decentralized framework.

What's more, on the european plan is accepted definition of regionalization as the process by which it operates the construction of an autonomous action capacities having as object the promotion of the territory, infra-national, supra-local, but by mobilising its resources based on economic cooperation and local and regional solidarity, resulting in a faster development of its potential.

This process can be started based on existing administrative-territorial units, through the realization of a new territorial divisions. Is always conditioning constraints exercised by the political and administrative framework, and its evolution can be influenced by other factors. Creating regions with new administrative-territorial division must constitute only a particular way to this process, applied only in exceptional cases.

After an analysis, one can distinguish 5 types currently of regionalization, each of them presenting the homogeneous and consistent features (Gérard, 1999).

The administrative regionalization represents the type of regionalization resulting in the creation of the State, in direct subordination of government authorities or bodies, sometimes equipped with a certain autonomy, which is the legal instruments of the Executive and are placed under its control. Results units have a range of responsibilities on

the line to promote regional economic development, in which aim to mobilize the local collectivities and economic bodies.

In the EU, administrative regionalization characterizes currently Portugal, Greece, Sweden and the United Kingdom, and from among the candidate countries in this group are also included Bulgaria, Estonia, Lithuania, Latvia, Slovakia and Slovenia.

In the case of regionalization through the existing local collectivities its development functions are taken directly from these collectivities, who wants to be an extension of their own responsibilities and the scope of their competencies or cooperation in a broader framework. It differs from the first in that regionalization is operated by means of decentralized institutions of the local authorities. Typical examples are Germany, Denmark, Finland, Ireland, Romania and Hungary.

In Hungary, the law on spatial planning in 1996 granted the counties (states) is responsible for regional development. Are created with development councils, chaired by the President of the County Council. Regional development can give birth to a voluntary co-operation between counties, establishing a Council of regional development. In Romania, the notion of the region appeared in the administrative organization of the law on regional development in July 1998. This law provided for the creation of regions through agreement between the county councils located in the territory of the region concerned. In the present institutional framework, objectives, skills and tools of regional development policy in Romania are regulated by law No. 315 of 28 June 2004 concerning regional development in Romania (Published in the Official Gazette of Romania, Part I, no. 577 of 29 June 2004).

Regional decentralization defines the creation or substitution of a new territorial collectivities at higher level than the existing ones and which is assigned the name of the region. The region thus defined is characterized by the fact that it applies the general functioning of the administrative-territorial units. She formed a new administrative-territorial category, of the same legal nature as well as existing ones, but is distinguished by the fact that includes in its structure on the latter, having a much larger territorial revolve, as well as its competences, primarily through its essential economic vocation, directed at development. Although the administrative organization of the territory change, this kind of respect the constitutional order of the regionalisation of the unitary national.

The only Western european country that has put into practice the concept of regionalization is France. Among the examples of other countries are Poland and the Czech Republic. These two countries have entered the regions as teritorial-administrative units in their Constitutions. In Poland were created in 1998, a total of 16 voivodeships, instead of 49 existing since 1975, incorporating in their structure, a total of 308 arrondissements. In the Czech Republic were established on the basis of a law of 1997 on the establishment of constitutional "territorial-administrative units of higher level", a total of 13 regions, plus the capital Prague, placed at the same level.

Regionalization policy affects the structure of the State and affect the Constitution. From the point of view of terminology, in French the term "regional autonomy" would best reflect the character of the desired outputs for exactly this type of regionalism, meaning autonomy itself. In other languages, in order to remove any possible ambiguity that can accompany the notion of "autonomy", preferring to use the term "regionalisation of politics".

Legal, regionalization policy is, in relation to regional decentralization, legislative power by attributing a regional assembly, which has extensive competences whose content is defined and guaranteed by the Constitution or by a text of constitutional nature.

Regionalization policy dominating the territorial organization structures of the State in Spain, Italy and Belgium — although this country has a formal Federal Constitution since 1993. It is also a typical example of the regulators in the position of Prime Minister of the Federal State of Bavaria, which supports the idea of a public "Bavarian" Nations,

which must defend "identity" in Europe, from the Bavarian State inside a "diverse and homogeneous". This type is not used in any of the candidate countries.

Regionalization through federal authority refers to a federal state that generally does not oppose the nation State. On the contrary, in some cases it was a way of national integration (cases of USA, Switzerland, Germany). In these countries, the modern State construction was done through federalism. A federal State may be affected but through regionalization or regionalism as any other State not be applied in any country in Central and Eastern Europe.

After examination of the distribution of regional institutions, it appears clear that the type of regionalisation presents a different profile in the States of Western Europe compared with that of the Nations of Central and Eastern Europe.

At first, the type of regionalization is the most widespread by local colectivities, met in 7 countries of 15. In the European Union, federalism, and institutional regionalism characterizes fully not only 5 countries: Austria, Belgium, Germany, Spain and Italy. In the other two countries apply the regionalization policy for part of their territory: Portugal (to the Islands) and the United Kingdom (for Scotland). Regional decentralization, typical for France, partly in the United Kingdom (Wales) and in Sweden (Scania); administrative regionalization of Greece, continental Portugal characterizes, United Kingdom (England) and Sweden (most of the counties).

It is certain that the regions and local colectivities in general participate increasingly more to the process of European integration. Himself with the Community policies have contributed, as increasing the structural funds and the cohesion funds, to produce a territorial Governments to mobilization towards accessing funding and programming have encouraged potential beneficiaries, whether public or private, to present requests based on regional factors.

Apart from this fact, the speeches about regenarizations and regions in Europe wears a very wide palette. Sometimes, regionalization is identified with regional autonomy in the form of supporting federalist, with the regionalization policy or, if minimal, with regional decentralization. In all these cases, proponents of regionalizations assigns the four merits:

- promote economic development;
- decentralisation;
- bringing democracy closer to citizens;
- respect for regional and local identity.

At a closer look to these different aspects, appears clearly that regionalization assessment requires a more addressed approach.

Economically, it is established that there is no connection between development and institutional type of regionalization and the reduction of regional disparities and the regionalisation applied type. On the other hand, it is clear that development cannot take place without the existence of an environment and a favourable local climate, which is substantiated by the experience "industrial districts".

With regard to decentralization, regionalization can have very different implications. Thus, it can represent the central power in relation to a form of decentralization, but it can also produce a centralism at the regional level in relation to the local colectivities, thus creating conditions for the development of the phenomenon of positive discrimination of local minorities against the majority population nationwide. This situation is found in particular in the case of political and regionalization of the Federal States.

In terms of democracy, it would be necessary for regional institutions to obtain representation through elections for compliance with this principle. In other words, regionalization is the one who needs democracy to gain legitimacy and the development of democracy is the need for regionalisation.

In terms of regional and local identities, even if it is deemed a regionalisation could meet in a certain extent, be made more corrective. Examples of different countries shows that cultural and linguistic particularities can be complied with without having to resort to territorialism.

Politics can distinguish two justifications. On the one hand, the territorial colections are the main benefits of the structural funds, and on the other hand, the territorial components resulting from its regionalisation policy and federal States-for example, the German Länder-find a way to be able to interfere directly in European policies, transcending and constitutional competences.

Thus regionalization is a long-term process, whereby the State introduces a second level of governance in a country's territorial organisation, new institutions can, however, vary in terms of responsibilities and authorities created, which are almost always local institutions suprainpuse. The term regionalization has become broader and involves a process that creates a subnațională capacity, but more important than the local shares of development of a geographical area and economic and socio-cultural specific. This process can be based on existing political and administrative system or may give rise to new territorial organization that could better support for socio-economic growth and balanced development.

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# INTEGRATED TERRITORIAL DEVELOPMENT IN ROMANIA. WHAT DOES INTEGRATION MEAN ?

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Cristina, Șerbănică<sup>2</sup>

## Abstract:

*Territorial development is a central topic within the European Union's Cohesion Policy and an important pillar for its agenda for employment and growth. To this end, the EU deploys important resources, be it in the form of dedicated programs (e.g. urban development), be it through introducing a territorial dimension to many other areas of intervention (e.g. transport policy, environmental policy, energy policy etc.). Given the high diversity of approaches, developing an integrated territorial development model becomes crucial in terms of effectiveness and efficiency. The aim of this paper is to have a closer look at various attempts to define the dimensions of an integrated territorial development model. Meanwhile, our study is meant to assess the level of integration in the use of structural funds 2007 – 2014 at the municipality level in Romania. We therefore operationalize the integrated approach as the capacity of a territory to attract funds from various programmes, as well as to involve various actors in this process. Using the number of projects attracted by public authorities, companies and NGOs from five operational programmes financed through structural funds 2007-2014, we developed an index that allows comparisons in the performances of Romanian municipalities. Conclusions are meant to highlight the benefits of integration and future prospects for the next programming period (2014 – 2020).*

**Keywords:** European regional policy, integrated territorial development, structural funds, Romanian municipalities

**JEL codes:** O1, R1

## 1. Introduction. Integrated territorial development at the EU-policy level

Since 1999, when the **European Spatial Development Perspective (ESDP)** was adopted in Postdam by the ministers responsible for spatial planning of the EU member states, the EU has made important steps in promoting a balanced and sustainable development of its territory. By adopting the ESDP, the European Commission and Member States have agreed that „cooperation is the key to an *integrated spatial development policy* and represents added value over sectoral policies acting in isolation” (European Commission, 1999). Few years after, the **Territorial Agenda of the European Union** (2007) recommended a more *strategic integrated development* approach for policy-makers, with more regard to local, regional and national potentials and the motives of stakeholders. At the same time, individual cities and regional development actors were also recommended to take more account of their national and European context. In the same year, the **Leipzig Charter on Sustainable European Cities** (2007) introduced the *integrated urban development* concept in the EU policy debate, to denote the “simultaneous and fair consideration of the concerns and interests which are relevant to urban development”. After this moment, the **Lisbon Treaty** (2007) introduced the concept of *territorial cohesion* in the Treaty of the European Union and the Treaty on the Functioning of the European Union, to promote the *overall harmonious development* that *integrates* economic, social and territorial objectives. The new concept highlights again the need for “addressing problems on an appropriate geographical scale which may require local, regional and even national authorities to cooperate” (EC COM (616), 2008). Together with the **Barca Report** (2009) that has argued for a “clear-cut rationale for an *integrated, place-based approach* to be run at the EU level according to the needs of

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places”, all these documents opened the way to a new **Territorial Agenda of the EU 2020 - TA2020 (2011)** that reflects better the main territorial challenges of the EU.

Recognizing the fact that “the optimal balance of sustainability, competitiveness, and social cohesion can be realized through *integrated territorial development*”, the **TA2020 (2011)** sets *the integrated development of cities, rural and specific regions* as one of its six territorial priorities for the EU. This way, *integrated urban development and regeneration policies* are in line with the Leipzig Charter on Sustainable European Cities (2007) and with Toledo Declaration on Urban Development (2010), both documents claiming for multi-dimensional policies, multi-sector approaches, multilevel governance (administrative coordination) and public participation. Integration also means finding the right way to organize timescales (short, minimum, long-term) and all spatial scales (region, metropolitan area, small-sized and large cities and towns, neighborhoods), but also a smart conjugation between territorialized actions and integrated global visions of the city as a whole (Toledo Declaration, 2010). In what concerns the rural, peripheral and sparsely populated territories, TA2020 points to the need to take account of their unique characteristics, but also to foster urban-rural interdependence through integrated governance and planning based on broad partnership (TA2020, 2011).

More recently, EU policy-makers have launched a debate for a new Urban Agenda for the EU, which is meant, among others, to propose a more *integrated* approach to policy development, but the discussions are still open (EC COM 490, 2014).

*Table no. 1* summarizes EU approaches to territorial integration, while pointing to the different ways of addressing integration, be it in the form of *integrated spatial/territorial development, integrated urban development/ regeneration* etc.

**Table no. 1 EU approaches to territorial integration**

<b>European Commission (1999) ESDP</b>	<p><b>Towards an Integrated Spatial Development</b></p> <p><i>Integrated spatial development policy at EU scale must, therefore, combine the policy options for development of certain areas in such a way that national borders and other administrative hurdles no longer represent barriers to development.</i></p> <p>The ESDP provides the framework for integrated application of the policy options.</p> <p>The ESDP recommends three levels for spatial co-operation: the Community level, the transnational/national level, the regional/local level.</p>
<b>Territorial Agenda of the EU (2007)</b>	<p><b>Strategic Integrated Territorial Development approach</b></p> <p><i>It is important that national, regional and local concerns closely interwine with EU policies (...) and this applies particularly to rural development policies, environmental and transport policies as well as EU Cohesion policy.</i></p> <p>(e.g. integrated sustainable development of multi-modal transport systems; integrated strategies to face natural hazards, reduce and mitigate greenhouse emissions and adapt to climate change; integrated territorial development for ecologically and culturally fragile regions etc.).</p>
<b>Leipzig Charter on Sustainable European Cities (2007)</b>	<p><b>Integrated Urban Development</b></p> <p><i>Integrated Urban Development is a process in which spatial, sectoral and temporal aspects of key areas of urban policy are co-ordinated. The involvement of economic actors, stakeholders and the general public is essential. Integrated urban development policy is a key prerequisite for implementing the EU Sustainable Development Strategy. Its implementation is a task of European scale, but it is one which must take account of local conditions and needs, as well as subsidiarity.</i></p>
<b>Lisbon Treaty (2009)</b>	<p><b>(Integrated) economic, social and territorial cohesion</b></p> <p><b>Art. 174</b> – <i>In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favored regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions.</i></p>

<b>Toledo Declaration on Urban Development</b> (2010)	<b>Integrated urban regeneration</b> <i>Integrated urban regeneration is conceived as a planned process that addresses the city as a functioning whole and its parts as components of the whole urban organism, with the objective of fully developing and balancing the complexity and diversity of social, economic and urban structures, while at the same time stimulating greater environmental efficiency.</i>
<b>TA 2020</b> (2011)	<b>Integrated strategies and spatial plans</b> <i>We encourage regions and cities to develop and adopt <b>integrated strategies and spatial plans</b> as appropriate to increase the efficiency of all interventions in the given territory.</i>

Source: own compilation

## 2. Research method

The aim of this paper is to assess the level of *integration* in the use of structural funds 2007 – 2014 at the municipality level in Romania. We therefore operationalize the *integrated* approach as the capacity of a territory to attract funds from various programmes (**multi-sector, transversal integration**), as well as to involve various actors in this process (**multi-party, horizontal integration**). All Romanian municipalities – except for Bucharest, which has a status similar to that of a county – were considered for this study<sup>1</sup>.

Based on the database of structural funds attracted in Romania between 2007 and 2014 (SMIS, Romanian Ministry of the European Funds, April 2014), we have considered the total number of projects attracted at the municipality level by public authorities (PUBLIC), private companies (PRIVATE) and non-governmental organizations<sup>2</sup> (NGOs) from five operational programmes, as follow:

PODCA: Operational Programme „Administrative Capacity”

POSDRU: Sectoral Operational Programme „Human Resources Development”

POSCCE: Sectoral Operational Programme „Increase of Economic Competitiveness”

POS MEDIU: Sectoral Operational Programme „Environment”

POR: Operational Programme “Regional Operational Programme”

In total, there were 7517 projects contacted by the three types of beneficiaries from 103 municipalities. *Figure no. 1* presents the distribution of projects by type of beneficiaries, while *Figure no. 2* shows the distribution of projects by operational programmes.

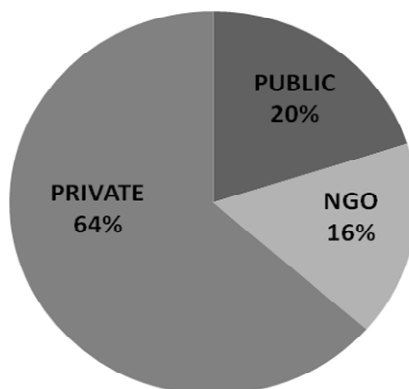
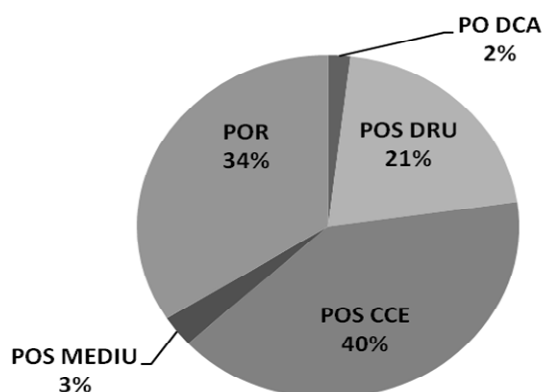


Figure no. 1 Distribution of projects by type of beneficiaries

<sup>1</sup> According to Romanian territorial structure, a municipality is an administrative subdivision with a sizable population, extensive urban infrastructure, playing an important economic, social, political and cultural role.

<sup>2</sup> In the NGOs category we have also included the universities and other educational institutions.



**Figure no. 2 Distribution of projects by type of operational programme**

Private companies have attracted more than half of the total projects under analysis (64%), most of them from the Sectoral Operational Programme „Increase of Economic Competitiveness” (POS CCE). At the same time, public authorities account for about 20% of the total number of projects, with most of the projects being run under the „Operational Regional Programme” (POR). Not at least, NGOs had a better performance in the Sectoral Operational Programme „Human Resources Development” (POS DRU), but were also active in other programmes.

To measure the level of *transversal integration* (across operational programmes) and *horizontal integration* (across beneficiaries), we have first normalized the number of projects by population and standardized them with the min-max technique. We have then computed the standard deviations (STDEV)<sup>1</sup> measuring the dispersion from the average at each municipality level, for both PUBLIC-PRIVATE-NGOs and PODCA-POS DRU-POS CCE- POS MEDIU – POR axes. The results are presented in Appendix A.

### 3. Results

A number of conclusions can be drawn from this analysis. *Table no. 2* presents the descriptive statistics (standardized data) both across the three types of beneficiaries and the five operational programmes. Overall, the most performant municipalities in attracting structural funds were Alba Iulia, Miercurea Ciuc and Gheorghieni, while the least performant were Calafat, Fetesti and Gherla (number of projects/ inhabitant). The best and worst performers across beneficiaries and programmes are also presented in the *Table no. 2*.

**Table no. 2 Descriptive statistics**

	Mean	STDEV	Min [0]	Max
PUBLIC	0,24	0,21	<b>10 municipalities:</b> Sebes, Salonta, Gherla, Calafat, Toplita, Urziceni, Reghin, Tarnaveni, Caracal, Medias	Miercurea Ciuc [1] Targoviste [0,73] Slatina [0,71]
NGO	0,14	0,18	<b>27 municipalities</b>	Alba Iulia [1] Iasi [0,74] Cluj-Napoca [0,69]
PRIVATE	0,26	0,20	<b>3 municipalities:</b> Medgidia, Moreni, Vulcan	Gheorghieni [1] Alba Iulia [0,80] Miercurea Ciuc [0,74]

<sup>1</sup> A high standard deviation indicates that the data points are spread out over a large range of values, so that the higher the standard deviation, the lower level of integration.

	Mean	STDEV	Min [0]	Max
PO DCA	0,13	0,19	<b>46 municipalities</b>	Moreni [1] Adjud [0,74] Alba Iulia [0,70]
POS DRU	0,10	0,14	<b>30 municipalities</b>	Alba Iulia [1] Brad [0,45] Targoviste [0,43]
POS CCE	0,21	0,19	<b>7 municipalities:</b> Moinesti, Medgidia, Moreni, Vulcan, Lupeni, Clung Moldovenesc, Rosiori de Vede	Gheorghieni [1] Miercurea Ciuc [0,85] Odorheiu Secuiesc [0,72]
POS MEDIU	0,14	0,19	<b>52 municipalities</b>	Orsova [1] Tulcea [0,84] Vatra Dornei [0,77]
POR	0,28	0,18	<b>5 municipalities</b> Salonta, Gherla, Calafat, Fetesti, Urziceni	Carei [1] Dragasani [0,72] Miercurea Ciuc [0,65]

In terms of **horizontal integration**, the lowest level of integration can be observed in Gheorghieni Municipality (stdev=0,52), given its top performance in private beneficiaries and its very modest performance for the other two categories (private and NGOs); similar patterns are shared by Odorheiu Secuiesc (stdev=0,35), Tg. Secuiesc (stdev=0,30) and Campulung Muscel (stdev=0,26), where the private performance was much higher. On the other hand, there are a number of municipalities with a very strong performance on the public dimension (Miercurea Ciuc, Adjud, Dragasani), but with an NGOs sector almost inexistent. In fact, more than a quarter of Romanian municipalities (27) had no project in the NGOs sector and for this reason the data skewness is very high on this type of beneficiary.

In what concerns the **transversal integration**, Gheorghieni municipality has a lower level of integration (stdev=0,33) which can be explained by its top performance on POS CCE, but also by its poor scores in PO DCA and POS DRU. Except for Gheorghieni, there are two other groups with very uneven performances across operational programmes: the first one includes those municipalities with top performances on PO DCA, but with very low profiles for the other axes, such as Moreni (stdev=0,23), Adjud (stdev=0,24) and Slobozia (stdev=0,25), while the second group comprises the municipalities leading in POS MEDIU programme, but performing worse on the others, namely Orsova [stdev=0,26] and Vatra Dornei [stdev=0,27]. Actually – these two programmes – PO DCA and POS MEDIU – presented the most uneven distribution across the Romanian territory, with about half of the municipalities not benefiting from them. Not at least, the POR operational programme had also revealed some exceptional cases in terms of top performers - Carei (stdev=0,27) and Dragasani (stdev=0,28) - , but this programme can by far be acknowledged as having the most balanced distribution across the Romanian territory, with only five municipalities not benefiting from it.

### Conclusions

This paper revised different approaches to *integrated territorial development* at the EU level and pointed to the importance of policy-coordination, multi-sector planning, multi-level governance and public participation. Since our study was meant to assess the level of integration in the use of structural funds 2007 – 2013, we have considered the total number of projects attracted at the municipality level by public authorities, private companies and NGOs from five operational programmes. We normalized the data by population and used the standard deviations as a proxy for *transversal integration*

(dispersion from the average across operational programmes) and *horizontal integration* (dispersion from the average across beneficiaires). The results show that for multi-party participation to be effective, strengthening the NGOs sector (including universities and other educational institutions) becomes a must, while in terms of transversal integration - widening the access to PO DCA and POS MEDIU could lead to a most integrated territorial development. Similarly, the study emphasises a number of exceptional cases (high standard deviations), where action is needed be it in the form of policy intervention (to reduce outliers) or individual action, to fill in the gaps.

The study has its inherent limitations, since it considers the number of projects and not their value and it measures only the inputs and not the effects. However, having a one-snapshot picture of performance across different types of beneficiaires and various operational programmes gives a useful benchmarking tool, thus enabling different actors at the municipality level to improve performance on less efficient pillars and capitalize on emerging opportunities.

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# Appendix A

## Number of SF projects per inhabitant at the municipaliy level (std)

County	Municipality	PU-BLIC	NGO	PRI-VATE	HORI-ZONTAL Integr. STDEV	PO DCA	POS DRU	POS CCE	POS MEDIU	POR	TRANS-VERSAL Integr. STDEV
AB	ALBA IULIA	0,67	1,00	0,80	0,17	0,70	1,00	0,49	0,47	0,50	0,05
AB	AIUD	0,05	0,28	0,18	0,12	0,00	0,15	0,20	0,00	0,07	0,07
AB	BLAJ	0,06	0,00	0,08	0,04	0,00	0,00	0,06	0,00	0,09	0,03
AB	SEBES	0,00	0,05	0,40	0,22	0,00	0,08	0,45	0,00	0,03	0,10
AR	ARAD	0,26	0,23	0,19	0,04	0,04	0,09	0,20	0,35	0,23	0,07
AG	PITESTI	0,25	0,19	0,40	0,11	0,12	0,12	0,29	0,08	0,44	0,07
AG	CAMPULUNG	0,18	0,49	0,70	0,26	0,00	0,28	0,67	0,00	0,42	0,26
AG	CURTEA DE ARGES	0,29	0,14	0,17	0,08	0,21	0,05	0,10	0,39	0,33	0,09
BC	BACAU	0,35	0,14	0,40	0,14	0,39	0,13	0,29	0,25	0,40	0,04
BC	MOINESTI	0,40	0,00	0,02	0,22	0,29	0,00	0,00	0,00	0,29	0,11
BC	ONESTI	0,33	0,12	0,22	0,10	0,14	0,03	0,27	0,13	0,25	0,06
BH	ORADEA	0,25	0,21	0,39	0,09	0,07	0,10	0,33	0,19	0,39	0,07
BH	BEIUS	0,24	0,00	0,28	0,15	0,00	0,00	0,24	0,00	0,35	0,11
BH	MARGHITA	0,24	0,00	0,09	0,12	0,00	0,00	0,12	0,00	0,17	0,05
BH	SALONTA	0,00	0,00	0,11	0,07	0,00	0,00	0,14	0,00	0,00	0,03
BN	BISTRITA	0,57	0,14	0,33	0,22	0,24	0,13	0,30	0,30	0,43	0,04
BT	BOTOSANI	0,41	0,17	0,11	0,16	0,12	0,11	0,11	0,22	0,25	0,02
BT	DOROHAI	0,13	0,05	0,16	0,06	0,00	0,05	0,13	0,00	0,16	0,06
BV	BRASOV	0,20	0,21	0,52	0,18	0,15	0,20	0,45	0,14	0,30	0,04
BV	CODLEA	0,11	0,00	0,21	0,11	0,28	0,03	0,21	0,00	0,08	0,10
BV	FAGARAS	0,11	0,00	0,14	0,07	0,00	0,02	0,12	0,00	0,13	0,04
BV	SACELE	0,12	0,00	0,35	0,18	0,00	0,00	0,30	0,00	0,29	0,11
BR	BRAILA	0,32	0,11	0,14	0,11	0,10	0,17	0,08	0,09	0,22	0,02
BZ	BUZAU	0,25	0,03	0,36	0,17	0,05	0,11	0,24	0,24	0,34	0,07
BZ	RAMNICU SARAT	0,17	0,08	0,11	0,05	0,00	0,00	0,07	0,00	0,27	0,06
CS	RESITA	0,36	0,21	0,21	0,08	0,33	0,30	0,07	0,31	0,22	0,06
CS	CARANSEBES	0,09	0,00	0,05	0,05	0,24	0,00	0,05	0,00	0,07	0,06
CL	CALARASI	0,29	0,12	0,19	0,09	0,09	0,17	0,12	0,17	0,22	0,01
CL	OLTENITA	0,05	0,11	0,15	0,05	0,00	0,06	0,07	0,00	0,21	0,06
CJ	CLUJ-NAPOCA	0,19	0,69	0,56	0,26	0,07	0,37	0,53	0,27	0,35	0,12
CJ	CAMPIA TURZII	0,05	0,06	0,16	0,06	0,00	0,06	0,05	0,24	0,18	0,08
CJ	DEJ	0,14	0,08	0,19	0,06	0,00	0,06	0,15	0,00	0,20	0,07
CJ	GHERLA	0,00	0,00	0,05	0,03	0,00	0,00	0,06	0,00	0,00	0,01
CJ	TURDA	0,07	0,05	0,09	0,02	0,00	0,03	0,10	0,22	0,03	0,06
CT	CONSTANTA	0,27	0,17	0,23	0,05	0,14	0,10	0,16	0,15	0,32	0,02
CT	MANGALIA	0,13	0,11	0,09	0,02	0,00	0,06	0,03	0,00	0,22	0,05
CT	MEDGIDIA	0,15	0,03	0,00	0,08	0,15	0,02	0,00	0,00	0,09	0,04
CV	SFANTU GHEORGHE	0,48	0,10	0,47	0,22	0,22	0,09	0,42	0,41	0,47	0,10
CV	TARGU SECUIESC	0,34	0,00	0,60	0,30	0,00	0,00	0,53	0,00	0,58	0,22
DB	TARGOVISTE	0,73	0,69	0,39	0,19	0,23	0,43	0,32	0,22	0,62	0,05
DB	MORENI	0,53	0,00	0,00	0,30	1,00	0,04	0,00	0,00	0,19	0,23
DJ	CRAIOVA	0,17	0,49	0,57	0,21	0,05	0,24	0,41	0,34	0,55	0,15
DJ	BAILESTI	0,21	0,00	0,05	0,11	0,00	0,00	0,03	0,00	0,20	0,04
DJ	CALAFAT	0,00	0,00	0,03	0,02	0,00	0,00	0,04	0,00	0,00	0,01
GL	GALATI	0,19	0,28	0,21	0,04	0,07	0,17	0,19	0,13	0,21	0,02
GL	TECUCI	0,19	0,03	0,10	0,08	0,00	0,00	0,11	0,00	0,18	0,05
GR	GIURGIU	0,36	0,07	0,27	0,15	0,30	0,06	0,23	0,28	0,30	0,07

County	Municipality	PU-BLIC	NGO	PRI-VATE	HORI-ZONTAL Integr. STDEV	PO DCA	POS DRU	POS CCE	POS MEDIU	POR	TRANS-VERSAL Integr. STDEV
GJ	TARGU JIU	0,42	0,17	0,26	0,13	0,28	0,13	0,21	0,33	0,34	0,03
GJ	MOTRU	0,30	0,07	0,05	0,14	0,00	0,04	0,06	0,00	0,22	0,05
HD	DEVA	0,57	0,38	0,34	0,12	0,10	0,32	0,22	0,10	0,54	0,08
HD	VULCAN	0,14	0,00	0,00	0,08	0,00	0,00	0,00	0,00	0,10	0,02
HD	BRAD	0,08	0,19	0,26	0,09	0,00	0,45	0,04	0,00	0,06	0,10
HD	HUNEDOARA	0,10	0,19	0,14	0,05	0,00	0,08	0,09	0,00	0,22	0,07
HD	LUPENI	0,19	0,00	0,02	0,10	0,00	0,00	0,00	0,00	0,17	0,03
HD	ORASTIE	0,31	0,07	0,07	0,14	0,00	0,00	0,06	0,00	0,32	0,07
HD	PETROSANI	0,19	0,21	0,21	0,01	0,00	0,29	0,06	0,15	0,18	0,11
Ha	MIERCUREA CIUC	1,00	0,21	0,74	0,40	0,33	0,17	0,85	0,46	0,65	0,13
Ha	GHEORGHENI	0,07	0,15	1,00	0,52	0,00	0,04	1,00	0,32	0,44	0,33
Ha	TOPLITA	0,00	0,00	0,07	0,04	0,00	0,00	0,04	0,00	0,06	0,02
Ha	ODORHEIU SECUIESC	0,04	0,12	0,68	0,35	0,00	0,00	0,72	0,00	0,32	0,20
IL	SLOBOZIA	0,47	0,06	0,30	0,21	0,66	0,11	0,15	0,00	0,48	0,25
IL	FETESTI	0,04	0,04	0,02	0,02	0,20	0,02	0,02	0,00	0,00	0,04
IL	URZICENI	0,00	0,09	0,15	0,08	0,00	0,00	0,23	0,00	0,00	0,04
IS	IASI	0,16	0,74	0,54	0,30	0,07	0,38	0,45	0,16	0,44	0,12
IS	PASCANI	0,16	0,00	0,11	0,08	0,16	0,00	0,08	0,00	0,18	0,07
MM	BAIA MARE	0,27	0,40	0,36	0,06	0,20	0,27	0,26	0,18	0,36	0,01
MM	SIGHETU MARMATIEI	0,03	0,18	0,14	0,08	0,00	0,13	0,14	0,00	0,02	0,05
MH	DROBETA-TURNU SEVERIN	0,40	0,14	0,12	0,16	0,06	0,08	0,08	0,48	0,30	0,09
MH	ORSOVA	0,32	0,00	0,16	0,16	0,00	0,00	0,05	1,00	0,30	0,26
MS	TARGU MURES	0,25	0,28	0,47	0,12	0,19	0,11	0,50	0,18	0,31	0,06
MS	REGHIN	0,00	0,04	0,38	0,21	0,00	0,02	0,36	0,00	0,19	0,10
MS	SIGHISOARA	0,08	0,09	0,27	0,11	0,21	0,02	0,20	0,20	0,24	0,08
MS	TARNAVENI	0,00	0,00	0,14	0,08	0,00	0,00	0,13	0,00	0,08	0,03
NT	PIATRA NEAMT	0,64	0,22	0,60	0,23	0,13	0,39	0,37	0,36	0,61	0,08
NT	ROMAN	0,10	0,11	0,35	0,14	0,00	0,05	0,31	0,00	0,29	0,12
OT	SLATINA	0,71	0,27	0,32	0,24	0,18	0,23	0,23	0,25	0,60	0,05
OT	CARACAL	0,00	0,00	0,16	0,09	0,00	0,00	0,13	0,00	0,11	0,04
PH	PLOIESTI	0,17	0,16	0,23	0,04	0,09	0,09	0,18	0,20	0,23	0,02
PH	CAMPINA	0,22	0,04	0,31	0,14	0,37	0,08	0,27	0,17	0,18	0,04
SM	SATU MARE	0,26	0,09	0,44	0,18	0,18	0,07	0,43	0,11	0,31	0,07
SM	CAREI	0,54	0,13	0,58	0,25	0,00	0,00	0,38	0,00	1,00	0,27
SJ	ZALAU	0,55	0,14	0,36	0,20	0,11	0,16	0,24	0,20	0,56	0,06
SB	SIBIU	0,26	0,24	0,27	0,02	0,04	0,16	0,24	0,21	0,25	0,05
SB	MEDIAS	0,00	0,03	0,18	0,10	0,00	0,03	0,14	0,12	0,09	0,05
SV	SUCEAVA	0,35	0,25	0,32	0,05	0,06	0,08	0,23	0,30	0,51	0,10
SV	CAMPULUNG MOLDOVENESC	0,21	0,00	0,13	0,10	0,00	0,00	0,00	0,00	0,39	0,08
SV	FALTICENI	0,09	0,05	0,14	0,04	0,00	0,03	0,09	0,00	0,19	0,05
SV	RADAUTI	0,09	0,05	0,16	0,05	0,00	0,00	0,13	0,00	0,20	0,06
SV	VATRA DORNEI	0,08	0,00	0,41	0,22	0,00	0,00	0,16	0,77	0,47	0,27
TR	ALEXANDRIA	0,41	0,15	0,39	0,14	0,41	0,33	0,15	0,13	0,41	0,06
TR	ROSIORI DE VEDE	0,04	0,05	0,03	0,01	0,23	0,05	0,00	0,00	0,03	0,05
TR	TURNU MAGURELE	0,05	0,05	0,07	0,01	0,00	0,03	0,05	0,00	0,10	0,03
TM	TIMISOARA	0,19	0,42	0,46	0,15	0,04	0,25	0,37	0,12	0,37	0,10
TM	LUGOJ	0,03	0,00	0,21	0,11	0,15	0,00	0,15	0,00	0,17	0,08
TL	TULCEA	0,34	0,26	0,22	0,06	0,30	0,14	0,09	0,84	0,34	0,14

County	Municipality	PU-BLIC	NGO	PRI-VATE	HORI-ZONTAL Integr. STDEV	PO DCA	POS DRU	POS CCE	POS MEDIU	POR	TRANS-VERSAL Integr. STDEV
VS	VASLUI	0,46	0,23	0,19	0,14	0,48	0,19	0,12	0,45	0,29	0,07
VS	BARLAD	0,04	0,02	0,13	0,06	0,10	0,01	0,08	0,00	0,14	0,05
VS	HUSI	0,23	0,00	0,05	0,12	0,00	0,00	0,07	0,00	0,16	0,04
VL	RAMNICU VALCEA	0,41	0,37	0,35	0,03	0,18	0,24	0,24	0,11	0,50	0,05
VL	DRAGASANI	0,80	0,00	0,26	0,41	0,67	0,08	0,10	0,00	0,72	0,28
VN	FOCSANI	0,42	0,17	0,46	0,16	0,14	0,13	0,45	0,45	0,36	0,08
VN	ADJUD	0,73	0,00	0,08	0,40	0,74	0,00	0,07	0,00	0,47	0,24
	<b>STDEV</b>	0,21	0,18	0,20		0,19	0,14	0,19	0,19	0,18	

\*The data are standardized first with the population and min-max technique

Source: own computation based <http://www.fonduri-ue.ro/baza-de-date-proiecte-contractate>



# FROM CIRCULAR ECONOMY TO BLUE ECONOMY

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## Abstract:

*Addressing the subject of this essay is based on the background ideas generated by a new branch of science – Biomimicry. According to European Commissioner for the Environment, „Nature is the perfect model of **circular economy**”. Therefore, by imitating nature, we are witnessing a process of cycle redesign: production-consumption-recycling. The authors present some reflections on the European Commission's decision to adopt after July 1, 2014 new measures concerning the development of more circular economies. Starting from the principles of **Ecolonomy**, which is based on the whole living paradigm, this paper argues for the development within each economy of entrepreneurial policies related to the **Blue economy**. In its turn, **Blue economy** is based on scientific analyses that identify the best solutions in a business. Thus, formation of **social capital** will lead to healthier and cheaper products, which will stimulate entrepreneurship. **Blue economy** is another way of thinking economic practice and is a new model of **business design**. It is a healthy, sustainable business, designed for people. In fact, it is the core of the whole living paradigm through which, towards 2020, circular economy will grow more and more.*

**Keywords:** biomimicry, circular economy, innovation, blue economy, entrepreneurship

**JEL Classification:** Q57

*Motto: „Nature does not accept any joke; it is always just, always severe, it is always right and errors and mistakes are always the blame of human. It despises the man incapable of appreciating it and it reveals its secrets only to capable, pure and just man”.*

Wolfgang von Goethe

After the launch at Brussels (december 2012) of the report „Bankrupting nature”, there has been an enhancement of the public debate regarding the reconsideration of the way of using resources in a time in which major risks threaten welfare and prosperity. The solution would be reconsidering from the ground of the financial, fiscal and economic model, in view of the planet consolidation. The foreseen solution would be the disconnecting of wealth and welfare from the consume of resources. The objective of new models adoption is constituted by efficient capitalization of resources by establishing big taxes when using new raw materials. Hence, reorienting research policy towards innovation as it proposes, for example, biomimicry or blue economy.

Public debate organized around various events are keeping with the campaign „Year 2052: the world after 40 years” by which are stimulated ideas of changing Planet Earth in a **sustainable** manner.

## 1. The need of a new way of thinking

Many of you remind of the tellings of Einstein: we cannot solve important problems which we confront with at the same level of thinking that we found ourselves in the moment that we created those problems. This idea needs not be excessively developed. In all respects of civilization, the basic trend of contemporary society disregards Einstein's warning. It tries to solve problems generated by the conceptions of industrial civilization with the same selfish judgement that characterizes these conceptions. The aspiration that

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animates the scientific world is that of triggering a debate at society scale about how could it be possible to pass to a **new economic paradigm**.

At the 42<sup>nd</sup> edition of the Economic Forum of Davos (January 2014) the resulting conclusion following the debates was that nowadays, capitalism in its actual form has no longer its place and does not fit to the present world.

The great problem is that between the agreement related to the necessity of triggering a change and practical actions, remains an enormous gap.

The choice in front we stand now is between **collapse** (keeping the thinking and models of development) or **rescue** (shifting the thinking paradigm). It is also the call of the World Forum of Davos – 2014 led under the theme „The great change. The forming of new models”. The present essay highlights such models.

## 2. The virtues of a circular economy

*„The best way to keep nature  
unaltered is to love it”.*

Constantin Popescu

Dominated by consumerism<sup>1</sup>, the nowadays economy is to a good extent of **linear type**. The **production-use-throw** type of processes tend to already lead to „bankrupting nature” (Wijkman, Rockstrom, 2013). Numerous reports to the Club of Rome draw human community’s attention to the inherent risk of resources exhaustion (see, for example, Randers, 2012). Numerous products are made of raw materials extracted from non-renewable resources.

Estimates based on some studies upon globalism show that annually in Europe are produced approximately 3-4 billion of tons of **garbage (waste)**.

The theme of this year annual conference about **the european environmental policy**, named Green Week was „**Circular economy, resources efficiency and waste**”. The term **circular economy** refers to the necessity of reintroducing the used products in the circular flux. Here we refer to **natural elements** (biological nutrients that should reenter into the biosphere) and to material and **technical products** that have to be transformed, used and usable on the long term. Moreover, this term also regards **the management of waste** by which it profits the most efficient from the resources that are attracted into the circuit.

The life of a product (as we know it from marketing courses) goes from **the production process**, to usage (consumption) and afterwards to throwing (the product is brought to the state of waste). This concept, associated with a market economy that sustains consumerism leads to a great production, intense consumer of natural resources in which the product has a limited life. This happens because a consumption that generates a bigger and bigger quantity of **waste** and **pollution** is encouraged.

This state leads to a paradigm shift in the concern of the production circuit, it leads to a **change of mentality**. The first step was made in the ‘70s (of the past century) by Walter R. Stahel who introduces the notion of **industrial sustainability**. Basic ideas of the concept introduced by Stahel have in view an opening towards **the processes from nature** (see biomimicry at point no. 4): the circuit of nutrients resulting from soil fertilization with compost, recycling and reusing of materials, the extention on the way we use various objects, usage of sources of green energy, adoption of a systemic thinking which on its principles can be built a new economy.

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<sup>1</sup> Social-economic order and ideology that encourages the acquisition of goods and services in quantities that grow bigger and bigger.

A productive circuit based on recycling and which integrates – logically and coherently – in natural circuits generates various **benefits**:

- a) creation of new working places present in all stages of the process;
- b) contributes to increase of competitiveness;
- c) reduces significantly the volume of the consumed resources;
- d) contributes to the increase of the life time of products;
- e) contributes to the decrease of waste production, helping to limit its volume.

The circular economy concept is inspired by nature where „nothing is lost, everything is transformed” (law of material conservation). Having in mind the strong effects of human activity upon nature, **the circular economy model** that is adopted by the E.U. countries follows the slogan mentioned at **biomimicry**: „The best solution to safeguard nature is to imitate it”.

### 3. A chance for the future: blue economy

*„The true pleasure resides in  
the discovery, not in knowledge”.*

Isaac Asimov

**Blue economy** appeared as an **alternative** to the unfulfillment generated by the ongoing support given to the „**red economy**” – great resource squanderer and consumer, on which the consumerist model relies – and to the partially successful attempts of the „**green economy**” – that for the present costs much, is not competitive and has a subunitary return to advanced investments ( $\text{Output/Input} < 1$ ). Blue economy „sprang” in the mind of its architect – Gunter Pauli (Pauli, 2010) - from the real presence of some inevitable circumstances: bankrupt governments, lack of cash, difficulties in finding substitutes for resources, the wish of consumers to purchase goods at low prices etc.

**Blue economy** is based on scientific analyses by which there are identified the best solutions ( $S^*$ ) discovered through innovation processes ( $S_1, S_2, \dots, S_n$ ):

$$S^* = \text{opt}\{S_1, S_2, \dots, S_n\} \quad (1)$$

Assimilated in **the social capital**, optimum solutions contribute to the projection of those technologies that produce the **best and cheapest** products, **the most healthy** and those that **stimulate entrepreneurship**.

This stimulation of entrepreneurship oriented towards **blue economy** type of solutions constitutes in its turn an alternative to the policies of big corporations, based on greed and domination. Owning a great economic power, they do not want the change. For them, **the profit** is the Gospel and **money** is God. Those who sell electricity, water, food, medicines etc. do not want to change the way they produce them. They develop businesses for **profit**, not for people (see also Branson, 2012). As a matter of fact, „corporations rule the world”, said former president of Israel, Shimon Peres, at the World Economic Forum at Davos. „Governments will wake without occupations because the economy is global and they are national”, he said.

We mentioned that **blue economy** stimulates entrepreneurship. The guideline of this economy feeds itself from the philosophy of Mahatma Gandhi: „Be yourself the change that you want to be made in the world”. Therefore, the change towards good begins with me! The **blue economy** model is a model of action. This model proposed by the professor Pauli offers directions and solution to entrepreneurs on which it can be built **the national capital**. Such a capital sustains the creation of new jobs, the welfare of human, of communities and the country, the health of human beings and of the environment.

As we know, in Chinese, the notion of **crisis** has a double meaning: **danger** and **opportunity**. The blue economy model is oriented towards **opportunities**. And every

**opportunity** offers another way of approaching problems that search for their solutions. **The blue economy model (BEM)** generates options for economic development, ways by which economy responds to **the needs of people**.

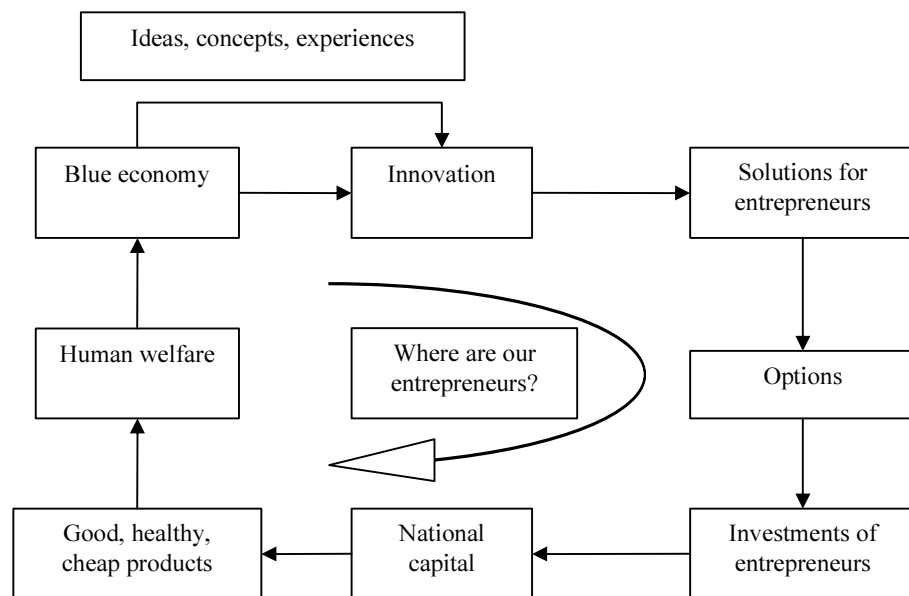
There are scientists, researchers but also theologians that say: „**It is good that the crisis came now and not later**”. In this context, we cannot continue in the way we lived until now. **A report to the Club of Rome** draws our attention about the limits of the planet. It is a good piece of news! We need to understand which is **the true reality**. Promotion of BEM is firstly addressed to the youth comprised in the **innovative movement** of the country, of the world. It is a model that stimulates **innovation**. There is a wise telling that we should reflect to: „If you do the same things that you have always done, you will receive the same things that you have always received”. Teaching the youth to embrace the BEM, toward 2030, Romania can reach the holding of a new **national capital**.

Blue economy starts in its construction from „**the doctrine of nations endowment with production factors**”, for instance from the existing resources, from each country potential. For the time being, Romania builds on what others have: for example, agricultural potential or the tourism one. We can become competitive. But what do we do? We import about 70% of the agri-food products. With our agricultural potential, with the fertile land that we have, we can become **competitive**. We need to change what can be changed. This is what **blue economy** asks us; global solutions to global problems (unemployment, pollution, environment degradation, bankruptcies etc.).

**National capital** construction implies the recovery of **national identity**. The BEM supplies ideas, experiences, opportunities. Romanian innovators and entrepreneurs are called to identify what is best for **the national capital**. An entrepreneur lives in the spirit of „act now”. In his step it is necessary to read all the **opportunities** and then to select what is best for the community, for the nation, for export.

In his book, professor Pauli suggests that youth do not follow MBA programmes because after they will work for corporations, big financial institutions etc. **They would look to the past**. The **future** is important. What can it be done? What can it be changed? The response is given by the courage of the entrepreneur, his imagination and initiative.

The rhetoric question that the BEM addresses to us is: „where are our entrepreneurs?” (see Fig. 1)



**Fig. 1 The BEM mechanism**

In agreement with the goals of the Strategy **Europe 2020** (for a growth that is intelligent, sustainable and favourable toward inclusion), the European Commission adopted new initiatives regarding the grant of a stable place to the **blue economy** on the priority list of the member states, regions, enterprises and civil society.

E.U. member states and European Commission promoted policies support already the blue economy, identifying five specific fields having great increase potential:

- a) maritime tourism, tourism in coastal areas and cruise tourism;
- b) blue energy;
- c) marine mineral resources;
- d) aquaculture;
- e) blue biotechnology.

The Commission considers that it is necessary to remove the obstacles from the way of growth and there have to be implemented intelligent solutions in order to stimulate new sectors.

The **growing** and **emerging sectors**, for instance energy resulting from renewable sources of the oceans and blue biotechnology can have a great role in respect to new jobs creation, cleaner energy production and supplementary supplying of goods and services.

Recently, in may 2014, the European Commission published a communique regarding the compulsory measures in order to have a sustainable economic growth in the field of **blue economy**.

In order to reach the goals of sustainable usage of oceanic resources, of favouring the blue economy growth and of creation of new working places in Europe, the Commission assembled an action plan regarding innovation in the field of seas and oceans. **Blue economic growth** is situated amongst the areas of interest of the programme Horizon 2020, a research and innovation programme.

Sustainable busnissess that function on the principles of the **blue economy** render possible the coverage of basic, fundamental needs of everybody, however, without exploiting the natural resources and yet without giving up a certain standard of living and modern services. The blue economy uses the resources in a „cascade system”, the waste resulting from the consumption of a product becoming the raw material for obtaining of **cash flow**. Such a system leads to the creation of new jobs, increase of national capital and of revenues, without exploiting or damaging the environment but rather preserving it. This type of economy offers the possibility of **sustainable development**.

Romanians, as a nation, have in their genes the seed of saving and of limiting waste. Our grandparents, farmers in their majority, used/reused all that was produced in the household, of course, at microeconomic level. **The blue economy** wants to be a new design of business conceived at macro-level and applied at micro-level.

#### 4. Let us learn from Biomimicry

*„Do not ask yourself if it is according to the nature what the Creator of nature does”*

St. John Chrysostom

Nature has always represented an inspiration source for poets, artists, inventors or architects. Let us remember of egiptian architects that inspired themselves from the leaves of lotus plants or from the structure of palm trees in order to design and build the columns of buildings. All art lovers remind of famous arhitect Antoni Gaudi who worked after the principle „Originality means returning to origins”. This is how the famous Sagrada Familia appeared. When you enter the temple you feel like you are in a forest. Gaudi’s creed was

that nature is the perfect work of God. We realize this reading the Genesis from the Holy Scripture. His entire work inspired from the Divine Creation.

We owe the concept of **biomimicry** to **Janine Benyus** who published in 1997 the work „Biomimicry: Innovation inspired by Nature”. The main idea of the book resides in the recommendation that people inspire themselves from the genius of nature in order to innovate biotechnologies or processes that imitate nature. The etymology of the term **biomimicry** comes from the juxtaposition of two greek words: **bios** – meaning „life” and **mimesis** having the signification „to imitate”.

The option for biomimicry is based on the fact that nature already **solved** numerous problems which production systems confront with. Adopted solutions are extracted from the evolution of nature throughout billions of years.

Products resulting from such productive systems, designed on the principles of biomimicry, are less energy intensive and damage lesser to the environment. Terms like natural, bio, biotechnology, bio-economy, bio-agriculture (see Rudolf Steiner), eco-economy, eco-theology etc. designate „the return to nature”. What is natural is healthy, especially in the field of food and medication. Any classic production system that supplied products to the market was based on numerous **chemical substances**. The resulted economic goods were evaluated only from the perspective of cost and performance. Their effects upon health (especially those of carcinogen nature) or upon environment (particularly non-biodegradable substances) were ignored.

According to studies, from over 30,000 chemical substances that are used in production systems, less than 5% are monitored in terms of their effects upon health and environment. Television reportages show that for the moment, original „bio” products are three times more expensive than „poisonous” foodstuff. The state of fact is alarming: still more than 75% of these substances have never been evaluated in terms of effects.

Communication, PR, advertising became strong tools for influencing public opinion. Through them it sensitizes, it realizes the importance of adopting a new thinking, a new mentality, a new philosophy regarding the human-nature relation. For instance, the biomimetic design becomes more and more important in the public conscience, especially in countries preoccupied by ecology. Thereby, the advertising used by The National Company of Railway Exploitation from Spain (RENFE) activate by the advertising slogan: **The best solution to protect nature is to imitate it**”. Promoting the principles of biomimicry, this company managed to obtain a **more efficient** use of electricity. We have in mind the aerodynamic shape (similar to eagles) of high speed trains. There can be given numerous examples of technologies based on the ingenious solutions of nature.

As these solutions inspired by copying of nature become more and more beneficial, scientists will ask themselves more often: „what solution would nature offer?”. The lessons of the evolving process of nature offers us hope for a sustainable future, when the consume-throw model will be abandoned because billions of people will be called to live with their technologies in harmony with Mother Nature.

Researchers support that a **project of biomimicry** has success only if it has the potential to create a useful tool for people. It is not sufficient to study with attention structures from nature (for example the wings of a fly or the ribs of plants and the production process of chlorophyll). It is important that by studying nature to see if we can technologically asimilate these structures in order to give them authentic utility in real world. Of course, this is the most difficult stage in the useful concretization of the **natural, biomimetic design**.

With all registered successes, biomimicry has not yet reached maturity. The main reason is that from an engineering point of view, nature is a fabulous complex, without limits and impossible to control. Evolution does not „design” structures in order to achieve

a final objective such as an engineer would do. For now, people have not managed to reproduce that easy such complicated nanopuzzles. However, molecule by molecule, nature assembles these structures after the receipt for complexity that is inscribed in the DNA of those structures.

In any case, for the moment, the price people pay for complexity at a micro-cosmic scale is huge compared to the price paid by nature. For now, researchers scrutinize all the more profound the secrets of nature at a micro and nanometric scale.

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<p style="text-align: center;">Section II</p> <p style="text-align: center;"><b>FINANCIAL AND ACCOUNTING POLICIES AND CORPORATE GOVERNANCE</b></p>
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## STUDYING TAXATION - NECESSITY AND OPPORTUNITY

Carmen, Comaniciu<sup>1</sup>

**Abstract:**

*Taxation - a set of laws, regulations and methods of establishing taxes - is, was and will always be present in the life of every individual and every company because of the existence of the State with the tasks and functions, through its influence on the economic and social. Most persons understand the necessity of taxation, but how many people can provide relevant answer to questions such as: What is taxation and which are its characteristics? What is the significance of taxation? What are the tax effects at the micro level? How important is the ratio between direct taxation and indirect taxation? What are the principles of taxation? How are taxes determined? What are the rights and obligations of taxpayers? How taxation can become a stimulating factor? Through this article we will try to emphasize the necessity of studying taxation, in order to be a real partnership between the taxpayer and the state, with appropriate action. Without claiming an exhaustive approach we believe that the aspects presented can be points of reflection for each individual, so that it to be open at any time to study taxation, realizing the importance of skills and abilities that can be acquired.*

**Keywords:** taxation, studying taxation, fiscal education, importance, necessity, opportunity

**JEL Classification:** H2, I21

### 1. Introduction

In the life of any nation, coverage of public needs heavily depends on taxes because they have the highest share in public funds in most states, with a considerable impact on the areas of financial economic and social. For this reason, many experts have conducted studies and research in the field of taxation, identifying: the link between taxation and development (Burgess and Stern, 1993); the services that must be provided in return for payment of taxes (Cordes, Ebel and Gravelle, 2005); the action of taxes as economic and financial levers (Cope, 1988); the efficiency and the effectiveness of the tax system in correlation with public expenditure (Mankiw, 2011); the fundamental principles of taxation (Jain and Kaur, 2009); the typology of taxes (James and Nobes, 1988); the functions performed by each tax (Leroy, 2008).

Are these issues known by all taxpayers? Is really understood the role of taxation? Here are two questions that led us to approach in this article the necessity and opportunity to study taxation. Through its structure and content, the article is intended to be a point of reflection for each individual which realizes the importance of skills and abilities that can be acquired by studying taxation for the activity carried every day.

### 2. Why it is necessary to study taxation?

Recently, the importance of taxation increased significantly, due to economic and social mutations. If in developed economies the role of fiscal policy is to maintain employment, for emerging countries, fiscal policy is that can create an environment for rapid economic growth (Comaniciu, 2011).

Competences and skills acquired by studying taxation will allow each individual to know:

- The relations of dependence and interdependence between taxation and the other sciences and disciplines, namely microeconomics, macroeconomics, public finance,

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law, political science, management, statistics, economic analysis, computer science, accounting, mathematics, sociology, ethics, marketing, total quality management. Since taxation is a key element for global development, mobilization of financial resources and good governance (OECD, 2014), fiscal analysis can not be performed isolated, so the methods of analysis must always be adapted to progress made in all areas.

- The classification of taxpayers to easily identify the impact of taxation on each type of taxpayer. Fiscal policy decisions can affect the behavior of taxpayers, not just by economic factors, but also by aspects of fiscal discipline (Niesiobedzka, 2014).

- The institutions with attributions in the tax field, because the quality of fiscal institutions activities has a significant impact on fiscal policy volatility (Albuquerque, 2011). Thus, all actions taken by fiscal institutions must be considered in view of an appropriate balance between fiscal consolidation and sustainable economic recovery, between economic aspects and social aspects, between the formation of public tax revenues and the use of public funds.

- The typology of taxes and their characteristics, as a taxpayer, in order to be identified the incidence of each tax. Knowledge of tax system is necessary because its construction provides resources to achieve collective goals, namely economic prosperity, internal and international security, protection and social security, cultural prosperity (Wenzel, 2002).

- The elements for declarative system and their correct application, namely: tax forms; how to fill and deadline; software used to generate tax forms (Comaniciu, 2011).

- The types of income which are taxable in terms of personal income tax and other tax liabilities related to these revenues.

- Business Taxation, without ignoring the main alternatives to maximize profits, namely: conduct good management; maximizing revenue; goal setting and analysis market influence on the activity; long-term survival of the company's objectives; analyze personal goals of the manager; establishing social responsibilities; growth and diversification objectives; the modalities of market penetration in different situations (Thompson, 1989).

- The specificity of value added tax as the main indirect tax and its repercussions on the final consumer.

- The excise goods and the impact of excise duty on the final consumer.

- The fiscal facilities as part of economic and social policy measures.

- The methods to avoid international double taxation applied both in the residence state and outside of the residence, by taking into account the harmfulness of phenomenon of double taxation. Knowledge of aspects related to international double taxation is required due to amplification of international economic and financial relations and the free movement of goods, capital and people.

- The stages followed in the exercise of fiscal inspection, the forms of fiscal control, the rights and obligations of those involved in fiscal inspection -taxpayer and fiscal inspector.

- The acts and deeds sanctioned by taxation, so that fiscal discipline and voluntary compliance to be part of the behavior of each taxpayer. The behavior of fiscal institutions to the taxpayer based on trust, transparency and respect causes an increase voluntary compliance and thus a reduction in the tax evasion phenomenon (Torgler, 2002).

### **3. Where taxation can be studied?**

In undergraduate and postgraduate education are found several academic programs for fiscal domain, addressing either future or current experts in this field, or interested persons to acquire the knowledge necessary to apply taxes on their activities. With a well-

defined mission, with a well outlined curriculum, with teachers and specialists highly valuable, with a solid link between theory and pragmatism, universities can help increase fiscal education, strengthening the role of taxation in the life of every individual and society as a whole, strengthening the partnership between the state and the taxpayer.

Since our article economy does not allow us to present all universities that provides degree programs for the field of taxation, we will refer only to European universities, where these programs are found for all three levels of education, respectively bachelor, master and PhD.

In the European countries are organized bachelor programs for the study of taxation in Denmark, Germany, Ireland, the Netherlands and Portugal, most being found in Germany and the Netherlands, as shown in Table no. 1 (Study in Europe, 2014).

**Tab. no. 1 Bachelor's degree programs for studying taxation in European countries**

Country	Program	Institution
Denmark	Economics and Business with Tax	Aarhus University
Germany	Accounting, Business, Law and Taxes	Art Academy of Stuttgart
	Business Administration - Tax	Adam Ries University of Applied Sciences, Düsseldorf
	Tax and Audit Consulting	International University of Applied Sciences Bad Honnef - Bonn
	Taxation	University of Duisburg-Essen
	Taxation and Auditing	Berlin School of Economics and Law
		SRH Fachhochschule Calw
	Taxation and Tax Management in Cooperative Study	Worms University of Applied Sciences
Ireland	Law and Taxation	Limerick Institute of Technology
Netherlands	Fiscal Economics	Erasmus University Rotterdam
	Fiscal Economics	Maastricht University
	Fiscal Economics	Tilburg University
	Fiscal Economics	University of Amsterdam
	Tax Law	Erasmus University Rotterdam
		Leiden University
		Maastricht University
		Tilburg University
		University of Amsterdam
	Tax Law and Economics	HAN University of Applied Sciences, Arnhem
		Hanze University of Applied Sciences, Groningen
		Rotterdam University of Applied Sciences
Portugal	Accounting and Taxation	Instituto Politécnico de Santarém
		Instituto Politécnico de Viana do Castelo
		Polytechnic Institute of Tomar
	Accounting, Taxation and Auditing	Lusophone University of Humanities and Technologies, Lisbon

(Source: processing author based on data published on the website <http://www.studyineurope.eu>)

Without an analysis of the curriculum for study programs listed above, from their names is observed the interdisciplinary character of taxation, respectively taxation dependencies and interdependencies with other sciences and disciplines, such as economics, finance, accounting, auditing, law, management.

If the number of undergraduate programs for the study of taxation is relatively low in Europe, the education offer at the master level is generous. In this respect, it is found master programs where the emphasis is on: the analysis of the national, European and international taxation; the link between taxation and accounting; tax law, fiscal management, as shown in Table no. 2 (Study in Europe, 2014).

**Table no. 2 Master's degree programs for studying taxation in European countries**

European countries	Number of Masters Degree	Skills and competences for:			
		Taxation – national and international aspects	Taxation and accounting	Taxation and law	Taxation and management
Austria	3		x	x	
France	5	x		x	x
Germany	18	x	x		x
Iceland	2		x		
Ireland	1	x			
Italy	4	x		x	
Netherlands	7	x		x	
Portugal	9	x	x	x	x
Spain	6	x		x	
Sweden	6	x		x	

(Source: processing author based on data published on the website <http://www.studyineurope.eu>)

The attractiveness of master's degree programs for studying taxation arising from their denomination. Thus, there are:

- master programs with simple names (for example: “Taxation”– Rhine Fachhochschule of Cologne, Germany; Worms University of Applied Sciences, Germany; University of Aalen - Engineering and Business, Germany; University of Applied Sciences Mainz, Germany; University of Osnabrück, Germany; University of Limerick, Ireland);
- master programs with complex names (for example: “Accounting, Auditing and Taxation” - University of Innsbruck, Austria; “Commercial, Tax and Labour Law” - University of Seville, Spain; “International and European Tax Law” - Maastricht University, Netherlands; “International Business Management - Finance, Accounting, Control, Taxation” - Aachen University of Applied Sciences, Germany; “Taxation and International Community” - University of Santiago de Compostela, Spain; “Fiscal Management” - ISG, School of Management, Lisbon, Portugal; “Tax Management” - Munich University of Applied Sciences, Germany).

The doctorate, as the upper cycle of academic studies, whose purpose is the development of knowledge through original research could not miss from the field of taxation. Consequently, the preparation and completion of a doctoral thesis from the fiscal area can be accomplished in Austria, Germany, Italy and Spain, as shown in Table no. 3 (Study in Europe, 2014).

**Table no. 3 PhD programs for studying taxation in European countries**

Country	Program	Institution
Austria	International Business Taxation	Vienna University of Economics and Business Administration
Germany	Finance and Management	Frankfurt School of Finance and Management
Italy	European Tax Law	University of Bologna
Italy	Public and Taxation Law in Europe	University of Bergamo
Spain	International Taxation and Community	University of Castilla-La Mancha, Madrid
Spain	Taxation and International Community	University of Santiago de Compostela

(Source: processing author based on data published on the website <http://www.studyineurope.eu>)

In Romania, the study of taxation is found in the academic environment, especially at the level of the Faculty of economics field. Regarding the study of taxation in Bachelor programs, the current legislation (RQAAHE, 2014) provides:

- In the list of basic fundamental disciplines that can not be absent from the formation of an economist, there is Finance discipline, whose structure and content refers to public finance respectively tax revenue as a basic component in the formation of public funds, being presented general aspects.

- Bachelor programs from the fundamental field of economic sciences are organized in Romania for the specializations: Economics; Business administration; Finance; Accounting; Cybernetics, statistics and economic informatics; Economics and international affairs; Management; Marketing. Taxation, regarded as the domain discipline or the specialized discipline is found only at the Bachelor programs Business administration, Finance and Accounting. Other fiscal elements can be studied to the specialization of Finance during the course Budget and public treasury and to the specialization of Accounting during the course Expertise discipline accounting and tax advice.

These provisions determine that the study of taxation can be found only in master programs. Thus, the educational offer of the Romanian universities for academic year 2014-2015 in taxation includes a number of eight master's degree programs, as shown in the table no. 4.

Similarities and differences for these eight programs of study can be seen from the analysis of curricula. Thus, all programs include disciplines where are debated aspects regarding: the tax law; the fiscal system; the tax procedure; direct taxation; indirect taxation; business taxation; personal income taxation; fiscal control; international double taxation; tax havens.

The interdisciplinary character of taxation and its interdependence with other sciences and disciplines can be found in some master's programs, where is studied issues relating to: applied statistics in taxation; ethics and professional deontology; taxation of insurances; accounting and fiscal reporting; financial and fiscal management; financial and fiscal informatics systems; financial audit and fiscal control.

The mission of these masters programs is training highly qualified specialists in the analysis and application of tax regulations.

**Tab. no. 4 Masters programs for the study of taxation in Romania, academic year 2014-2015**

<b>Institution</b>		<b>Master program</b>
<b>University</b>	<b>Faculty</b>	
Academy of Economic Studies, Bucharest	Finance, Insurance, Banking and Stock Exchange	Taxation
Academy of Economic Studies, Bucharest	Accounting and Management Information Systems	Accounting and taxation of economic entities
West University of Timisoara	Economics and Business Administration	Taxation and tax advice
Romanian-American University, Bucharest	Domestic and International Business, Banking and Finance	Tax policies and tax practices
"Babes-Bolyai" University, Cluj-Napoca	Economics and Business Administration	Taxation
"Titu Maiorescu" University, Bucharest	Finance - Banking, Accounting and Business Administration	Taxation and financial policies
"Nicolae Titulescu" University, Bucharest	Economic Sciences	Public finance and fiscal policies of national and Community
"Spiru Haret" University, Bucharest	Financial and Accounting Management	Accounting and fiscal management of the company

(Source: processing author, based on the educational offer published on the official websites of Romanian universities)

In the current period, regardless of the university where taxation is studied, are debated the international aspects, since the structure of any fiscal system and fiscal policy impact are always carefully by the local, regional, national and international dimensions of taxation (Gordon and Hines, 2002).

#### **4. What are the opportunities offered by studying taxation?**

Often, the presentation of educational offer for a program of study from the field of taxation begins by responding to the question Why should study taxation at our university? The quality and relevance of the information provided, competencies and skills acquired and the opportunities to develop a career are key elements for choosing a study program in the field of taxation.

In this sense, may be offered the following examples:

- Since taxation is seen as a business cost, tax knowledge is particularly important for all persons engaged in any business (The University of Auckland. Business School, 2014).
- In order to cope in a complex commercial and real life and find the best fiscal solutions, career from the field of taxation is dynamic and placed in the center of the corporate world (Irish Tax Institute, 2014).
- Understanding the complexity of the tax system, applying knowledge from the tax area for appropriate business decisions, and the acquisition of skills to become a tax adviser for public and private sector can only be achieved by studying taxation (The UNSW Australia Business School, 2014).
- Completion of the master program "Law and Taxation" it possible to reinforce the relationship between the law profession and the world of business, and the acquired knowledge ensure success in the legal, taxation and business fields (Limerick Institute of Technology, 2014).
- The existence of some protocols with professional organizations and business representatives working in the tax area confers attractiveness to a master's program for the study of taxation, being always founded on the requirements of the real economy (Academy of Economic Studies, 2014).

From the examples described above, we can conclude that not only economists should study taxation, but any individual who understands that taxation can be a stimulating factor in any business done.

Study of some aspects of fiscal area can be realized through taxation seminars organized by professional organizations or consulting companies. Most of the times, these seminars is addressed to professionals and business representatives. For example:

- Starting from the slogan "Learn from the experts!" two companies with a global recognition (BDO Romania and Wolters Kluwer Romania) have provided for practitioners from Romania, through a tax seminar organized on April 11, 2013, the best fiscal information regarding the novelties for income taxes, withholding tax, income tax and value added tax (Wolters Kluwer Romania, 2013).
- Tax advisors and business representatives had the opportunity to discuss the changes in Tax Code and Fiscal Procedure Code in a taxation seminar, organized by the Chamber of Tax Consultants in collaboration with the Ministry of Finance on 10 August 2013. By attending this seminar, tax advisors have benefited from finding solutions to facilitate the practical application of fiscal amendments, but also the registration of five hours of professional training (Chamber of Tax Consultants from Romania, 2013).
- Tax exemption on profits reinvested, building taxation, adjustments for capital goods, tax implications of transactions with taxpayers with a canceled code and practical aspects of taxation for nonresidents are some of the topics that will be discussed at a seminar of taxation and accounting, organized by Rentrop & Straton (the best known

company from Romania specialized information market) in November 4, 2014 addressed to persons from the financial-accounting department, accounting officers, economic or financial directors, people from economic and legal environment, but also from management and shareholders of the company (Rentrop & Straton, 2014).

## 5. Conclusions

Without claiming an exhaustive approach, through this article we wanted bring to the reader useful information concerning the ways in which taxation can be studied. By graduating Bachelor, Master or PhD programs in the tax area or by attending seminars or workshops on issues of taxation, we believe that everyone discovers taxation as a science, art and mindset, discovers taxes as economic instrument and observes taxation as stimulating factor.

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# ARGUMENTS ON USING COMPUTER-ASSISTED AUDIT TECHNIQUES (CAAT) AND BUSINESS INTELLIGENCE TO IMPROVE THE WORK OF THE FINANCIAL AUDITOR

Ciprian-Costel, Munteanu<sup>1</sup>

## **Abstract:**

*In the 21st century, one of the most efficient ways to achieve an independent audit and quality opinion is by using information from the organization database, mainly documents in electronic format. With the help of Computer-Assisted Audit Techniques (CAAT), the financial auditor analyzes part or even all the data about a company in reference to other information within or outside the entity.*

*The main purpose of this paper is to show the benefits of evolving from traditional audit techniques and tools to modern and, why not, visionary CAAT, which are supported by business intelligence systems. Given the opportunity to perform their work in IT environments, the auditors would start using the tools of business intelligence, a key factor which contributes to making successful business decisions. CAAT enable auditors to test large amount of data quickly and accurately and therefore increase the confidence they have in their opinion.*

**Keywords:** audit techniques, computer, software systems, business intelligence, spreadsheets.

**JEL Classification:** code M42 - Auditing

## **1. Introduction**

The process of selecting the most relevant information, of analyzing and structuring it is not an easy task for the auditor motivated to seek the most appropriate tools. In the absence of information systems, the auditor and the management will never get real-time information to make effective decisions. Improving decision effectiveness and productivity of the economic entity is possible thanks to business intelligence systems, capable of generating information which is accurate, relevant and current and can be verified by the auditor and improved by the management.

The modern computerized environment, in which any audited entity operates nowadays, creates new opportunities, but also new risks, additional rules regarding security, accuracy and acceptable error rates, thus constantly influencing the auditors' work. The increasing complexity of computerized accounting systems such as ERP (Enterprise Resource Planning) and the large volume of transactions recorded in the present days have led to the rapid replacement of classical "manual" audit techniques with modern techniques, computer-assisted, known as CAAT (Computer Assisted Audit Techniques).

## **2. Research Methodology**

The methodology includes analysis of national and international literature, defining the concepts underlying the traditional method of reporting and the modern method performed using computer-assisted techniques, relying on sources such as BDI and ISI articles, magazines, books and specialized sites. The present paper analyzes our vision on the use of business intelligence systems and computer-assisted audit techniques and the benefits they bring to the audit mission statement.

The research starts with a general description of the solutions presented by business intelligence and computer-assisted audit techniques, supporting the need to implement them in the current context of information technology expansion. Between tradition and modernity, the financial auditor must make certain choices, with their advantages and disadvantages, with the risks specific to the use of general or specialized software applications for financial audit.

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Finally, the article presents a practical application of the use of computer-assisted audit techniques, specifically spreadsheets, in the audit tests performed on a case study.

### **3. Challenges of the 21<sup>st</sup> Century for the Financial Auditor**

Today, in a computerized era, the need arises for the auditor to express an opinion based on real-time information, instead of the classical historical approach. The auditor needs to consider qualitative information produced by information systems, as pressures come, in this respect, both from the internal management and the external shareholders, who need to be informed to withstand competition.

As business intelligence systems are increasingly used by economic entities, the auditors' interest in them increases as well, along with the need to identify and understand all transactions and practices recorded by the computerized system, which, according to the auditor's judgment, may be significant for the financial statements. In general, business intelligence refers to software designed to assist managerial decision through a system able to manage the information available in an organization.

Auditing Practice Regulation 1009 "Computer-Assisted Audit Techniques" is developed based on the International Auditing Practice Regulation IASP - "Computer-Assisted Audit Techniques") approved by the International Federation of Accountants (IFAC) in the 2001 edition.

Computer-assisted audit techniques can be defined as a computer-based instruments designed to improve the efficiency and performance of the audit process and it is a growing field in the 21<sup>st</sup> century. These techniques include basic office software, spreadsheets and word processors, as well as advanced software programs including smart tools for business, able to perform statistical analysis, in parallel with the development of specialized audit software programs.

CAAT is an important step ahead from the analysis of financial statements and customer confirmation procedures, as this classical techniques are based on a small part of the transactions and may not always reflect the real situation of the entity in the audited period, despite the auditors' efforts and professionalism. Using computerized applications, the auditors develop a clearer picture of the customer's "business" as they are able to verify large volumes of data, classify them according to certain criteria, they may issue statistics and even forecasts, being provided with a complex picture of the audited company.

In general terms, computer-assisted audit techniques refer to any computer program used to improve the auditing process. Specifically, it refers to software for extracting and analyzing data, containing spreadsheets (eg. Excel), databases (eg. Access), statistical analysis (eg. SAS), etc.

The advantages of audit software include: independence from the audited system using a read-only copy that cannot be influenced, the use of specific auditing methods such as sampling, the production of specific documents for every test performed by the software that may be included in the auditor's worksheets.

Specialized audit software can perform the following: questionnaires, data stratification, simple extractions, identifying missing sequences, statistical analysis, calculations, identifying duplicate transactions, creating pivot tables and cross tabulation.

Other uses of computer-assisted audit techniques include:

- the ability to create electronic worksheets on a centralized database, inside which the auditor may coordinate current audits and can access information from past or similar projects. In addition, the auditor will use a standardized audit report format, which improves the quality of the worksheets;

- the possibility to detect fraud through the use of tools that can identify unexpected or unexplained patterns in the audited data. No matter how simple or complicated the

computer techniques used, computerized data analysis provides many benefits in the prevention and detection of fraud.

- continuous monitoring as a constant process of accumulating, analyzing and reporting company data in order to identify business operational risk. Auditors are provided with a comprehensive data system as long as they make sure that the management continuously monitors activities on all computer systems, on all transactions and applications used.

#### **4. The Advantages of Using Computer-Assisted Audit Techniques**

When using computer-assisted audit techniques, the auditor discovers that work is improved and made more efficient, as it benefits from many advantages compared to the traditional verification system. Among the advantages of using these techniques, we include:

- testing the client's accounting software, as the auditor can verify whether it works correctly or not, since the volume of transactions subject to auditing is extremely high. The only effective way to test the client's program is by using computer-assisted techniques.

- testing of large volumes of data in a short time and with good accuracy, so that the auditor has more confidence in his opinion.

- testing the data source, as the auditor can test the accounting program and its records directly at their origin, rather than testing paper documents that are supposed to be accurate replicas.

- cost effectiveness because, once an audit software is implemented, it can be used year after year to obtain audit evidence, provided the client does not regularly change their accounting software.

- making comparisons between the results obtained using computer-assisted techniques and the results of traditional tests. If similar results are obtained, the auditor's general confidence will grow.

On the other hand, the auditor is not the only one to benefit from these advantages. The audited entity also acquires more certainty regarding the accuracy of the transactions and the extent to which they comply with existing policies. By constant use of automatic transaction analysis and through continuous monitoring, these techniques allow testing and validating of critical company data, independently and in real time.

The management of the audited entity may use this information to proactively identify exceptions and take immediate action to meet standards, while the implementation of these programs help increase confidence in the data underlying the financial statements.

#### **5. Analyzing Specific Risks**

When auditors choose their work tools, they should evaluate the following characteristics: ease of use, ease of data retrieval, the ability to access a wide range of data files on different platforms, the ability to integrate data in a different format, the ability to define fields and select from standard formats, menu functionality to process analysis orders, setup and changes of simplified questionnaires.

The traditional auditing method allows auditors to reach a reasonable conclusion based on a limited sample of a population, but does not allow exhaustive examination of a sample or of all available data. Using small samples can decrease efficiency of the final conclusions, but the auditor states that sample selection is based on generally accepted auditing standards and then the sample is statistically valid.

Computer-assisted audit techniques solve this problem as they are able to analyze large volumes of data to identify errors. An audit based on these techniques will not examine a sample, but all transactions of the audited entity in the period under audit. Then the auditor tests the data to identify possible anomalies - for example you can find VAT registration codes wrongly recorded by connecting your system to the national database or

erroneously duplicated transactions by using spreadsheets. Identifying these potential problems, the auditor can address the management stating that 100% of transactions have been tested and 100% of anomalies have been identified.

Another great advantage of computer-assisted audit techniques is allowing to test specific risks. For example, when the auditor must verify issued invoices: the traditional method allows the auditor to randomly select a "statistically valid" sample of 100 invoices from various moments of the audited period. Since the total number of invoices may exceed 3,000, chances are very small to detect all possible errors in the selected sample. Instead, using computer-assisted techniques, the auditor can check all 3,000 invoices and will surely identify all existing errors.

What do you prefer to say in an audit report? That "the auditor reviewed 100 invoices and identified 5 invoices incorrectly recorded" or that "the auditor used computer-assisted techniques to review all invoices from the audited period, identifying 78 erroneous records"?

However, we must stress that the analysis using these techniques is limited to data stored on a systematic pattern. Unfortunately, few data is recorded in this manner and the available database usually lacks information or is incompletely classified, may be difficult to access or data integrity is doubtful. Therefore computer-assisted audit techniques are currently used along with the other traditional techniques and instruments. There are audits in which computer-assisted techniques cannot be used at all, as well as audits which cannot be performed efficiently and relevantly without these techniques.

## **6. Specialized Audit Software**

There are already different kinds of computer audit programs, such as special package software, to be adapted to each case by changing the file format to be queried, by indicating the required parameters and the shape of the desired result. In addition, the auditor may also use other available programs, designed for a specific purpose, special programs in which it is not possible to adapt a software package because of the computer, of the processing method or of the way the chosen files are organized. And last but not least, we have access to the usual software used by the client to process data, such as Excel, for sorting and printing files.

The Institute of Internal Auditors (IIA) conducted an analysis of audit software and issued several key recommendations for the auditor in selecting appropriate tools for computer-assisted techniques:

1. establishing the mission statement, the objectives and priorities of the audit of an entity: the auditor should consult management about key priorities of the mission statement and the way to apply computer-assisted audit tools to perform this task more efficiently.

2. determining the audit type and extent: what is the stated audit objective? What questions will the auditors ask and where do their investigations stop? Knowing the answers to these questions is very important to decide what audit software is most appropriate.

3. assessment of the entity's technological environment, meaning that audit tools will be selected to work with other software, hardware and network systems already implemented. There are cases where existing IT infrastructure may contain useful tools for the auditor, to be used along with other automated software tools for an improved result.

4. assess the risks inherent to any audit software implementation, so that the auditor is not in a position to reach erroneous conclusions or make assumptions contrary to the entity's operations.

Audit software has multiple uses in the financial auditor's work, such as:

- calculations checkup: for example the program indicates the total amount of individual records of purchases in the daily register in a certain period. The auditor verifies whether this total amount corresponds to the entries in the ledger.

- identifying the violations of the company regulations: for example the program checks if there are receivables from clients whose amount exceeds the standardized limit.

- identifying anomalies: the program checks if there are clients who received discounts exceeding 50% or for whom the ledger balance exceeds the total amount of sales.
- development of new analysis and calculations: for example the statistical analysis of stock movements to identify slow moving stocks.
- selecting items for audit tests: obtaining a stratified sample of general ledger balances to be used as the basis for the rotation speed of the debtors.
- checking the level of document integrity, so that the auditor ensures that all documents have been recorded correctly.

Obviously, the financial auditor may encounter some difficulties in using audit software:

- high implementation costs: the initial cost is high because you need to research and understand the client's procedures before using the audit software to access and query those files.
- changes are expensive, meaning that if the client changes the accounting software, then the audit software will require changes as well and they are not cheap.
- inadequacy of simplified accounting software: it is unlikely for the auditor to use an audit software suitable to a simplified accounting program. As a simplified software does not provide complete information, it is very difficult for the auditor to identify all procedures. It will be hard to justify the cost of a special audit software to test these programs considering the possible benefits of the audit or the possibilities to recover the costs of this software.
- exaggeration of investigations: the tendency to produce overly laborious investigative, too expensive programs, in which processing and reviewing take too long. All these increase audit costs, without justifying utility.
- the volume of results: in the end the results might have a too high volume, either because of poor software design or because of using the wrong parameters in a test. In this way, the auditor will lose too much time to decide what is relevant from this large volume of results.
- client database: the audit software must run on an effective client database for the auditor to test the client's existing accounting program. Some customers might not allow auditors to run the audit software directly on the actual files for fear they would corrupt their database. The alternative solution is for the audit program to run on a backup copy of the actual database, provided that the copied files are identical to those from the client's database.

### **7. Case Study - Using Spreadsheets to Identify Anomalies**

S.C. SPORT S.R.L. is a company that deals with selling sports equipment, especially in tennis - rackets, balls, clothes. Goods are purchased from various suppliers and then sold exclusively on the internet. The company sells about 200 kinds of tennis rackets, each identified by a unique product code.

Customers' orders are made directly online, mostly for a racket or two. The software receiving the orders automatically checks order details, customer's address and credit card information before the goods are prepared and shipped. The integrity of the ordering system is periodically checked by an independent Internet service company.

As external financial auditor of SC SPORT SRL, you have just started planning the audit of the company sale system. You have decided to use tests to verify the data entered by customers in the sales system. This test will include making false orders to the company's online system.

Here is a list of the types of tests to be carried out during the audit of the client's financial statements, so as to confirm the accuracy and completeness of data recoded by the sales system:

- enter an order for a negative number of tennis rackets. Reason for test: make sure the system accepts only amounts expressed in positive numbers, although the company still can not deliver a negative number of products.

- enter an order for 10 tennis rackets. Reason for test: the system must perform a checkup to identify possible errors. The display should show a warning message asking the customer to confirm the order once it exceeds a certain limit, for example more than 2 rackets.
- enter an order without filling in the payment data. Reason for test: make sure the orders are paid before goods are shipped. This limits the amount of bad debt.
- enter wrong item code. Reason for test: make sure the system detects the wrong code and issues an error message, rather than to register a similar code and accept the order as such.
- enter incorrect data from the customer's credit card. Reason for test: make sure the system detects erroneous data so that orders are paid before goods are shipped. This also limits the amount of bad debt.
- enter client's address wrongly. Reason for test: make sure the online system has access to a correct database of addresses and postal codes. For any error, there should appear an error message. This way, goods will be shipped to a valid address.

The audit tests which can be programmed on the audit software for the sales and inventory system of SC SPORT SRL are:

- checking the calculations of daily sales. Reason for test: make sure that the computerized daily sales are correctly implemented and thus the balance sheet checks out.
- analysis of the age of inventory. Reason for test: make sure that old goods are detected, which are to be recorded as net value, not as sale price.
- select a sample of inventory at year end, during a physical inventory checkup. Reason for test: comparison of goods from a sample with goods recorded as available in the online system, within an examination system that works faster than a manual system.
- select a sample of invoices to verify shipping. Reason for test: analyzing the integrity and accuracy of recorded documents from an actual sample within an examination system that works faster than a manual system.
- check invoice numbers. Reason for test: be sure to follow the chronological order of numbering and registration in the sales book.
- check payments for all issued invoices. Reason for test: all orders are paid online so unpaid invoices would be a violation of the system rules and the auditor should investigate them.
- verification of provisions for customers. Reason for test: identifying reasons why shipped goods are returned, as returns can be caused by errors in the ordering system. Investigating the provisions, the auditor investigates the system itself.

Further on, we illustrate how spreadsheets help the financial auditor identify duplicates of invoices to customers, a common operation in audit practice, as it corresponds to a situation in which the auditor is found quite frequently: when receiving an extended list of transactions performed in a period of time (such as issued invoices), the auditor must make sure there are no duplicate records (several records of the same invoice). Even in cases where duplicates are allowed (if multiple payments are made on the same invoice), it may be necessary to analyze the reason for duplication as well as records accuracy.

Figure 1 shows the data set containing a list of invoices issued during January-March 2013 by the audited entity and it is required to identify any duplicate (invoices recorded several times). As can be seen, each invoice indicates the client's name and the total invoice amount.

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4	ABC1235	06.01.2013	SC AAB SRL	1181								
5	ABC1236	07.01.2013	SC ADA SRL	506								
6	ABC1237	08.01.2013	SC AEA SRL	1318								
7	ABC1238	09.01.2013	SC AAF SRL	1808								
8	ABC1239	10.01.2013	SC ASA SRL	749								
9	ABC1240	11.01.2013	SC AXA SRL	1042								
10	ABC1241	12.01.2013	SC AAV SRL	1992								
11	ABC1242	13.01.2013	SC AZA SRL	1976								
12	ABC1243	14.01.2013	SC AAR SRL	1277								
13	BBB2222	01.02.2013	SC BAB SRL	862								
14	ABC1237	02.02.2013	SC BSB SRL	1257								
15	BBB2224	03.02.2013	SC BQB SRL	1695								
16	BBB2225	04.02.2013	SC BXB SRL	1929								
17	BBB2226	05.02.2013	SC BCB SRL	1350								
18	BBB2227	06.02.2013	SC B2B SRL	669								
19	ABC1237	07.02.2013	SC BVB SRL	522								
20	BBB2229	08.02.2013	SC BZB SRL	911								
21	BBB2230	09.02.2013	SC BMB SRL	1314								
22	BBB2231	10.02.2013	SC BBX SRL	1159								
23	ABC1237	07.03.2013	SC CCC SRL	1926								
24	CCC3334	08.03.2013	SC CAC SRL	1071								
25	CCC3335	09.03.2013	SC CSS SRL	584								
26	CCC3336	10.03.2013	SC CDD SRL	608								
27	ABC1237	11.03.2013	SC CQC SRL	1537								
28	CCC3338	12.03.2013	SC CCE SRL	564								
29	CCC3339	13.03.2013	SC CEC SRL	1755								
30	CCC3340	14.03.2013	SC CXX SRL	1998								
31	CCC3341	15.03.2013	SC CZC SRL	1892								
32	CCC3342	16.03.2013	SC CAA SRL	1520								
33												

**Figure 1 - Details of the initial data set (own projection)**

New features to the 2013 version of the Microsoft Excel allow the identification of duplicate records in a fast and simple method. This involves the following steps:

- Step 1 - select the cell range that contains invoice numbers (in this case from A3 to D32), then select *Conditional Formatting* from the *Home* section of the main menu. In this command (which is also organized as a menu), choose the option *Highlight Cell Rules* and then *Duplicate Values*. The result of this command is the display of a dialog box, from which the user can choose one of the highlighting options (by choosing the background color and text color). The whole process is shown in Figure 2;

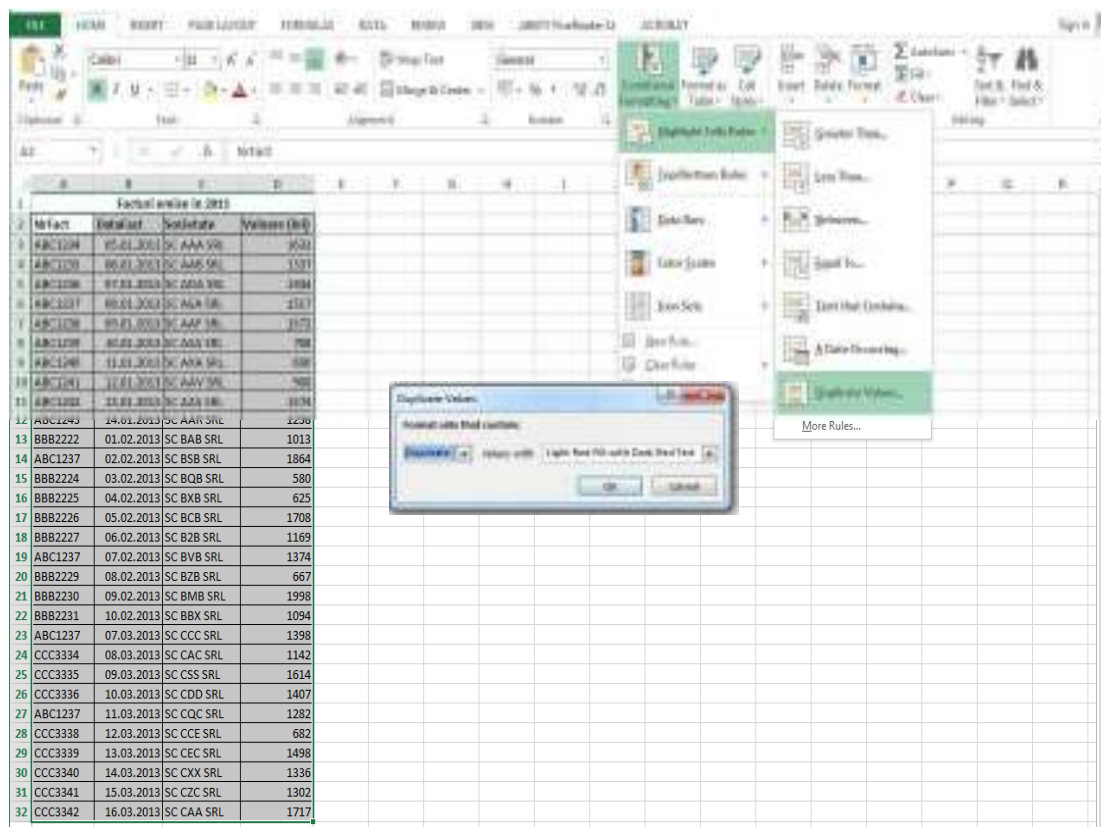


Figure 2 - The first step of the identification process (own projection)

• Step 2 - as duplicate invoice numbers were highlighted (using a different color) in the previous stage, now we only need to bring them on top of the list, so that the auditor does not have to go through the whole list in order to see all suspicious records. Achieving this re-ordering involves selecting one of different colored cells in the list of invoice numbers (that is, select a duplicate invoice number), followed by the *Sort* command from the dropdown menu (right-click), then choose the option *Put Selected Font Color on Top* (to place cells with this color on top). The process is summarized in Figure 3.

## 8. Conclusions

In-depth knowledge of the facilities offered by spreadsheet applications can bring significant saving of time and resources to a wide range of users. The modern auditor who, almost without exception, carries a significant part of his work by testing data, can greatly benefit from using these facilities.

Business intelligence and CAAT provide auditors with the expertise and tools necessary to comply with new regulations and standards, both professional and IT, helping them collect information quicker and in real time, and understand the client's work and environment. As long as auditors obtain, process and analyze information faster than with traditional methods, the quality of the audit mission is increased and risks are reduced.

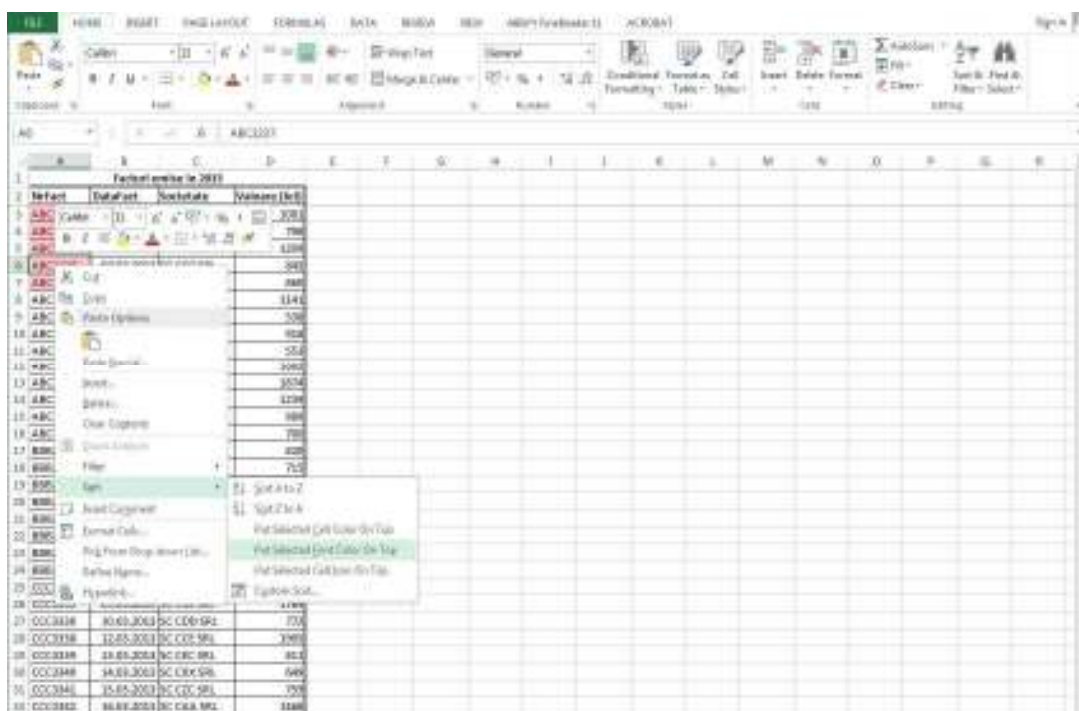


Figure 3 - The second step of the identification process (own projection)

Since the auditors' current option for software applications, as basic IT support of their work, cannot be challenged, the author believes that learning and properly using computer assisted audit techniques and advanced facilities offered by business intelligence systems can only be beneficial for the representatives of this profession.

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# PERSPECTIVES OF RISK MANAGEMENT IN BANKING IN THE CONTEXT OF GLOBALIZATION AND CURRENT ECONOMIC CRISIS

Clara-Iulia, Zinca (Voiculescu)<sup>1</sup>

## Abstract:

*The banking industry, as well as the entire financial services industry, has experienced significant changes due to the development of new technologies, government deregulation and globalization, generating both opportunities and risks. The range of financial products and services offered by the banks expanded by adding new ones previously offered by other types of entities in the financial services industry. At the same time, competition continuously increased, from both banks and from other segments of the financial industry. Thus, from risk management under traditional financial intermediation, it was reached a dynamic, active and complex risk management in terms of reduced government regulations and in an environment with higher risks. Moreover, the economic crisis triggered in 2007 brought new challenges for the banking system, revealing many weaknesses in banks' risk management practices. By using appropriate research methods, such as document analysis, interpretative methods, this paper aims to identify the challenges of risk management in banking institutions in the current context of globalization and economic crisis, when the banks should focus on a better understanding of risk and on development of new best practices to ensure efficiency of risk management and better adaptation to dynamic changes of the economic environment.*

**Keywords:** risk management, banks, crisis, regulation, efficiency

**JEL Code:** G32, G21, G28

## 1. Introduction

The banking industry registered significant changes since '80s, as a result of innovation and accelerated growth in financial markets and the internationalization of financial flows.

The profits achieved by the banks as a result of traditional intermediation activities, consisting of attracting of deposits and granting of loans began to eroding more and more towards the end of the 1980s, while increasing capital adequacy requirements. Meanwhile, the competitive pressure increased in the banking market from both the banking institutions, and non-banking financial ones. To meet these challenges, banks have focused their attention to expanding the business based on superior information and knowledge management capabilities, taking advantages of the opportunities offered by technological progresses and deregulation.

Currently, these activities based on information and financial innovation are the main source of profit, while traditional bank intermediation activity is less profitable.

Internationalization and deregulation facilitated the interaction between different types of risk, both inside banking entities and to the level of the banking system, as well as favoured worsening the contagion and this way the global rapid expanding of the financial crisis through banking systems.

In this way, the financial crisis started initially in the United States in 2007 spread soon after in the EU and worldwide. The entire banking sector globally registered significant losses. However, the banking performance recorded major variations, even among banks headquartered in the same country, but also there were differences between the performances achieved by different countries' banking systems

Analyzing the causes which determined these differences in bank performances it was found that one of the preconditions identified for superior performance during the crisis was the adoption of the pre-crisis prudent risk management practices.

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Following the detection of serious weaknesses in the banking risk management, this has become a priority of the authorities involved in the regulation and supervision both of banking systems and banking institutions

## **2. Methodology of research**

The aim of the present work is to present main challenges and perspectives of the banking risk management in the context of the globalization and of the actual economic crisis.

Having a predominant theoretical character, the study is using as research methodology: document analysis, interpretative methods, nonparticipative observation.

In order to achieve the research's objective, we resorted to fundamental research by approaching the theory on issues related to risk, specificity of banking risks, banking risk management; finally a number of challenges faced by banking system during the present period are exposed.

Although it is theoretical, the paper is formulating practical conclusions applicable by the entities interested in, consisting of potential strategic and operational objectives whose implementation would bring major competitive benefit to the respective banking institutions.

## **3. Risks in banking activity: concept; specificity; typology**

### **3.1. Risk concept; specificity of banking risk**

In general the risk is regarded as the possibility of an event with adverse consequences towards the topic.

Legal approach delineates risk situations to situations where the losses are related to the fault of the counterparties; In this regard, the risk is seen as an external phenomenon that is impossible to be influenced by the partners.

Based on probability theory, risk can be defined in relation to instability of the expected effects, respectively as being the possibility that the results to be different from those expected. However, in ordinary language, the risk connotation is negative, risk managers being interested only in the effects that are lower than expected. Therefore, the risk can be addressed both as threat and as an opportunity to improve the initial objectives proposed to be made (Ducu CM, 2014, pp.13)

Credit risk can be defined as a negative impact of various uncertainty sources on the profitability of the bank.

Although there is no universally accepted definition for banking risk, there are three main features of banking risks recognized by specialists: the risk comes from economic instability which is prevalent in all processes of economic life; the critical point for manifestation of bank risk is dependent on the objectives of the bank; banking risk is the possibility of failure in achieving the bank's objectives.

The most common meanings defining risk in banking are based on traditional function of banks, respectively the intermediation. From this point of view, risk is seen as a unexpected loss recorded in the banks' asset caused by the market conditions, respectively the credit or liquidity risks. In fact, banking risks are not represented only by risks specific for the traditional banking activity, but by all the risks that banks face in the current activity.

Other approaches are those related risks in terms of potential or actual losses. From this perspective, risks are seen as phenomena that occur in banking activities, causing negative effects manifested as either deterioration in the quality of business, or as a reduction of profits, or by recording losses that may affect the proper functioning of the bank.

Based on these approaches, we consider bank risk as the likelihood of achieving different outcomes from those expected, representing on the one hand a cause for recording of unforeseen negative consequences and on the other hand risk is an effect of known and unknown events.

### 3.2. Typology of banking risks

Banks face several risks, which may be related to:

- Late payment or non-payment from creditors ;
- Depositors request for of refund their money faster than the bank has scheduled;
- Changes in market interest rates, which may adversely affect the value of bank loans;
- Loss in value of the investments in securities or private companies;
- Losses due to human error in data entry or fraud on information systems.

Given that a bank faces a variety of risks, but also a variety of situations that they generate in order to respond certain interests both theoretically and practically, it was proved useful to classify these risks according to specific criteria.

The risks identified by the Basel Acords, the most important set of recommendations on the regulatory framework for banking risk at global level and on which banks focuse, are as follows:

- credit risk;
- market risk, whose components are: interest rate risk; equity risk; currency risk; risk commodity risk;
- operational risk (including legal risk)

In addition to these three types of risk, there are also identified other types of risks that banks face and need to manage properly, as follows:

- liquidity risk;
- business risk;
- reputational risk.

NBR Regulation no. 5 of 20 December 2013 on prudential requirements for credit institutions defines significant risks as those risks with significant impact on the economic situation and / or reputational credit institutions.

According NBR Regulation no. 5/2013, the main risks identified as being faced by the banking institutions are as follows:

- market risk - caused by adverse movements in market prices (stock prices, interest rates, exchange rates);
- model risk - the effect of errors in the development, implementation and use of internal models that underpin certain decisions;
- credit risk - consequence of failure by debtor of the contractual obligations;
- country risk - determined by events occurring in a foreign country;
- transfer risk - resulting from foreign exchange restrictions imposed by the government of the debtor's country and it is manifested through inability of a debtor to convert local currency into foreign currency and therefore to make debt repayments in the foreign currency;
- liquidity risk - determined by the credit institution's inability to meet its obligations at their maturity;
- legal risk - consequence of the fines, penalties and sanctions which the credit institution is liable in the event of failure or misapplication of legal or contractual provisions, but also of the fact that the contractual rights and obligations of the credit institution and / or its counterparty not are set properly;
- interest rate risk - the result of adverse changes in interest rates;
- risk related to information technology (IT) – led by by inadequacy of IT strategy and IT policy, of information technology and information processing with respect to management capacity, integrity, controllability and continuity or misuse of information technology;
- reputational risk - caused by unfavorable perception of the image of a credit institution by customers, counterparties, shareholders, investors and supervisory authorities;

- strategic risk – caused by changes in the business environment or adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

In terms of **risk exposure of a bank**, banking risks are classified into **pure risks** and **speculative risks** (A. Olteanu, FM Olteanu, L. Badea, 2012).

Pure risks are those risks for that loss is the only possible outcome; they may actually be materialized in losses from banking activities related to events that are beyond the bank's control and, therefore, a person cannot consciously take on pure risk. The forms of the pure risks are: physical risks (material damage, accidents); financial risks (loss of data, loss settlement tools, destruction of archives); liability risks (nonobservance the rules, errors in operation documents, manage accounts etc.); criminal risk (fraud, theft, embezzlement, etc.)

Speculative risks are the oposite of pure risks and can be materialized in gains or losses as a result of actions taken in order to maximize profits, either as a result of aggressive lending policies (loans not repaid at maturity) or of the losses to the portfolio of securities under their volatility, either due to a defective structure of bank assets (eg shares held in non-bank companies when they do not achieve their goals of profit).

Given **allocation in the banking system**, we can delineate the banking risks (Nitu I., 2000) into:

- diversifiable risks - which end up being relatively insignificant in their division to a sufficient number of balance sheet items, so the law of large numbers can be activated. For these types of risks is possible to design a specific protection.
- nondiversifiable risks – which cannot be reduced to an insignificant level by internal treatments specific protection.

Depending on the range of banking transactions that may engender risks and on the form of these risks, we identify three main categories of risks which can be grouped under the main types of risk assumed by a universal bank, summarized in Table no. 1:

**Table no. 1 - Classification of risks according to the bank feature**

Bank feature	Risk category	Type of risk
Business environment	Environmental	Competitive risk
		Economic risk
		Legal risk
		Risk of fraud
Provided banking services	Provision	Operational risk
		Technological risk
		Risk of new products
		Strategic risk
Balance sheet management	Financial	Credit risk
		Liquidity risk
		Interest rate risk
		Currency Risk
		Risk of insolvency

Source: Synthesis conducted by author

Of all the financial risks are in permanent interaction. Therefore, excessive exposure to credit risk may generate liquidity risk in a situation where the bank liquid assets, decreased as a result of default loans, are not sufficient to fund operations and cover its outstanding obligations. In turn, liquidity risk may pose a risk of insolvency, if the bank is unable to quickly obtain scarce resources. Moreover, due to the banking market integration and the high degree of interconnection issues faced by a bank may negatively affect the partner banks generating systemic risk and enhancing contagion effects.

#### **4. Banking Risk Management: basic elements; process; regulatory**

Bank risk management is the entire set of processes and models used by banks to implement risk-based policies and practices, whose common goal is to enhance the risk-return profile of the bank.

Given that any present potential risk may be a certain loss in the future, the objective of the risk management function is that each bank risk can be identified before the event effects, even when designing or promoting a product or service, in order to be then monitored and controlled at all levels of banks and for all activities. However, taking into account that the risks are not as visible and tangible as income or costs, one of the challenges of risk management which affects the credibility of the measures is the measure of risk.

This is why during the latest approximately two decades were dominated by the emergence of numerous models and risk management tools designed to quantify and monitor risks. Adoption of risk-based practices has accelerated and expanded to the entire banking industry, the main reasons being: strong incentives on banks to act in this direction; guidelines issued by regulators regarding the risk measurement and the defining risk-based capital; risk management modeling tools were significantly enriched for all types of risks.

With regard to the regulatory framework for risk management in Europe, this has experienced changes over the past two years. The recent developments are contained in the following documents:

- Directive 2013/36 / EU of the European Parliament and of the Council - contains provisions on reiteration of the principle of proportionality and risk-based provisions regarding the treatment of risks, including clearly specifying the risk management function, its coordinator and risk management committee, duties and responsibilities of the management body in relation to risks;

- Regulation U.E. No. 575/2013 - contains additional disclosure requirements with respect to the objectives and risk management policies.

At national level, NBR Regulation no. 5 of 20 December 2013 regarding prudential requirements for credit institutions regulates the administration frame of credit institutions in Romania, the internal assessment process of capital adequacy and conditions of outsourcing activities of credit institutions.

Regarding the administration framework of the activity, the Regulation provides that credit institutions are responsible for the existence of a such a framework rigorously designed, adapted to the nature, scale and complexity of the risks inherent in the business model and activities developed by them.

Responsibility for implementing such a framework to ensure the effective and prudent management of the credit institution belongs to management body.

This framework should include at least the following:

- a) organizational structure and organization;
- b) the governing body of the credit institution, namely: roles and responsibilities, composition and functioning, general framework for the activity;
- c) risk management;
- d) internal control;
- e) information systems and business continuity;
- f) transparency requirements.

It is also provided that risk management within a credit institution means:

- a) the existence of a culture of risk;
- b) the existence of a risk management framework;
- c) the existence of a policy for the approval of new products.

Regarding the risk management function, NBR Regulation no. 5/2003 provides that credit institutions to dispose of such a distinct function which fulfills the following conditions:

- to be independent from operational functions, with sufficient authority, importance, resources and access to the governing body;
- to be a central component in the credit institution and structured so that it can implement risk policies able to control the risk management;
- to ensure that all significant risks are identified, measured and properly reported.

The role of the risk management function within the credit institution is extremely important, ensuring that it has effective risk management processes, involved in:

- a) developing and reviewing strategies and decision-making;
- b) analysis of related party transactions;
- c) identifying the risks of complex legal structure of credit institutions;
- d) assessment of significant changes;
- e) internal risk measurement and evaluation;
- f) monitoring of risks;
- g) issues of unapproved exposures.

The overall risk management model in any banking institution includes the following steps:

- Identifying potential risks in product / specific banking activities;
- Assessment / risk measurement, which involves expressing the equivalent value of potential losses that generate credit risk events;
- Monitoring and controlling risks, which aims extent to which banking activities are carried out according to regulations as well as continuous updating of risk profile related to each product;
- Mitigation of risks, namely the implementation of action plans established as a result of the risk assessment and the measures taken in case of risk indicators that exceeded the acceptable level of risk;
- Documenting and reporting risks to the bank structures responsible for monitoring and control and / or to the banking supervisor (BNR) or other institutions that manage credit risk information (Credit Bureau, National Office for Prevention and Control of Money Laundering, etc. ).

## **5. Challenges and perspectives of banking risk management in the context of globalization and the current economic crisis**

During the crisis, and especially in recent years significant changes have been recorded in the affairs of the banking institutions, which were manifested by activity shrinking due to a contraction of the market and to an increased competition, as well as by reducing revenue margins; in addition to these challenges banks face difficulties related to the implementation of new regulations on risk management requirements, quantitative and qualitative extended capital requirements, requirements on liquidity, as well as conditions on credit risk of the counterparty. There are opinions that the new requirements introduced by Basel III Capital Accord would lead to reduced interest on financing of the credit institutions, and that a challenge will be represented including by the banking industry's ability to achieve profit.

In front of these challenges banks' leadership reacted by placing the risk management as top priority. The focus of the risk teams transferred nowadays from measurement, compliance and control to the mitigation of problems in the areas of lending, allocation of capital, liquidity and funding.

Reviewing the issues encountered by banks this period and analyzing the factors considered by various analysts that have contributed to this situation, we summarize the challenges faced by the banks management, representing also potential strategic and operational objectives, as follows:

**→ Developing an effective risk culture**

Initially, especially among emerging countries, it was not given proper attention to cultivating a culture in terms of risk among employees, since developing a risk culture takes time and involves more stakeholders.

The situation changed in the current economic and banking environment in which credit institutions are compelled to deal promptly with existing and emerging risks. Under these circumstances, it is important to involve actively in risk assessment the functions of business, of risk and of control, with clear definition of the responsibilities of all parties involved and their commitment to action to develop the culture of risk across banks. This requires from all interested parties, among other things, better communication: from the specialists needed to present aspects of risk in a language and in terms that can be understood by all those involved and from others functions increased efforts are needed to understand the risk issues.

**→ Improve the collection of receivables**

Losses from bad loans rose continuously and significantly during the current economic crisis, affecting this way the results of the banks and even their proper functioning. The solution to this problem involves on the one hand, the identification and implementation of actions regarding the bad loans that may have an immediate impact on bank performance, on the other hand supporting the implementation of improvements in the management of credit on the recovery strategy, on structures and organizational processes as well as on systems.

**→ Developing innovative and effective risk models**

Lending decision is needed to be much better supported with information about the client, which means that banking institutions to develop their own risk models incorporating quantitative and qualitative factors as relevant for taking a decision.

**→ Rethinking the capital allocation**

Bank capital is a scarce resource and more and more insufficient. To support business growth and achieve the potential profit, banks must effectively use the capital resource and understand very well what the current capital consumption is and optimize its use.

**→ Develop an overview on risk exposure and focus on the significant risks**

Given the multitude of risks which a bank faces, as well as their different relevance at different points in time, it is important the bank to be aware of major categories of risk namely credit risks, market risks and operational risks, and within them to pursue different types of risks, such that there is a general, comprehensive picture over the risk. Given that banks often lack the tools and the refinement needed to keep pace with the rapid changes taking place in the banking products, it is important to continually following their risk framework and to monitor developments the various risks in real-time in order to be able to pay the necessary attention and act effectively.

**→ Centralization of key processes and their coordination at the top level, with clear definition of roles and responsibilities**

Effectiveness of risk management can be achieved only if its application is consistently across banks, in accordance with policies and procedures developed by the risk experts with relevant experience in the country, industry, type of client; however, the decision is in conformity with the developed risk management framework that provides protection against unwanted risks.

Risk management is the responsibility of everyone, not just of risk department, but this requires a clear assignment of roles and responsibilities to each member of the organization. Furthermore, the organization's leaders themselves must be an example to employees regarding conduct prudent to risk management, which is key to success.

➔ **Assessment the risk exposure as well as benefit versus cost related to the risks management**

A good example in this regard is represented by the risk of derivatives on credit risk which has not been seriously assessed; if it had been adequately assessed and were quantified benefits of such risks, probably the acquisitions volume of such securities would have been much lower, and the problem would have been limited to the original source, meaning mortgage market overheating in the USA. Lesson to be retained by banks after what happened is that risk transactions involve consistent and rigorous assessment of the potential disadvantages and in any case can not be assumed a risk based only on the potential benefits that may result.

➔ **Implementation of IT systems to support the risk management process**

IT systems represent critical assets for delivering necessary information to decision makers. Value of IT systems is justified and realized only if they are designed starting from the needs of users such as to ensure the technology necessary to the controlling and compliance monitoring, database market research instruments, industry analysis tools and means of communication as well.

## **6. Conclusions**

Core business of a bank is risk management, which involves taking over the risks, their transformation and their incorporation into products and services, with the ultimate aim of offering to shareholders a better return as compared to the risk profile supported. This is also why risk sensitivity is extremely important for risk management.

Unfortunately, the credit crisis followed by global recession indicated a failure of the banking sector in developing its basic business, respectively risk management. Approaching the presented strategic and operational objectives involves effort and time, but the banks which will be able to implement them will have significant competitive benefits.

Besides superior financial performance and improved strategic management, many banks will achieve a competitive advantage because the higher capabilities they will get will implicitly lead to a higher level in terms of risk selection and price risk assessing as well as a better risk management.

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# THE ROLE OF THE ECONOMIC AND INSTITUTIONAL FRAMEWORK IN ENSURING FINANCIAL STABILITY IN ROMANIA, DURING 2012-2014

Cristian, Ionescu<sup>1</sup>

## Abstract:

*The aim of this paper is to empirically study the concept of financial stability in Romania, from both an economic and institutional perspective. In this paper, I analyze three main aspects: the macroeconomic performance of Romania, the developments of the structural reform and the policy instruments, related to two main domains: the monetary and exchange rate policies; and the priorities of the financial sector (the strengthening of the banks' balance sheets and supporting the Romanian economy). Therefore, this paper debates the policy instruments of Romania's institutions and authorities that aim to promote financial stability.*

**Keywords:** *financial stability, monetary policy, National Bank of Romania, policy instruments*

**JEL Classification:** E42, E44, E52

## 1. Macroeconomic performance

*Romania is very exposed to weaknesses from the Eurozone.* Weak external demand, accompanied by low domestic demand, while the impact of aridity on agriculture determined a significant weakening in economic performance in 2012 and. Therefore, the gross domestic product had an insignificant grow of 0.7% in 2012 and of 1.5% in 2013 (due to good export performance). Inflation has faced a sharp downward path in 2013, of 1.9%, being below the target bank of the National Bank of Romania of 2.5 +/- 1%.

*Fiscal stance had good performance in 2012 and 2013, taking into consideration the political pressures, which had negative effects on financial stability through the exchange rate channel.* Thus, the budget deficit target was modified from 1.9% 2.5% in 2012, due to an increase of public wages (as a result of the partial reversal of the wages cuts undertaken in 2010) and due to repayment to pensioners of pension cuts, which were established to be unconstitutional. However, the economic difficulties in the second half of 2013 raised questions regarding the public finances, destroying the pace of fiscal adjustment and disrupting the government arrears' clearance, affecting financial stability. The deficit of 2.5% had exceeded the revised target, which determined the government to access a three-month extension of the Stand-By Arrangement, in order to gain more time in order to meet the targets of decreasing payment arrears of the state administration and of the state-controlled companies. Despite these slippages, the fiscal performance was quite good, considering the fact that 2012 was an election year, major expenditure overruns were avoided. Therefore, the government has revised the budget for 2013, increasing the deficit target from 2.3% to 2.5%.

*Romania experienced a moderate recovery in 2013, the economic growth being higher than 2%, due to a strong export performance and a proper agricultural season.* Medium-term prospects are still favorable, due to a diversified economy and a strong catch-up potential, even if the gross domestic product per capita is less than %0% than the European Union average. A more efficient utilization of the European structural funds would improve growth expectations, with positive effects on financial stability .

## 2. Structural reform developments

*Absorption of European funds is at a low level.* Disregarding the government's efforts aiming to increase the pace of absorption, in 2013 only 21.4% of the structural, cohesion and agricultural funds available to Romania were paid. The absorption of certain

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funds is very low, because of problems related to management and control system, so that several operational programs have been pre-suspended in 2012. Some of these programs were unblocked in 2013, after several remedial action undertaken by the government. The European Commission has granted an extension of one year for the 2007-13 financial perspective, in order to minimize the loss of these funds.

*Privatization and the restructuration process of the state-owned companies has been recording a good advance.* The state has an important role in the Romanian economy, 240 companies being owned by the state, while 700 being owned by the local government. Still, the sale of the majority stake in the freight rail company “CFR Marfa” has failed. Although the private railway operator, Grup Feroviar Roman was selected to be the buyer in June 2013, after bidding 202 million euro for 51% of the company, and after promising an additional investment of 200 million euro, the deal was cancelled because the private operator failed to secure the approval from the antitrust body, while not making timely necessary payments. But there are other sales of state shares that are ongoing in the gas sector and in the electricity sectors, including a 10% initial public offering of Nuclearelectrica in September 2013, and a 15% initial public offering of the natural gas producer, Romgaz, in October 2013. The efforts of selling the postal company and one of the large chemical companies, Oltchim, have been unsuccessful. For example, Oltchim is under insolvency procedure since January 2013, so that the privatization steps will continue after exiting this process.

*Incentives for renewable investments have decreased.* In June 2013 the government adopted an emergency ordinance under which, so that between July 2013 and March 2017, out of the total green certificates awarded to solar photovoltaic, wind and small hydro projects, the trading of some of them will be postponed until 2017 (for hydro and solar) and 2018 (for wind). Permission to trade these certificates will be from April 2017 (for solar and hydro) and January 2018 (wind), but until the end of 2020. Several features are unclear regarding the non-retroactivity of the ordinance’s provisions, so there are some uncertainties regarding the predictability and transparency of the business environment of renewable energy, which affect financial stability.

*The financial performance of water companies is improving.* Water companies are undergoing a process of regionalization, leading to the consolidation of the sector and to reduction of several operators, from 260 in 2007 to 42 in 2013.

*The business environment is still problematic.* It is known that the Romanian businesses are facing many and various long-standing problems during their day-to-day operations, arising difficulties, in the last years, in attracting foreign direct investment. Thus, Romania is ranked 73 of 189 countries in the 2014 World Bank’s *Doing Business* report. The main problems are of getting electricity, paying taxes and dealing with construction permits. The perception regarding the competition authority’s effectiveness has worsened in 2013, as shown by the World Economic Forum’s Competitiveness Report. Regarding the progresses that have been made, there is one regarding the land reform: from January 2014 foreigners are allowed to buy land in Romania, without establishing a joint venture with a domestic firm. But a functioning land market is still not effective, while the sizes of the farms being small and very small. The problems within this sector negatively affects financial stability.

*Measures to strengthen the stability of the financial sector are paying off.* The banking sector managed quite well the effects of the economic downturn during the last four years. Thus, the banking supervision has been considerably strengthened, the deposit insurance coverage being in line with the European standards. The framework for medium and small sized enterprises financing has improved, strengthening the framework for collateral and security over movable property. The National Bank of Romania is still

promoting the lending in domestic currency. In 2012 the National Bank of Romania issued a new regulation on lending in foreign currency, so that banks have to conduct foreign exchange stress tests, and only then are allowed to extend their foreign currency denominated loans. Moreover, the level of non-performing loans is high (of 21%), but their risks are reduced by high provisioning levels (of 90%).

### **3. Policy instruments**

#### **3.1 Monetary and Exchange Rate Policies**

*But there are still tensions that may arise.* For example, the fall of 2012 was characterized by a high inflation of food prices, increases of administrative price, a weakened exchange rate, that have pushed inflation outside the inflation band. Thus, the authorities highlighted the necessity of for a prudent monetary stance, aiming to contain the capital outflows and the exchange rate depreciation, considering the high foreign currency exposure of the Romanian economy, and anchoring inflation expectations. At the end of 2012, the National Bank of Romania tightened the liquidity and kept maintained the policy rate. To stop the pressures on the exchange rate, the National Bank of Romania has undertaken market interventions, reducing reserves that led to the missing of the inflation target at December 2012. The exchange rate has been stabilized, but the cost was that the inflation returned to the inflation band in September 2013. Yet, the real exchange rate was in line with fundamentals.

*The National Bank of Romania needs to maintain a prudent monetary policy stance, in order to promote financial stability.* Inflation (figure 2) decreased to 1.1% in January 2014, from 1.6% in December 2013, being under the lower band of the consultation mechanism. The deceleration was mainly due to the reversal of base effects for food prices, the cut in the value added tax for flour and bakery products, the abundant harvest in 2013, and due to inflation expectations improvement against the background of a weaken economy. The recent inflation developments are part of the inflation consultation mechanism. In the short term, inflation is possible to stay at levels that are below the target band, and afterwards it will probably return into the band, moving into the upper part in the second quarter of 2014. The end-year inflation target was converted, by the National Bank of Romania, to a continuous target, starting with January 2014.

The policy rate was decelerated during September 2013 and January 2014 by 100 basis points, to 3.5%, since inflation is keeping its declining trend, in the context of negative output gaps. These cuts led to higher average interest rates on new loans, the maximum being recorded in December 2013, of 7.6%; the deposit yields faced a strong development during this period. In January 2014, the minimum reserve requirements by 3 and 2 percentage points for RON and for foreign exchange denominated liabilities, in order to gradually bring the minimum reserve requirements (figure 1) closer to levels used by the European Central Bank, which prevail in most European countries. These decisions were considering both the headline and core inflation, which are expected to maintain within the central bank's comfort zone during the projection horizon between a negative output gap and a subdued credit. But the reduction in the minimum reserve requirements exacerbated the excess liquidity, since the emerging market turmoil left no space for the Romanian financial markets to remain unharmed from the RON pressures.



**Figure 1. Minimum reserve requirements (RON – orange; foreign exchange – blue)**

Source: National Bank of Romania

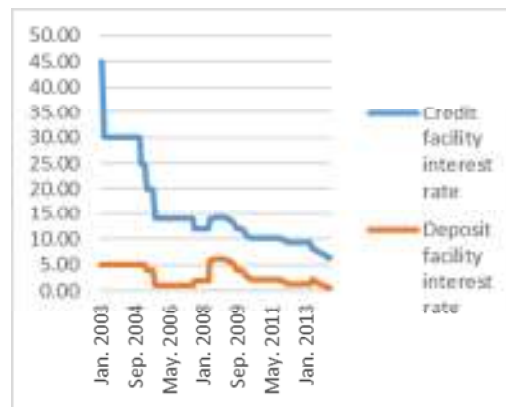
The National Bank of Romania has intervened in order to support the RON, eliminating the excess liquidity and increasing the interbank rates above the policy rate. In addition, anchoring inflation expectations and volatile international capital flows require a prudent monetary policy stance, followed by a consistent macroeconomic policy mix, since there is little space of maneuver for the monetary easing, which includes interest rate cuts. National Bank of Romania has to further monitor the inflation developments in order to ensure that inflation expectations remain anchored, while market conditions are favorable, and financial stability is safe.

Base money creation has increased, reflecting the treasury operations, related to the growing disbursements of European funds. The excess of liquidity has explained the divergence between interbank rates and the policy rate. So, the National Bank of Romania has to ensure adequate liquidity conditions within the banking system, that are the basis of a proper functioning of money markets, and which reduce the divergence between interbank rates and the policy rate, strengthening the transmission of the signals of the monetary policy. These imply a further reducing interest rate corridor (figure 3), and also liquidity absorbing operations. The National Bank of Romania has to maintain the wedge between minimum reserve requirement ratios, for domestic and foreign currency liabilities, discouraging foreign-currency lending. Any other changes regarding the minimum reserve requirements have to be implemented gradually, evaluating the effect of each step, taking into consideration the impact on inflation expectations.

*The National Bank of Romania has to continuously reassess the effectiveness of the monetary policy framework.* So, regarding the excess of liquidity, rather than absorb it by using the regular toolkit, the National Bank of Romania has focused on foreign exchange sales, considering their limited impact on the bank's profitability. Moreover, the divergence between interbank rates and the policy rate and the excessive interbank rate volatility risk, have the power of undermining the monetary policy transmission. Thus, the National Bank of Romania has to create a more clear-cut operational framework and also an effective transmission mechanism, narrowing the interest rate corridor and improving the liquidity management. When talking about liquidity absorption, while maintaining the forex reserve adequacy, the National Bank of Romania has to implement it firstly through deposit taking operations, or by issuing certificates of deposit.



**Figure 2. Inflation rate**  
Source: National Bank of Romania



**Figure 3. Interest rates (%)**  
Source: National Bank of Romania

*The central bank has improved the operation of the inflation targeting framework, increasing financial stability. High foreign currency denominated lending and a large interest corridor of +/- 400 basis points around the policy rate (between the deposit facility rate and the credit facility rate) has weakened the monetary policy transmission, decoupling the money market and the policy rate. Specific measures in order to reduce the divergence implied an active use of open market operations in order to manage market liquidity. A deepening of the interbank market would require specific measures, such as a tighter corridor around the policy rate.*



**Figure 4. Interest rates and Monetary Conditions (%)**  
Source: National Bank of Romania

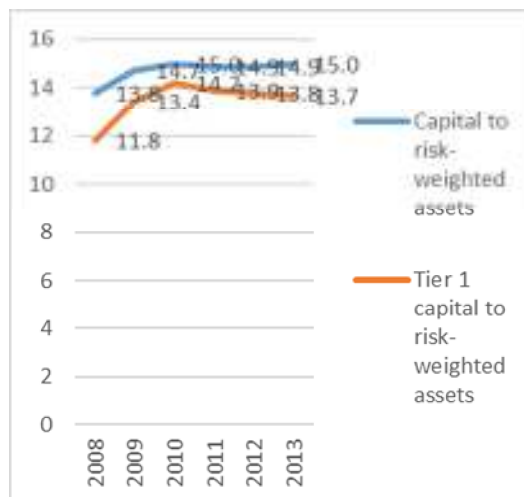
*International reserves are adequate, having positive effects on financial stability.* International reserves have been sustained by the Eurobond placements. The net international reserves performance criterion for the end of December have been met with a wide margin, the short-run term debt coverage of reserves remaining below 100 percent. Net international reserves have been adjusted in order to reflect the temporary pressures on financial markets that appeared as a result of spillovers that emerged from the emerging market turbulences. The real exchange rate is in line with fundamentals, so that the National Bank of Romania must continue to permit the exchange rate to adjust with market conditions, and to limit the interventions, supporting the domestic currency and smoothing the exchange rate volatility.

*The floor on net foreign assets is pursuing multiple objectives, and may be simplified.* The floor includes the international reserves and the commercial banks' foreign currency reserves that are held at the central bank. The commercial banks' reserves have the purpose of constraining the changes in foreign currency reserve requirements, with prudential purposes. Yet, this approach increased the risk of missing the net foreign assets target in the case of deposit outflows and insufficient net international reserve accumulation. Moreover, the design of the net foreign assets didn't allow additional external issuances in order to build buffers. During 2012-2014, intra-month movements increased in foreign currency reserves, supporting the net foreign assets' levels. Moreover, the political uncertainty led the National Bank of Romania to intervene in order to spoke the pressure on the exchange rate. Therefore, a more standard net international reserves target is able to better serve the objective of maintaining adequate reserve buffers.

### **3.2. Financial Sector Priorities: Strengthening the Balance Sheets of the Banks and Supporting the Economy**

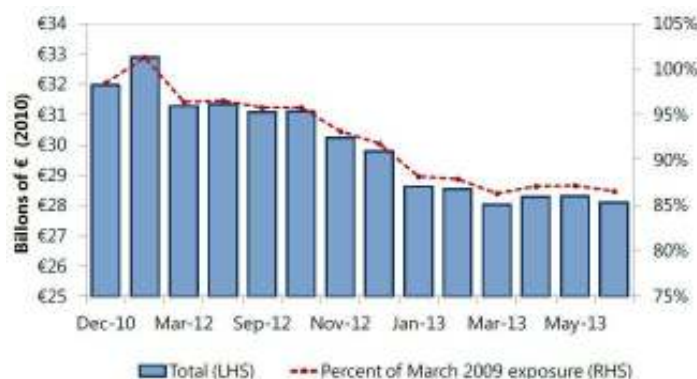
The capitalization of the Romanian banking sector is strong, being of 15% in 2013, whilst some differences between banks. The level of the system-wide provisions significantly increased in the second quarter of 2013, due to the interim audit of the banks' financial statements and to the inspections performed by National Bank of Romania to the first 20 banks on capital adequacy (figure 5) and loans restructuring practices. The collateral audit undertaken in the second quarter of 2013 identified a system-wide provisioning gap of 800 million RON. The liquidity position was less restrictive in 2013 than in 2011 and 2012 for the banking system as a whole, while the funding conditions being uneven among banks. The pace of foreign-owned bank deleveraging has hasten in line with the region, with a parent funding decline of 30% 2011 (up to 19% in 2013). As an effect, trust in local funding has increased, reducing the system-wide loan-to-deposit ratio to 105% in 2013, from 117% in 2012. The risks of parent funding reduction is significant, especially if the credit demand will recover, even if the risk is reduced by the lower prudential filter and by the minimum reserve requirements.

*Parent bank deleveraging and credit supply constraints require policies that improve financial intermediation and financial stability.* So, lower reserve requirements increased liquidity and eased the funding pressure from the withdrawals of the parent banks. But the authorities have to maintain their vigilance in order to avoid unwanted capital outflows and the exchange rate pressures. The wedge between the foreign currency and the domestic minimum reserve requirement discourage foreign-currency lending, but prudential measures, macroeconomic stability and the funding mix are able to boost the national currency lending in the long-run. Therefore, the long-run bank funding will benefit intermediation. On the demand side, the small and medium enterprises face difficulties in accessing bank lending, since they have the highest ratio of non-performing loans. In order to solve this situation, the government has created a guarantee scheme for this sector, where it shares the loan's credit risk with the bank.



**Figure 5. Capital adequacy**  
Source: National Bank of Romania

*Regarding foreign banks deleveraging*, the parent banks' exposures was stable during the financial crisis, foreign bank deleveraging being accelerated in the second quarter of 2012. In 2012, short-term foreign borrowing, especially from parent banks, were an important component of the total bank borrowing. In 2013, parent banks funding (figure 6) reduced by 20% compared to the level in 2011. Meanwhile, the crisis in Greece and Cyprus led to the fragmentation of the interbank markets, deteriorating the liquidity for some banks.



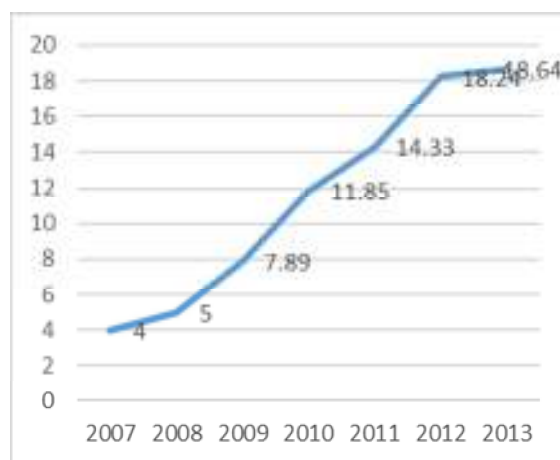
**Figure 6. Bank system parent funding**  
Source: Romania Central Credit Register

*Strengthening the balance sheets of the banking system needs a plan of reducing the non-performing loans, while monitoring the asset portfolio quality of the banks.* The recent gradual closing of the provisioning gaps kept provision coverage at 89.8% in 2013. Yet, due to unprecedented accumulation of the non-performing loans (figure 7), the National Bank of Romania is developing some elements of reducing it through an action plan, establishing the role of the National Bank of Romania during the process, setting the responsibilities of the supervised entities, and providing adequate incentives for self-discipline regarding the write-off of unrecoverable loans. Moreover, it is necessary to increase the transparency to the system's balance sheet, so the action plan will specify the accounting treatment in order to distinguish between fully-provisioned and unrecoverable non-performing loans from other impaired loans. Non-performing loans in Romania exceed the levels of its peers. The problem loans is a result of the previous years of high



credit growth during the pre-crisis period, characterized by relaxed credit standards and external funding that increased FX loans at low interest rates. In addition, the upward trend in 2012-2014, despite a stable macroeconomic environment, is given by the denominator effect (low overall credit growth). Most of the problem loans are concentrated in the small and medium enterprises sector, having an average ratio of 26.9% versus 21.9% for the entire system in 2013. Households have a lower average of loan deterioration (13.6%), excepting the sub-segment of credit card debts and debts in foreign currency. The dispersion of non-performing loans in the economic sectors of corporate borrowers is less evident, even if companies in agriculture and utilities have a higher probability of default.

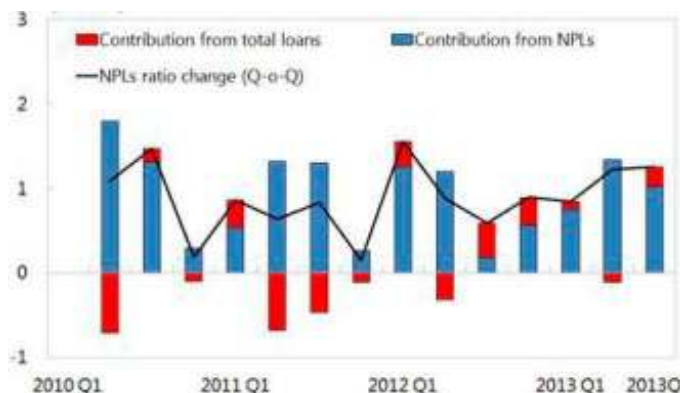
Since domestic demand and external demand were revised downwards, the banking asset quality has deteriorated. The non-performing loans (figure 8) increase was led by the difficult operating environment, mainly for the small and medium enterprises, and difficulties in writing off the non-performing loans.



**Figure 7. Non-performing loans (%)**

Source: National Bank of Romania

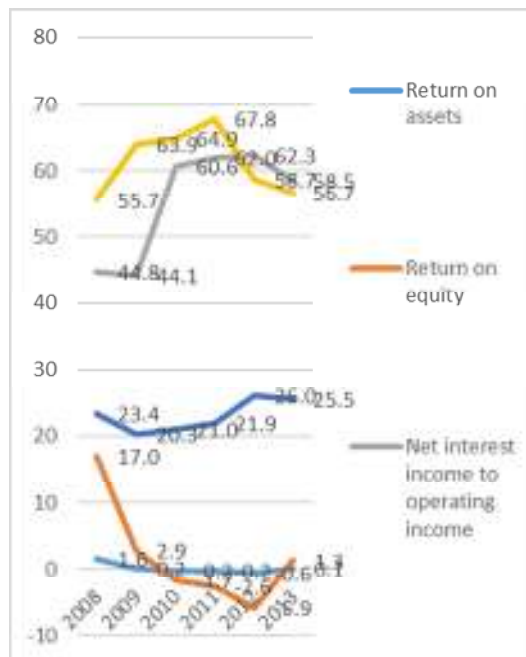
In the first quarter of 2013, the rate of non-performing loans reached 20%, from 12% in 2010, despite some positive but limited loan growth. Due to the necessity of provisioning, and to high operating costs, in 2012 bank profitability was negative (figure 9), while the credit started to reduce. Supply side constraints and weak demand were the key factors of the negative credit growth and of the inability of banks to support economic recovery. Banks are still exposed to major exchange rate risks, foreign currency lending being above 60%.



**Figure 8. Contributions to changes in the banking non-performing ratio (%)**

Source: International Monetary Fund

*Enhancing the insolvency law may deal with high non-performing loans.* The new insolvency code approved by the government is part of a government emergency ordinance. The insolvency code aims to support early rescues of viable firms and quickly exit of non-viable firms, including minimum provisions on: creditor voting, pre-insolvency procedures, automatic stay, and priority financing and ranking of claims.



**Figure 9. Earnings and profitability**  
Source: National Bank of Romania

*The risk of financial instability determined by the recent civil procedure code has to be reduced.* The application of the new code civil procedure code starting October 2013, that creates interpretations of the abusive clauses provisions, which applied to financial sector contracts may lead to higher prohibition of interest charges, to decisions with retroactive impact and to class action suits regarding loan financial terms. Thus, those interpretations, already being sanctioned in several court cases, could represent a source of instability for some banks. In order to avoid such situations, the authorities are establishing a new specialized court in Bucharest, in order to ensure a proper application of the provisions.

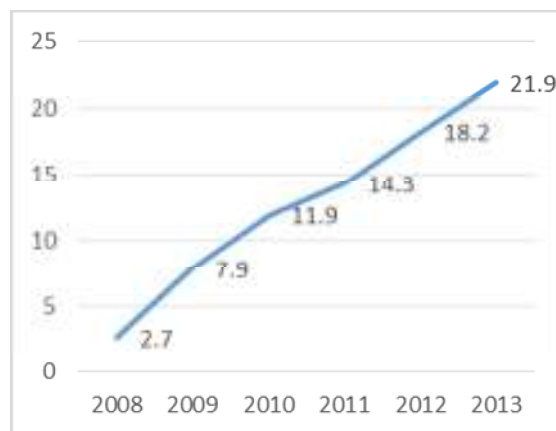
*The non-banking system and capital market and the supervision mechanism and authorities have to be developed and strengthened.* Due to limited market share, risks in the insurance, securities and pension funds sectors are non-systemic, the Financial Supervisory Authority placing one important insurance company under special administration, and named a certain private accounting firm to administrate it. So, the Financial Supervisory Authority has the responsibility of developing a proper framework of regulation and supervision of funds' sources, protecting the consumers' and investors' protection, promoting the development of the capital market, and promoting financial stability. Moreover, the Financial Supervisory Authority supports the growth of the stock exchange, ensuring of its transparency and efficiency, one of the priorities being that of managing the fees' types and levels.

*The authorities have to maintain an enhanced supervision, in order to reduce financial instability.* The authorities have secured a proper non-performing loans provisioning, requiring capital injections in order to cover the shortfalls emerging under the mandated collateral audits. The authorities also have restricted foreign currency lending to households and corporations that are un-hedged, keeping prudential filters after the introduction of

International Financial Reporting Standards in order to ensure a prudent loan provisioning. The authorities also increased the liquidity monitoring of parent exposures, introducing weekly deposits reporting. All these actions, together with a stronger financial safety net, aim to contain the impact of the previous and future financial crises on the Romanian banking system, maintaining the depositors' confidence. Banks are well capitalized and liquid, while non-performing loans being well provisioned (90%-100%), although profitability has declined, since the growth of non-performing loans has required additional provisioning.

*The National Bank of Romania has ensured that weak asset quality (figure 10) does not undermine the soundness of the banking sector, which may lead to higher levels of financial instability.* A higher prudential supervision of loan classification standards and collateral valuation have led to higher provisioning, so that the provision coverage includes the prudential filter. The tax liabilities to non-performing loans sales and the National Bank of Romania's plan that aims to support the reduction of fully-provisioned non-performing loans are established in order to gradually converge towards normal levels of the business cycle.

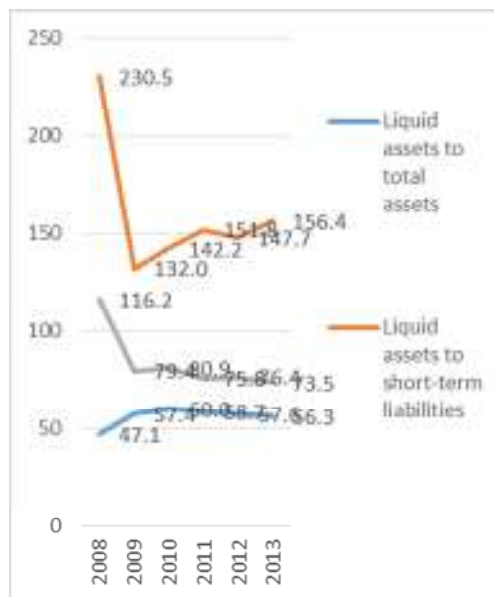
*The year 2013 was characterized by financial vulnerabilities regarding the aspects of new liquidity and asset quality challenges.* These problems are able to be partially fixed by distributing the liquidity across banks, expanding the range of eligible collateral for the overdraft facility, while providing liquidity support in foreign currency using swap arrangements. In order to ease the removal of fully provisioned non-performing loans from banks' balance sheets, the fiscal authority has modified the tax code, in order to ensure a neutral tax treatment for selling bank receivables, while the financial authority has clarified the accounting rules (under the new adopted International Financial Reporting Standards) applicable to the write-offs of the impaired loans. Moreover, due to high levels of non-performing loans, the authorities have planned to eliminate the impediments to insolvency and foreclosure procedures, while facilitating the resolution of the non-performing loans.



**Figure 10. Asset quality**

Source: National Bank of Romania

The National Bank of Romania is continuously monitoring and supervising the banking system, while taking the necessary measures in order to ensure that banks have enough capital and liquidity (figure 11), considering the framework of uncertain economic environment, which is still able to challenge the asset quality, the parent funding retrenchment and the profitability for most banks. The central bank also is regularly conducting top-down and bottom-up solvency stress tests and liquidity stress tests of the banking sector. The National Bank of Romania illustrated in 2013 that under the hypothesis of an adverse scenario, a prolonged recession and 20% depreciation, the aggregate solvency ratio would decrease by 4 percentage points, to 10.8%, which is above the prudential threshold, while the banking system is supposed to remain resilient, yet revealing the necessity for some non-systemic credit institutions to increase their capital.



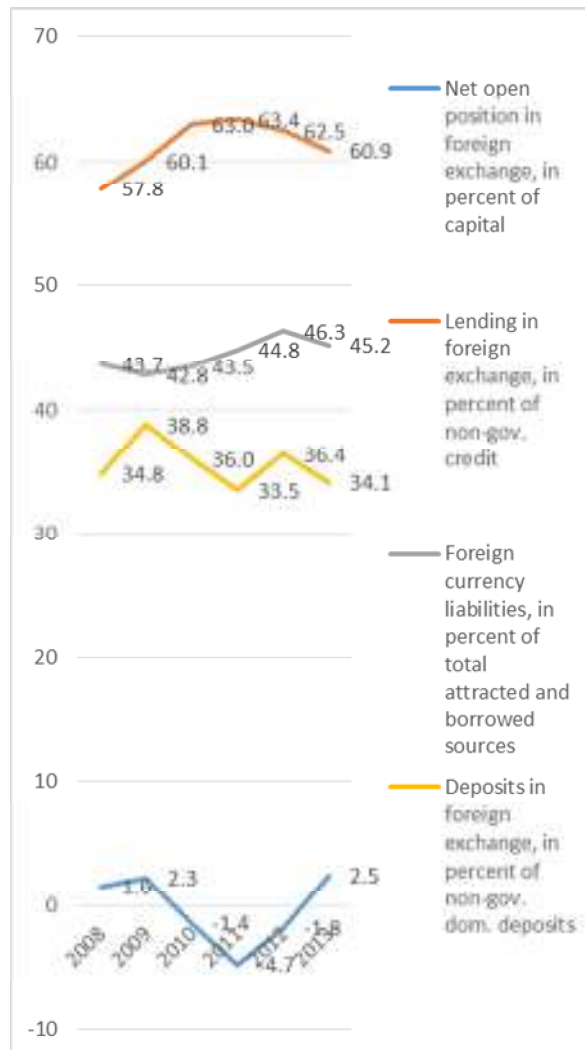
**Figure 11. Liquidity**

Source: National Bank of Romania

*Other initiatives aim to strengthen the loan portfolio of the banks and to stimulate lending.* The government started in 2013 a guarantee scheme for the non-performing loans of the small and medium sized enterprises, where the government shares, together with the lending bank, the credit risk of the loan. The success of this program will depend on its adoption by the private sector, and by the speed of minimizing the moral hazard. Moreover, in September 2013, the program providing housing loans guarantees was switched to domestic currency, in order to decrease the FX risk (figure 12) in the portfolio of the banks.

The National Bank of Romania is continuously overseeing the bank practices, in order to ensure that the International Financial Reporting Standards' loan-loss provisioning, collateral valuations, and the assessment of restructured loans' credit risk remain prudent, in concordance with the international practices. The National Bank of Romania prepared a resolution action plan for the non-performing loans in May 2014, intending to implement it by the end of June 2014, which establish the role of the central bank in this process, setting the responsibilities of supervised entities, while foreseeing the changes to prudential regulations, in order to avoid moral hazard and to provide adequate incentives for a timely balance sheet clean-up from unrecoverable loans.

Since maintaining debtors' credit discipline is enhancing financial stability, the Romanian authorities are making multiple efforts in order to avoid the adoption of legislative initiatives that deal with personal insolvency that create moral hazard and undermines the credit discipline. In order to avoid threats to financial stability raised by the provisions on abusive clauses in the law for the application of the civil procedure code (which was implemented in October 2013), the new specialized court has to set-up the budget allocations for the both the headquarters and the supplementary personnel, taking the necessary measures in order to apply these provisions. If the new institutional arrangement of the specialized court fails in avoiding the threats on financial stability, there are necessarily alternative solutions, removing the impediments to corporate and household out-of-court debt restructuring and non-performing resolution.



**Figure 12. Foreign exchange risk**

Source: National Bank of Romania

*The Romanian authorities that are focused on completing the already initiated reforms have to strengthen the resolution framework and to improve transparency. In Romania, banks are well capitalized and liquid, credit is expected to grow, economic recovery is expected to accelerate, while the non-performing loans will stabilize and the banks' profitability will improve. But the authorities have focused on strengthening the financial safety net and the bank resolution framework, introducing bridge-bank powers and also the possibility to initiate purchase-and-assumption transactions, improving data exchanges between the National Bank of Romania and the deposit guarantee fund, developing additional contingency plans in order to address financial pressures. In order to improve transparency and to align to European standards, Romania adopted in 2012 the International Financial Reporting Standards for the banking sector.*

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# FINANCIAL INSTABILITY IN ROMANIA

Cristian, Ionescu<sup>1</sup>

## Abstract:

*The aim of this paper is to empirically study the concept of financial stability in Romania, from both a monetary policy perspective and a financial perspective. In this paper, I also compute an aggregate index of financial stability, for the period 2008-2013, explaining the correlations between several extremely important macroeconomic and sectorial variables and financial stability. The article also debates the aspect of policy instruments that aim to promote, highlighting the undertaken measures and also giving some measures recommendations, pointing out the main pillars: crises management; cross-sectoral challenges; banking sector; securities markets and capital markets; insurance sector; pensions sector; access to financial services.*

**Keywords:** financial stability, aggregate index of financial stability, policy instruments

**JEL Classification:** E42, E44, E52

## 1. Financial stability

There is financial stability where there is: a) monetary stability; b) the level of employment is close to the natural level; c) confidence in the functioning of financial institutions and markets in the economy; d) absence of changes of relative prices of real or financial assets in the economy, which may undermine a) or b). The first three elements of this definition are undisputable. Regarding a) and b), it seems unlikely to define financial stability in times of rapid inflation, or in a period of low inflation but characterized by high unemployment. In terms of c), it would be strange to argue that there is financial stability in a time when banks are collapsing, or when the normal behaviors of long-term savings and loan have been severely affected. Such circumstances would mean that participants have lost confidence in the financial intermediaries. This would imply that growth has been affected by the unavailability and relatively high cost of financial intermediation. Regarding d), there are four channels through which changes in asset prices may affect the real economy: through household wealth and consumption changes; by changing shares prices; through the impact on the balance sheets of companies, that can affect corporate expenses; through the impact on capital flows.

*From the monetary policy perspective*, studying the response of macroeconomic variables to a monetary policy shock through interest rate channel in the period 2003 - 2013, it has been demonstrated the following: i) all variables move in the expected direction under the impact of a monetary policy shock (table 1); ii) there is an improvement in the efficiency of transmission of monetary policy impulses through the interest rate channel, which increases the confidence in the functioning of the institutions and their mechanisms, especially regarding to the National Bank of Romania.

*From the perspective of financial stability*, the following can be highlighted: i) there is a significant inverse statistical relationship between interest rate and asset prices (table 1), which means that the interest rate is an effective tool of the National Bank of Romania in order to prevent the accumulation of speculative bubbles related to asset price developments; ii) since the capital market is sensitive to unexpected changes in interest rates, a good solution for investors would be to forecast activity, based on the evolution of this indicator, in making investment decisions; iii) there is a significant inverse statistical relationship between the interest rate and the loan portfolio of the banking system (table 1), which means that the interest rate is an effective tool in order to prevent excessive lending, both individuals' and companies'. In addition, loan portfolio responds,

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with a certain delay, to shocks to monetary policy by increasing interest rates. In Romania, after an unexpected rise in interest rates, loan portfolio significantly has responded after about 10-11 months. A possible explanation could be given by the fact that, on the short-term, banks compensate the liquidity decrease by selling securities, while the credit supply remains virtually unchanged. But on the long-term, a restrictive monetary policy reduces the granting of new loans from banks.

**Table 1. Response of macroeconomic variables to a monetary policy shock in Romania (2003-2012)**

Variable	Result obtained by empirical analysis	Expected effect according to economic theory
Industrial production index	-	-
Consumer Price Index	-	-
Loan portfolio	-	-
Asset prices	-	-
Exchange rate euro / ron	-	-

Note: - negative answer, + positive answer

Financial stability is a condition where the financial system is able to withstand shocks without allowing cumulative processes that may affect the allocation of savings to investment opportunities and processing of payments in the economy. This aspect raises the problem of defining the financial system, which consists of all financial intermediaries, organized and informal markets, payments, technical infrastructure that support the financial activity, regulations and supervisory institutions.

In addition, a stable financial system is able to effectively allocate resources and absorb shocks, preventing disruptive effects on the real economy and on other financial systems. Also, the system itself should not be a source of shocks, so that money can adequately perform their functions of means of payment and unit of account, while the financial system can adequately perform its role of mobilizing savings, to diversify risks and to allocate resources. Financial stability is an essential condition for economic growth, since most transactions are done in the real economy through the financial system (figures 1-5). The importance of financial stability is probably the most visible during periods of instability. For example, banks may be reluctant to finance profitable projects, asset prices may excessively deviate from their intrinsic values, and payments may not be effectively done in time.



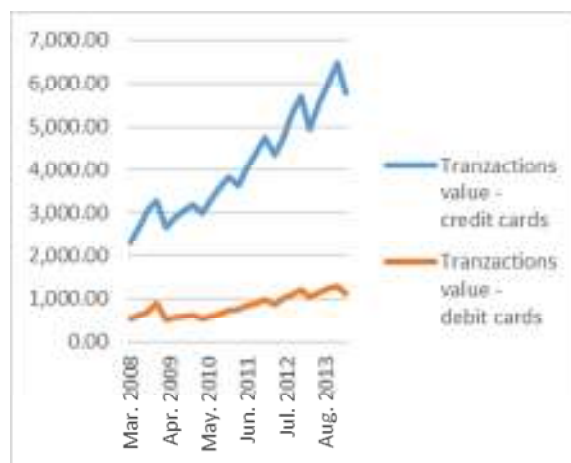
**Figure 1. Number of valid cards in circulation, with function of: cash, debit and credit (number of units)**

Source: National Bank of Romania

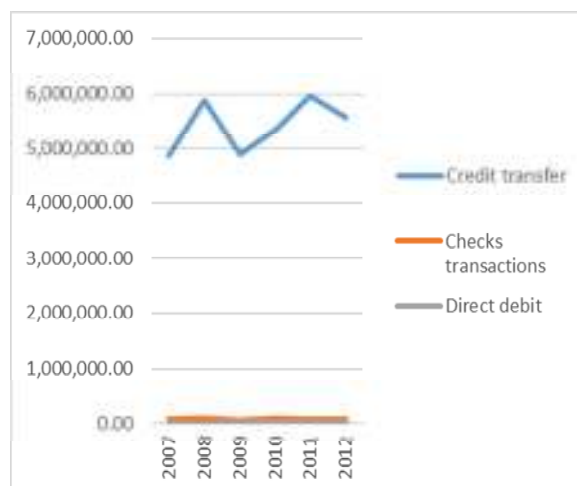




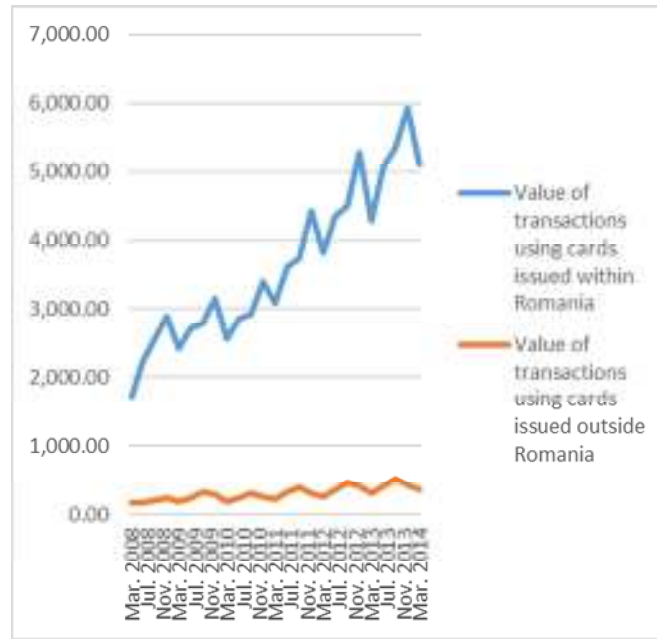
**Figure 2. Number of transactions with payment instructions (million)**  
Source: National Bank of Romania



**Figure 3. Transactions values (credit cards and debit cards)**  
Source: National Bank of Romania



**Figure 4. Transaction value with checks, direct debit and other payment instruments (million)**  
Source: National Bank of Romania



**Figure 5. Value of POS transactions in the country with cards issued in the country and abroad (million)**

Source: National Bank of Romania

## 2. Aggregate index of financial stability in Romania

The aggregate index of the financial stability is composed by four sub-indices, which they also are computed from other individual indicators. The four composite indices are: the financial development index (which includes the ratio between the financial market capitalization and gross domestic product, the share of total credit in the gross domestic product, the banking reform index, the interest rate liberalization index), the financial vulnerability index (comprising inflation, the share of budget deficit share in the gross domestic product, the ratio between the current account deficit and the gross domestic product, the excessive appreciation/depreciation of the real effective exchange rate, the share of government credit in the total credit, the ratio between total loans and total deposits, the ratio between deposits and M2, the ratio between the reserves/deposits and cash/M2), the financial soundness index (comprising the ratio between the non-performing loans and total loans, the share of equity in total assets, the ratio between the necessary liquidity and effective liquidity, the overall risk); the world economic climate index (which includes the business climate index, world inflation, the global economic growth rate). In order to calculate the composite indices, there it assigned the same weigh to each individual indicators (0,5289). The formulas of composite indices and of aggregate financial instability index are as follows:

$$FDI = \frac{\sum_{j=1}^4 I_{dj}}{4}, \quad (1)$$

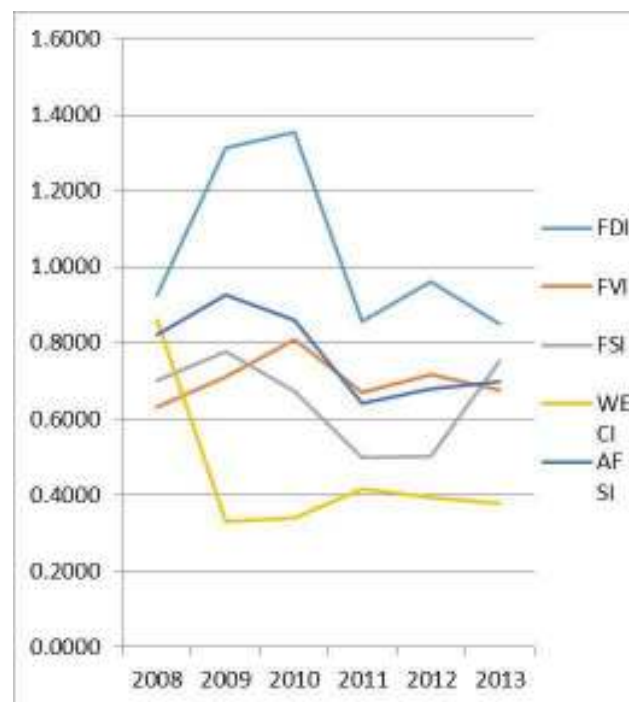
$$FSI = \frac{\sum_{j=1}^4 I_{sfj}}{4}, \quad (2)$$

$$FVI = \frac{\sum_{j=1}^8 I_{vj}}{8}, \quad (3)$$

$$WECl = \frac{\sum_{j=1}^3 I_{wj}}{3} \quad (4)$$

$$AFSI = 0,2 * FDI + 0,4 * FVI + 0,25 * FSI + 0,15 * WECl \quad (5)$$

The evolution of the aggregate index and of the composite index is shown in figure 6 (regression results in table 2). Financial soundness index decreases significantly before the crisis, since banks assume additional risks during periods of economic growth.



**Figure 6. The evolution if the aggregate index of financial stability and of its components (2008-2013)**

Source: author's calculations

**Note:** FDI- Financial Development Index; FVI – Financial Development Index; FSI- Financial Soundness Index; WECI – World Economic Climate Index; AFSI – Agreggate Financial Stability Index

**Table 1. Regression results (dependent variable: AFSI)**

**a) independent variables: AFSI sub-indices**

Variable	Correlation	Standard Error	T-stat
FDI	0.817902	0.234973	1.185112664
FVI	0.309659	0.100991	2.184404763
FSI	0.976251	0.14192	0.021103188
WECI	-0.00051	0.238283	4.881022022

**b) independent variables: other variables**

Variable	Correlation	Standard Error	T-stat
Market capitalization / GDP	0.2066634982	0.3469508629	0.0001175510
Total credit (RON)/GDP	0.6690762716	0.3436153271	0.0002985149
Interest rate spread	0.7381626142	0.7972353769	0.9754423118
Banking reform and interest rate liberalization	-0.6591704938	1.3095305577	0.0001395142
Inflation rate	0.4236625445	0.3924161408	0.0001508386
The general government deficit (% of GDP)	-0.4047300514	0.5502297262	0.0006657913
Current account deficit (% of GDP)	0.1794803293	0.3923356419	0.0000783885
Excessive depreciation / appreciation of the REER	0.5892132255	0.4842113218	0.0118416472
Non-government loans / total loans	0.2146442639	0.2219293431	0.0019197648
Loans / deposits	-0.3741209633	0.2170474541	0.0014204914

Variable	Correlation	Standard Error	T-stat
Depozite/M2 (percentage change)	-0.0468386324	0.4410493342	0.0000158134
(Reserves / Deposits) / (Banknotes and Coins / M2)	0.2510428430	1.8444289302	0.0000253592
Non-performing loans / Total loans	-0.7296287128	0.3644281022	0.0000557783
Equity ratio (equity / assets)	0.6542710300	0.3703745080	0.0100959140
Liquidity (Actual liquidity / required liquidity)	-0.2344685068	0.6552406293	0.0164420802
The overall risk rate	0.6794288411	0.1975967664	0.0020298392
Economic climate index	-0.2332079711	0.1660314523	0.0136164374
World Inflation	-0.2401818802	0.3895179523	0.0001233297

Source: author's calculations

The financial development index does not issue signals regarding the probability of financial instability episodes. The index negative evolution has occurred after the financial crisis, when the banking sector was undergoing a reform process. An index decrease is seen after the second half of 2007, when the interest rate spread has increased.

The financial vulnerability index has improved after the financial crisis, when the ratio between loans and deposits started to improve. This index is the first one that indicates a period of financial instability, being highly correlated with the business cycle.

However, the financial stability aggregate index captures all the financial turmoils that the financial system and the economy are facing, highlighting not only the economic crisis that began in 2008, but also the financial imbalances that have affected the financial system's stability in the second half of 2007.

Year 2008 is also characterized by financial instability. Although starting with the year 2009 the level of financial instability decreases, during 2010 there is a slight upward trend, due to the uncertainty regarding a possible extension and deepening of the economic crisis within the eurozone, but also due to the domestic economic and financial vulnerabilities and political instability.

### **3. The national context. Banking system and financial stability - Evaluation of transition in terms of the financial sector**

Regarding the context of structural reforms and evaluation of transition, Romania has been successful in maintaining strong and sustained progresses on structural reforms in the last decade, becoming a member of the European Union in January 2007. Most economic activities belong to the private sector, the banking sector is relatively well-capitalized, and there have been undertaken competitive and institutional reforms in various sectors. However, Romania continues to face a number of challenges in the financial sector, while the transition gaps between financing micro-enterprises and small and medium enterprises and private equity remains significant.

Table 3 provides an overall assessment of the challenges of transition for the financial sector, based on the analyses conducted by the Transition Report of the European Bank for Reconstruction and Development. There are two scores: one for the market structure, and one for the institutions that are supporting the market. Scores range from negligible, low, medium and high. A negligible score implies minor challenges, an advanced financial sector that is able to move forward to a functional market economy, while a high score implies that the remaining challenges are major, and that the size of the financial sector is in an early stage of reform.

**Table 3. Structure of the financial sector in Romania (2013)**

Financial institutions sector	Market structure	Institutions that support market
Banking	Small	Medium
Micro -enterprises, small and medium enterprises	Medium	Small
Insurance and financial services	Small	Small
Private equity	Medium	Small
Capital markets	Medium	Small

Source: European Bank for Construction and Development

Sectorial transition indicators (table 4) reflect the opinion of the European Bank for Construction and Development regarding the progress undertaken in the transition period in the financial sector, and also the size of the gap transition and the future challenges. The scores of the indicators score is between 1 and 4+, and are based on an assessment of the size of the challenges on two components: market structure and market supporting institutions and policies. Based on the scoring analyse's results, the transitional gaps for the market structure and institutions can be classified as "negligible" (with a score of 4+), "small" (with a score between 3 and 4+), "medium" (with a score between 2+ and 3+) or "high" (with a score between 1 and 2+).

**Table 4. Sectoral transition indicators 2007-2013: global scores**

Year	Financial institutions				
	Banking reform and interest rate liberalization		Securities and non - bank institutions markets		
2007	3+		3-		
2008	3+		3		
2009	3+		3		
2010	3+		3		
	Banking	Insurance and other financial services	Small and medium enterprises financing	Private equity	Capital markets
2011	3	3+	3-	2+	3
2012	3	3+	3-	3-	3
2013	3	3+	3	3-	3

Source: European Bank for Construction and Development

#### 4. Trends in the banking sector in Romania

The main trends in the banking sector in Romania, both in the short and medium term, are the following: 1) *repositioning and orientation towards the niche segments*, considering the following aspects: i) the Romanian banking system includes small banks considered to be "universal" banks, which are confronting with pressures on profitability, being forced to rethink their market approach; ii) some banks have begun to reposition and guide themselves in 2009 and 2010, and this trend will continue; 2) *consolidating activities*, taking into account the following aspects: i) further strengthening of the banking market is possible; ii) there are public statements about specific intentions of sale / purchase; 3) *increased competition for "good" customers*, considering the following aspects: this kind of competition will increase on both lending segment (especially in the segment of credit refinancing and mortgage loans) and on deposits segment (because credit growth is strongly correlated with the ability of banks to create deposits) ; 4 ) *increasing the penetration degree of cards*, taking into account the following aspects: i) the cards penetration degree is low compared with the levels from the European Union and Central and Eastern Europe; ii) banks have developed and enhanced their product portfolio and their card marketing campaigns, which will be maintain on the short and medium term; 5)

*optimizing the network of subsidiaries / branches, by reviewing the organizational model, taking into account the following aspects: i) although banks have taken measures in order to reduce costs, profitability pressures implies a constant and rigorous cost control for the future periods as well; ii) some banks will review their organizational model of branches, in order to prepare themselves for future growth; 6) focus on co-financing of european funds, taking into account the following aspects: i) some banks already involved into projects of co-financing from European funds; ii) due to the current low rate of absorption, and due to the exsiting potential, banks will increase their focus on this segment.*

## 5. The matrix of diagnostic and evaluation of financial stability

The main sources of threats to financial stability, and their nature are presented in table 5.

**Table 5. Romania - Risk Assessment Matrix to financial stability in Romania**

Nature / Source of main threats	The overall level of concern	
	The probability of a severe threat achievements in the next 1-3 years	Expected impact on financial stability if the threat occurs
<b>1. The public reaction / policy reaction against / for reforms</b>	<b>High</b> i) Severe problems regarding the stabilization reform, as shown by the street protests against a specific proposal for a bill reform in health and against austerity	<b>Medium</b> i) structural reform initiatives could be put on hold, slowing the growth prospects ii) loss of consumer and investors confidence and greater financial market volatility, including pressures on the exchange rate
<b>2. Sharp contraction of capital inflows</b>	<b>High</b> i) Large current account deficit may be a potential trigger that may suddenly stop the capital inflows, even before the new outbreaks of financial turmoil in major financial markets ii) SEE region has faced increases in risk premia, while downward pressure on exchange rates iii) the lenders' liquidity problems, in the advanced economies, are able to determine the liquidation of assets in Romania, including: i) loans to bank subsidiaries; ii) direct loans to corporations in Romania iv) firms in major European economies may cut the funding and the foreign direct investment inflows to subsidiaries in Romania	<b>Severe</b> i) banks are dependent on external sources of liquidity; a major contraction in sources of funds may determine a new credit crunch in Romania ii) if parent banks are not able to provide capital to Romanian subsidiaries, there is the possibility of a new credit crunch iii) the legal environment's weaknesses and the competition for market share(leading to lower standards of scrutiny in lending) may determine the situation where bank lending may involve default probabilities, deteriorating the economic circumstances and increasing the non-performing loans iv) weaknesses of the bank resolution framework may harshen the process of bank restructure, undermining the confidence in the financial system v) the RON depreciation may lead to adverse consequences for the households and for the firms' balance sheets, increasing the non-performing loans vi) the property market has already weakened by 30%. A contraction in capital inflows may lead to future bankruptcies and unemployment in the construction, increasing the non-performing loans
<b>3. Absorption of European funds fell far below</b>	<b>High</b> i) the absorption of the European funds in is below the target objective	<b>Medium</b> i) the growth projections rely on the anticipated increase in european funds

Nature / Source of main threats	The overall level of concern	
	The probability of a severe threat achievements in the next 1-3 years	Expected impact on financial stability if the threat occurs
expectations		absorption ii) growth may be lower in the medium term if the European funds absorption will be below forecasts iii) the capacity of implementation should be improved
<b>4. Intensification of the eurozone crisis</b>	<p><b>Medium</b></p> <p>i) Romania has commercial and financial ties with the member countries of the euro area. Exports to Germany, Italy and France are 40% of total exports, and the banking system is owned mostly by the euro area banks</p> <p>ii) foreign exchange denominated loans are about 60% of bank loans, given to the private sector</p> <p><b>High</b></p> <p>i) expectations regarding the lower external demand may lead to doubts related to the sustainability of Romania's current account deficit</p>	<p><b>High</b></p> <p>i) further exchange rate depreciation could have a serious impact on bank portfolios</p> <p><b>Moderate</b></p> <p>i) exporters are dependent on the European markets, so they might be adversely affected</p> <p>ii) FDI inflows to Romania may be adversely affected if investment projects are delayed / cancelled</p> <p>iii) remittance income from the Romanian guest workers may decrease</p> <p>iv) adverse macroeconomic effects are able to reduce the countercyclical monetary and fiscal policy</p>
<b>5. Damaging domestic fiscal and wage policies</b>	<p><b>Moderate</b></p> <p>i) fiscal authorities face political pressure in order to run expansionary spending policies</p> <p>ii) government has agreed to increase wages far in excess of the productivity gains or the inflation target</p>	<p><b>Severe</b></p> <p>i) current fiscal and wage policies may reduce the investor's confidence in Romania, putting downward pressure on the domestic currency</p>
<b>6. Accelerating the process of deleveraging of foreign banks</b>	<p><b>Medium</b></p> <p>i) the largest nine foreign banks have reduced their exposure to Romania</p>	<p><b>High</b></p> <p>i) the pressure on the exchange rate;</p> <p>ii) possible deterioration of bank's balance sheets</p>
<b>7. Drying up of financial markets</b>	<p><b>Low</b></p> <p>i) government's rollover needs are about 4% of the gross domestic product</p> <p>ii) the external liabilities of the banking system totals about 17% of the gross domestic product</p>	<p><b>Medium</b></p> <p>i) fiscal buffers and foreign exchange reserves cover the most part of the short-term debt</p> <p>ii) there might be necessary to implement restrictive fiscal and financing actions</p>

Source: International Monetary Fund

## 6. Policy instruments for promoting financial stability - Strengthening financial stability. Undertaken measures

The evolution of financial stability is only partially controllable. Policy instruments that can be used to safeguard financial stability in general have also other objectives, such as protecting the interests of deposit holders (the prudential instruments), promoting price stability (monetary policy) or to promote settlement of financial transactions (the case of policies governing the payment and settlement systems).

The previous undertaken measures, in order to strengthen financial stability, during the last three years, involve a diverse spectrum of instruments, as follows: i) differentiated reserve minimum requirements, higher for deposits denominated in foreign currency than those denominated in RON; ii) the limit for the share of loan collateral (the limit of loan-to-value ratio) is 75%; iii) limiting the ratio between the debt service to net income to 30% for

consumer loans and 35% for mortgage loans; in addition, it is established a ceiling of 40%, which applies to credit institutions and to non-bank financial institutions; iv) establishing certain limitations on the aggregate exposures of credit institutions (compared with own funds) to unhedged borrowers; v) setting restrictive coefficients to stress testing for foreign exchange loans (higher coefficients for dollar and Swiss francs denominated loans); vi) increasing capitalization of the credit institutions that have: a high exposure on foreign exchange denominated loans; a share of loans in the collateral higher than the market average, a loans/deposits ratio higher than the market average; vii) moral suasion, so that Romania has committed to monitor the lending activity of the non-government sector and to take into account, in addition to the existing measures, the possibility of adopting other measures in order to limit the risks determined by the unhedged borrowers.

Other measures include: 1) implementation of the International Financial Reporting Standards by the banking sector, taking account some strategic milestones that aim to provide transit to the new accounting standards and to strengthen the capitalization and liquidity levels; before changing the reference accounting system, the strategic benchmarks are the following: a) before applying IFRS there was a transition period of three years (2009-2011), when credit institutions were required to carry out two sets of financial statements, one according to the European directives and one according to IFRS, b) in 2011 it was updated the reporting framework (the accounting framework, the prudential framework, the statistic framework), in order to introduce the new accounting standards; the National Bank of România proposed prudential filters to ensure a prudent policy regarding solvency, provisions, reserves; 2) strengthen the stability of the banking system and deepen the reforms as a result of previous measures, as follows: c) enlargement by the National Bank of Romania of the scope eligible collateral in the refinancing operations (ie bonds issued by international financial institutions and listed at the Bucharest Stock Market, and euro denominated securities issued outside the country); d) a prudential treatment of temporary acquirement of equities (debt-to-equity swaps), that have been obtained after loan restructuring, in order not to weaken the financial position of banks; therefore prudential treatment should ensure the following: i) the involvement of credit institutions, so that these operations would be performed taking into account a prudent decision making process; ii) the shares' value is deducted from the own funds held by credit institutions, in order to avoid any artificial improvement of the prudential indicators; and (iii) earnings from these transactions are not taxed, in order to free up the credit risk provisions; e) monitoring foreign currency loans and implementing measures so that their price would adequately reflect the currency risk; f) decision to not adopt initiatives related to individuals bankruptcy, in order to not undermine the borrowers' discipline; 3) measures related unforeseen situations, in order to avoid systemic risk in the banking sector, through: a) creating mechanisms for identifying systemically important banks that present systemic importance, in order to meet the public interest in terms of financial stability; b) updating corrective policies through harmonization with European standards of solving banking problems (the case of border banking groups), seeking to provide an orderly exit from the banking market of the non-viable institutions, without accesing public funds, in order to maintain financial stability, c) the external communication framework, in the situations of high risk for financial stability, in order to improve the ability to prevent or to limit the propagation of panic within banks' lenders.

## **7. Strengthening financial stability. Recommendations of measures**

To increase the strength of the financial system and to improve financial stability, there are necessarily some additional measure that should cover the following markets and



areas: crises management; cross-sectoral challenges; banking sector; securities markets and capital markets; insurance sector; pensions sector; access to financial services.

Regarding *crisis management* and safety net, the following measures are required: i) strengthening capital positions for some banks and establishing medium-term objectives for raising minimum capital adequacy; ii) strengthening monitoring by the National Bank of Romania, of the bank loan portfolios and of the procedures and the ability to solve the problems relating to loans; iii) accelerating the crisis management planning, communication, simulation exercises implementation, and strengthening the cross-border and cross-sectoral coordination of crisis management; iv) consideration of further measures in order to ensure liquidity, particularly in the case of immediate emergency liquidity assistance; v) review of bank resolution framework in order to facilitate rapid action and options for bank restructuring; vi) strengthening deposit insurance funding and accelerating payments.

Regarding *cross-sectoral challenges*, the following measures are necessary: i) aligning the independence and the financial autonomy of non-bank regulation authorities with the National Bank of Romania; ii) strengthening the information exchange and cooperation between regulatory authorities and the Ministry of Economy and Finance; iii) issuing coherent methodology for the evaluation of financial assets; iv) continuing efforts to risk-based supervision and increasing communication with market participants.

Regarding the *banking sector*, the following measures are necessary: i) strengthening judicial, accounting and auditing standards, and also the communication and consultation between the National Bank of Romania and the regulated entities; ii) continuing the efforts of implementing the principles-based supervision; iii) development of an effective system of supervision and regulation of credit unions and collateralized mortgage obligations..

Regarding the *securities markets and capital markets*, the following measures are required: i) concentrating on the primary issuance of government securities on one or two points of maturity in order to increase liquidity; ii) modifying the law of capital markets in order to remove limit of voting rights of the regulated markets' operators; iii) reviewing the contracts of the primary dealers and establishing the rotation policy in order to provide incentives for market-making process; iv) removing all the regulatory barriers that prevent over-the-counter trading of non-government securities; v) establishing a system for reporting transactions for government bonds, and regulating the bonds that require over-the-counter transactions; vi) reducing the registration fees for securities to a single fee comparable to other European Union member states, and making more efficient the registration procedures, such as occur in the single market of the European Union; vii) the gradual replacement of ex-ante local loans approval by ex-post controls, within a budget monitoring process.

Regarding the *insurance sector*, the following measures are necessary: i) mandatory revision of the insurance law; ii) actuarial reviewing of the funding guarantees and protection; iii) continuing the harmonization with other insurance regulators in the European Union.

Regarding the *pension sector*, the following measures are necessary: i) clarifying the interpretation of the minimum security guarantee and of the weighted average contribution of profitability; ii) reviewing the investment management fees; iii) establishing a uniform methodology for assessment and accountability; iv) reviewing the current fee levels; v) maintaining the contribution rate increase of 0.5 % per year; vi) not implementing inflation guarantees before the moment when the domestic capital market will provide instruments to of protection against the risk of inflation; vii) developing annuity retirement products; viii) implementing multi-funds and outsourcing the asset management.

Regarding the *access to financial services*, there are required the following steps: i) expanding the coverage of the trade register; ii) accelerating the real estate registry reform implementation; iii) consideration for the inter-connection between different databases with information on borrowers.

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# SALES BUDGET - MANAGEMENT TOOL IN BUSINESS BACKGROUND ENTITY

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## Abstract:

*Budget as a management tool is used to size the activity of forecasting the financial and accounting terms and in terms of economic efficiency, the allocation and use of resources to an entity in a particular reporting period, that aims to achieve the necessary expenses and income achieved, establishing this and the powers and responsibilities relating to the efficient use of these resources. Sales budgeting should be given special attention given the correlation and the influence of these predictions with other budgets namely production budget; supplies budget; investment budget; budget overheads; treasury budget. There should be understood that estimates of other budgets are not related or that there are no dependencies between them.*

**Keywords:** budget, management tool, sales budget, costing, production

**JEL Classification:** M41

## 1. Introduction:

Planning and forecasting of an entity requires implementation of annual objectives and management plans (both strategic and operational) and decisions and the ways to achieve the strategy, using a combination of existing accounting data from previous periods and beyond. These predictions are realized both medium and long term and short term. Planning activities for a period of up to one year are conducted through the entity's budget and operational plan should be circumscribed with a horizon of 2-3 years or entity's strategic plan of action developed for periods of up to five years. This mechanism pyramid shown in Figure 1.

The budget becomes a management tool used to size the prediction in terms of financial, accounting and economic efficiency terms, the allocation and use of resources to an entity in a particular reporting period of a year or objectives to be achieved, necessary expenses and revenues achieved, establishing this and the powers and responsibilities relating to the efficient use of these resources.

Non-public budgets, but are internal documents intended only for internal managerial needs of the entity, is essential in the analysis, control and ensure the financial stability of the entity. As a management tool, budgeting system performs the following functions:

1. The foresight - starts from the appearance that budgets, budget system components is a financial estimate of resources, funds and expenditures for all activities undertaken in the financial and economic entity. Using the system is dimensioned revenue and expenditure budgets, financial results regarding the entity's operating activities, resources and expenses for current assets, other resources and expenditure, respectively taxes, fees and other similar payments to the state budget.

2. Control function - occurs when they are engaged and expenses incurred and revenues are realized as a result of their activities and funding is needed. Control function occurs in phase tracking and analysis of budget implementation, ensuring knowledge of how to achieve the expected goals, identify deviations and its causes deviations at all hierarchical levels respectively identifying departments must improve their work.

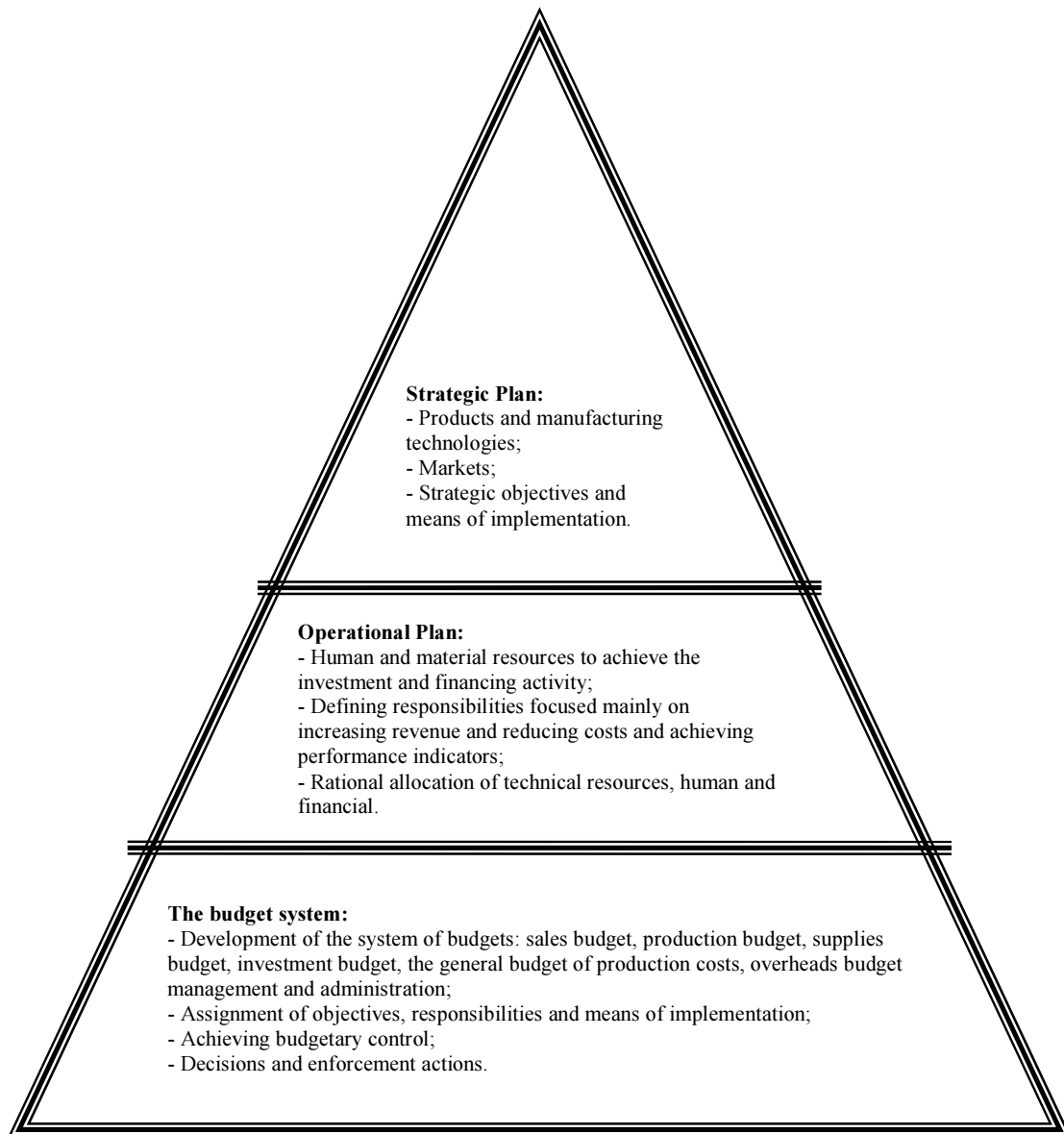
3. The insurance financial balance - is because the budget system is used to guide and rule the relationship between income and expenses. Financial equilibrium reflected providing resources for the achievement of the objectives and actions expected respectively necessary resources to cover obligations to third parties. This balance must be

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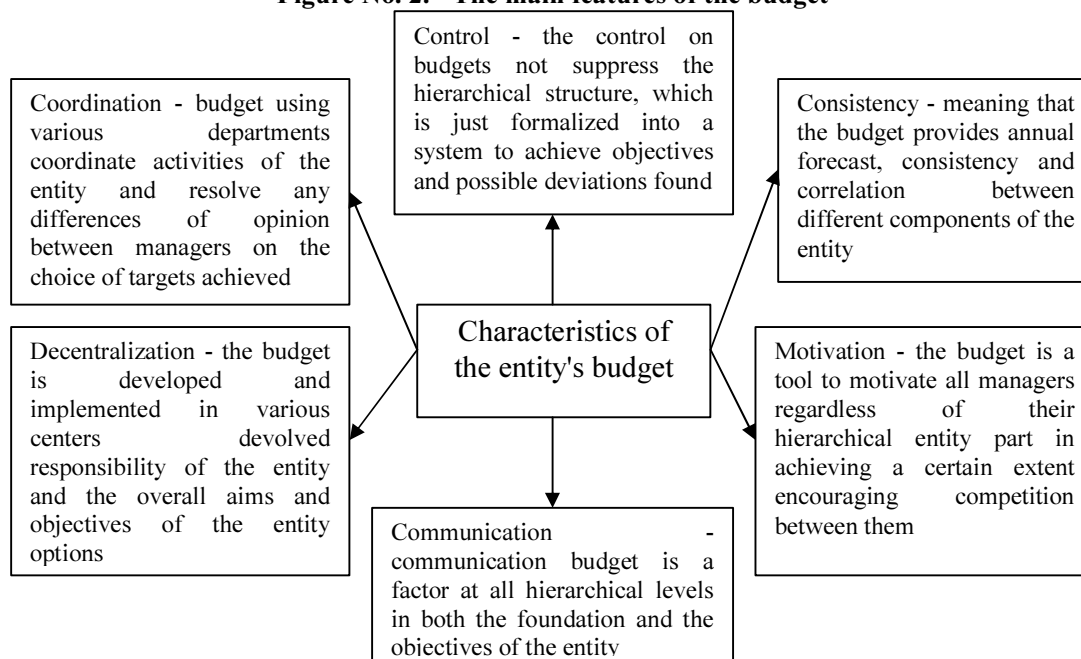
secured as a whole the total budget of income and expenditure and organizational structures within each entity.

**Figure no.1. "The mechanism of the entity planning pyramid"**



System features budgets, receiving quality management tool are shown in Figure No. 2.

**Figure No. 2. "The main features of the budget"**



Using entities budgets by managers has both strengths and weaknesses, as follows:

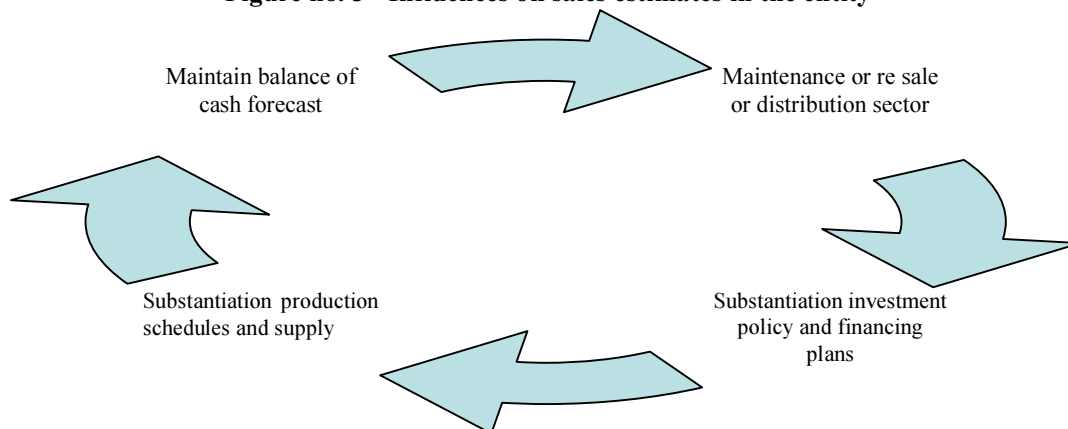
<b>Strengths in using budgets</b>	<b>Weaknesses in the use of budgets</b>
<ul style="list-style-type: none"> <li>- Coordination of the work is clear and easy to assimilate both managers and those responsible for budgets;</li> <li>- The budgets are the benchmark for assessing performance and making comparative statements in relation to performance and objectives with those made in the current period, but in relation to other periods of budget management;</li> <li>- Responsibility centre managers are required to foresee the consequences of decisions;</li> <li>- To promote communication and coordination between the different hierarchical levels of the entity;</li> <li>- Providing entity objectives to be attained, the breakdown intervals and periods of achievement.</li> </ul>	<ul style="list-style-type: none"> <li>- There is a risk of blocking the activity when used against those flexible fixed budgets;</li> <li>- Projected unrealistic goals can cause negative reactions from employees;</li> <li>- There may be negative influential on the cost generated by the view that lower cost achieved when there are sufficient resources will be passed in future periods, meaning that fewer resources will be allocated if the above could spend less;</li> <li>- Competition between different structures arising from the budgets motivates managers and employees can create some conflicts and insecurity in the employees.</li> </ul>

## **2. Dimensions theoretical and practical foundation of sales budget**

The budget director is dependent on the other sales budgets. To sell you must have the items in stock or made during the reporting period. To produce the necessary raw materials, labor and machinery. To purchase these items need cash. It is fueled by sales and outside contributions of shareholders equity and borrowed under budget (Guedj N., 1991, p.263)

Sales forecast envisages estimation of turnover forecast based on expected future sales levels (quantitative) and estimated selling price (value) correlated with overall company policy and economic and social restrictions in the entity (see figure no.3. )

**Figure no. 3 "Influences on sales estimates in the entity"**



Therefore the development of sales forecasts must take into account the main factors influence this (Briciu S. and staff, 2010, p.203):

- the past sales data: past experience, combined with aspects Understanding product sales, geographic regions and customer types, can help predict future sales;
- estimates made by sales centres: these entity sales centers are often the best source to information on customer wishes and plans;
- general economic conditions: forecasts of key macroeconomic indicators can influence sales volume;
- shares of competitors: sales depend on the force and action of competitors. to predict sales, an entity should consider the likely strategies of competitors, such as price changes, service etc.;
- changes in prices: sales can be increased by lowering the price and vice versa. An entity shall consider the effect of price changes on demand;
- changes in the product mix: the modification of products sold is amended overall margin;
- marketing studies: some entities employ marketing experts to get information on prevailing market conditions and customer preferences were then used to forecast sales;
- plans for advertising and sales promotion: a sales forecast must take into account the anticipated effects of promotional activities.

You can use several methods to determine sales forecasts, which help to determine the overall evolution of phenomena in order to take into account individual variations then. I present two such methods.

I. The method of adjustment is a statistical method of linear extrapolation of the trend evolution of sales for the previous period in the future, using "linear adjustment right expression" applying the principle of minimum quadrate or least squares.

Example: an entity with productive activity launched a new product for which we know the following situation in sales (in units of product) in the first year of life of the product:

Month „x <sub>i</sub> ”	1	2	3	4	5	6	7	8	9	10	11	12
Quantity sold (pcs) „y <sub>i</sub> ”	300	320	270	310	290	350	360	310	220	250	360	380

$$a = \frac{\sum X_i \times Y_i}{\sum X_i^2}$$

Director of the true coefficient linear adjustment is calculated as:

$x_i$	$y_i$	$X_i = x_i - \bar{x}$	$Y_i = y_i - \bar{y}$	$X_i \times Y_i$	$X_i^2$
1	300	- 5.5	- 10	55	30.25
2	320	- 4.5	10	45	20.25
3	270	- 3.5	- 40	140	12.25
4	310	- 2.5	0	0	6.25
5	290	- 1.5	- 20	30	2.25
6	350	- 0.5	40	20	0.25
7	360	0.5	50	25	0.25
8	310	1.5	0	0	2.25
9	220	2.5	- 90	- 225	6.25
10	250	3.5	- 60	- 210	12.25
11	360	4.5	50	225	20.25
12	380	5.5	70	385	30.25
$\sum x_i = 78$	$\sum y_i = 3,720$	0	0	$\sum X_i \times Y_i = 49$	$\sum X_i^2 = 143$

$$\bar{x} = \frac{\sum x_i}{12} = \frac{78}{12} = 6.5$$

$$\bar{y} = \frac{\sum y_i}{12} = \frac{3,720}{12} = 310$$

$$a = \frac{\sum X_i \times Y_i}{\sum X_i^2} = \frac{49}{143} = 3.4$$

Linear trend of sales in the future is determined according to:  $y - \bar{y} = a \times (x - \bar{x})$

Therefore sales forecast for the first three months of next year is as follows:

$x_i$	$y_i = \bar{y} + a \times (x_i - \bar{x})$
1	$310 + 3.4 \times (1 - 6.5) = 291.3$ pcs
2	$310 + 3.4 \times (2 - 6.5) = 294.7$ pcs
3	$310 + 3.4 \times (3 - 6.5) = 298.1$ pcs

II. Correlation method is also a statistical method that can be used if two conditions are met: there is a correlation between product sales and another variable or two variable to its variations are known or likely to achieve a forecast them as varies with a linear trend.

Example: A unit conducting product A has provided the following data on product sales and revenues, as follows:

Month	Revenue ( $x_i$ )	Sales ( $y_i$ )
1	6,000	12,000
2	7,000	15,500
3	6,500	14,000
4	8,000	20,000
5	11,000	25,000
6	9,500	23,000
7	12,000	35,500
8	18,000	42,000
9	5,000	11,000
10	7,700	16,000

$$c = \frac{\sum X_i \times Y_i}{\sqrt{\sum X_i^2 \times \sum Y_i^2}}$$

Correlation index is calculated as:

$x_i$	$y_i$	$X_i = x_i - \bar{x}$	$Y_i = y_i - \bar{y}$	$X_i \times Y_i$	$X_i^2$	$Y_i^2$
6,000	12,000	- 3,000	- 9,400	28,200,000	9,000,000	88,360,000
7,000	15,500	- 2,000	- 5,900	11,800,000	4,000,000	34,810,000
6,500	14,000	- 2,500	- 7,400	18,500,000	6,250,000	54,760,000
8,000	20,000	- 1,000	- 1,400	14,000,000	1,000,000	1,960,000
11,000	25,000	2,000	3,600	7,200,000	4,000,000	12,960,000
9,500	23,000	500	1,600	800,000	250,000	2,560,000
12,000	35,500	3,000	14,100	42,300,000	9,000,000	198,810,000
18,000	42,000	9,000	20,600	185,400,000	81,000,000	424,360,000
5,000	11,000	- 4,000	- 10,400	41,600,000	16,000,000	108,160,000
7,000	16,000	- 2,000	- 5,400	10,800,000	4,000,000	29,160,000
90,000	214,000	0	0	360,600,000	134,500,000	955,900,000

$$\bar{x} = \frac{\sum x_i}{10} = \frac{90,000}{10} = 9,000 \quad \text{and} \quad \bar{y} = \frac{\sum y_i}{10} = \frac{214,000}{10} = 21,400$$

$$c = \frac{\sum X_i \times Y_i}{\sqrt{X_i^2 \times Y_i^2}} = \frac{360,600,000}{\sqrt{134,500,000 \times 955,900,000}} = 1.0056$$

How index correlation is almost one can establish a close correlation between the two variables's highly. It can draw the equation linear forecasting will expire as follows:

$$Y_i = \frac{\sum X_i \times Y_i}{\sum X_i^2} \times X_i$$

The process mathematical equation and arrive at the following mathematical

$$\frac{\sum X_i \times Y_i}{\sum X_i^2} = \frac{360,600,000}{134,500,000} = 2.68$$

expression:

$$y_i - \bar{y} = 2.68 \times (x_i - \bar{x}), \text{ that is } y_i = 2.68 \times x_i - 2,720$$

Apart from sales budget will be prepared and budget distribution costs, which must include at least the following elements expenses: employees involved in the sale and distribution, including those related to security and social protection; travel expenses of employees involved in selling - distribution; expenditure on commission sales; packaging costs; transport costs; advertising expenditures; expenses for participation in fairs and exhibitions; expenditure on market research on products; costs of launching a new product; depreciation and maintenance costs of assets used in the business of selling - a distribution; expenses related to water and energy stores, storage facilities for distribution and the like; insurance costs of the assets used, and products; other selling expenses Distribution (security, general public). If we compare the total costs of distribution sales volume to obtain the unit cost of distribution.

Budget and budgetary control is (Deshayes C., 1991, p.12):

- a set of coordinates that allow predictions especially knowing anticipated operating conditions;
- systematic approach to fixed periods, the actual results achieved by the set;
- rapid communication of relevant situations makers.

Budgetary control involves constant comparison of actual results and forecasts are provided for in the budget in order to investigate the causes of deviations, to inform various hierarchical levels, to take any corrective action necessary to appreciate the work that budgetary responsibility (Gevrais M., 1990, p.36).

Sales Budget control is control by exception, control needs and objectives controlled differ depending on company size, organizational structure and the hierarchical control and address the following topics:

1 Budgetary control sales period - is to identify deviations unfavorable sales periods and causes they generated, and taking corrective measures and related decision.



2 Control sales budget categories of customers - is to identify deviations and causes bad sales they have generated, and decision making and corrective measures related to customer categories, and for each client depending of contracts and other elements planned.

3. Budget control sales regions and sales channels - is considering at least two aspects: the first concerns the responsibility and motivation regional managers involved in sales and distribution, and the second to identify deviations in relation to sales forecasts by region, but also taking improvement measures to be taken into account both the influence of external causes (appearance of local or international competitors, the emergence of the economic crisis and other economic causes - social, etc.), and internal entity (deficiencies in supply / distribution, lack of coordination centres supply / distribution, human errors in the work of regional distribution, etc.). Control can also highlight other elements deficit related to the overall purpose of sales / distribution medium and long term, such as mail order sales implementation, creation of new regional centres for sale / distribution policy change motivational and accountability of managers involved etc.

4. Budget control on product sales - you must highlight at least two aspects, one related to deviations from the expected level on products and other related medium and long term objectives of the entity on the maintenance, development, expansion of production of that product, including accessories items concerning advertising, promotion or replacement of productive capacity is waived if the product and decide to launch a new one.

### **3. Conclusions**

Lack of sales budget can create the following impediments:

- Inability global performance measurement, and bearing the cost or responsibility centres;
- Inability reaction to changes in the market and work products produced or services rendered;
- There is the temptation of the management entity to limit or reduce arbitrary expenditure for certain products or responsibility centres, without a rigorous justification;
- Impossibility of sales simulations and unable identifications deviations occurring in selling and substantiate decisions on current sales and / or future.

Budgeting sales and identify factors affecting short-term market company products shall only envisages the development of future projections, but also obtain information that would allow subsequent management of the business, thereby seeking to ensure the link between resources and ways planned development.

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# UTILITY OF THE METHOD T.H.M. (MACHINE - HOUR - RATE) PRODUCTION CENTURY PROCESS AUTOMATION

Cristina-Otilia, Țenovici<sup>1</sup>

## Abstract:

*The method T.H.M. (machine – hour – rate) gives greater accuracy in the factories or departments, where production is largely by machinery. In the specialty literature, the notion of price - the time - the car is defined as “a rate calculated by dividing the budgeted or estimated overhead or labour and overhead cost attributable to a machine or group of similar machines by the appropriate number of machine hours. The hours may be the number of hours for which the machine or group is expected to be operated, the number of hours which would relate to normal working for the factory, or full capacity”. In a highly mechanised cost centre, majority of the overhead expenses are incurred on account of using the machine, such as, depreciation, power, repairs and maintenance, insurance, etc. This method is currently offering the most equitable basis for absorption of overheads in machine intensive cost centres.*

**Keywords:** machine hour rate, costing, production, cost centre, overhead costs

**JEL Classification:** M41

## 1. Introduction

In recent decades great changes have taken place in technology, and the pace of innovation to products and services has increased. Technical progress has led to the extension of mechanization and automation of production processes, which generated increasing technical endowment entities and thus significantly increase the indirect costs and expenses specifically with the maintenance and operation of machines.

For these reasons it is necessary to use a method of calculation that highlights the machine or group of machines that are called production centers (responsibility center) or places that give rise to expenses. The sectorization production centers entity must take into account the possibility of sharing costs to calculate the unit cost per vehicle cost and the possibility to liability for costs incurred in each individual establishment. We quantify the activity in the center of production and costs of the activity can be identified directly on the carrier charges. Also each production center / responsibility center can be equipped with a system of performance measurement to inform the center manager and later manager of the level of achievement of objectives, resource consumption, but also on quality indicators.

Method to successfully meet the above requirements is known as price method - hour - car. Price method - hour - machine (THM) was treated as a stand alone method of calculation by North American economist Spencer A. Tucker, considered in many subsequent publications as its author exclusively. Abbreviation T.H.M. comes from the original translation in French: Taux – Heure – Machine.

## 2. Theoretical aspects:

The method involves carrying out the following preparatory work:

1. Determination of tariff - hour - machine: this means all costs incurred by an entity to make are functioning machine / equipment of a particular sector / instead of spending one hour without taking into account the costs of raw materials and expenses direct materials.

2. Establishing production centers or centers of activity: production centers are established manual and car production centers. Production centers are determined by inventory spot grouping at a center level cars aceeași parameters which serve the same purpose and is entered in situations location, known as the Nomenclature production

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centers (this does not require a reorganization physico-technical sense of bringing machine / manual operations in the same workshop / section, but provides a structure manufacturing process adapted calculation and management costs). A production center comprises one or more machines or handmade papers running same operation or group of operations. The name given to the production center is based on the name of technological operation performed (such as debit, turning, planing, etc.), and if more centers running the same operation is differentiated by numbers or by use of other features essential (eg, use machinery factory mark, product size etc.). In order to group the machines in production centers are taken into account the following criteria [Călin O., Cârstea Gh, 2002, p.287]: technological operation executed (its way); machine capacity (their performance); dimensional (length, area occupied, etc.); the number of people serving; installed power engines that operate machines; machine type and their age, in the period of service; value of the machinery; kinds of manufactured products; the number of exchanges in which they are used; the number of hours worked annually in machine (productive hours) etc.

3. Determine the annual number of scheduled hours of a production center - is determined either by estimation or documents using data from the previous year, at the annual planned production include preparation time center of work and productive operating time of equipment production center.

a. Estimating production scheduled hours shall be:

- calculate the number of working days of the year, as follows:  
No. working days = 365 - no. Legal weekends (Sundays and statutory holidays) - other non-working days (holidays);
- calculate the annual number of hours by weighting the number of working days in a year 8 (if working within a single schema for 8 hours) 16 (if working in two shifts of 8 hours / shift) or 24 (if working three shifts of 8 hours / shift).

b. Year of the number of hours per year based on the documents shall be: centralize the workers' time sheets serving machines that production center, the hours of operation of the machine serviced by a single worker (where those machines are served for many workers). This number of hours is corrected under the influence of factors such as commissioning of equipment with high efficiency, modernization of equipment, changing the design of the products etc.

4. Determine the number of staff and production capacity of the center:

a. With the establishment directly productive workers flock each production center is set and hourly wage of each worker at the center, including Central hourly wage, benefits shall be established at each of the production workers during the labor disruption due to holidays, rest during work (lunch break) etc. It also will establish and indirect production workers have the equipment maintenance and repair tasks (handlers, receptionists, warehouseman, CTC controllers etc.).

Standard uniform number of workers is determined by the head of the organization of work. This actually may comprise one or more workers who normally work on a car or machine, making a productive operation. Where a worker serves two or more machines will be considered as employed at each machine a corresponding fraction (eg if the worker serves five machines simultaneously, it will count in the herd unit 5.1 standard workers. Similar to will count and indirectly productive workers who are permanently assigned to a particular operation of one or more production centers. Hourly wage per worker includes hourly salary plus related bonuses and other salary increases that will occur during scheduled.

Central zone production salary is calculated based on the hourly wage of the herd standard unit and the number of cars in the center of production. For example, at a production center consists of three machines, the number of workers standard unit consists

of a worker with an hourly wage of 8 lei, quarter hourly workers pay 10 lei and third workers an hourly wage of 12 lei. Hourly wage standard unit staff will be 14.50 USD [ $1 \times 8 + 1/4 \times 10 + 1.3 \times 12$ ] and hourly wage of production center is 43.5 lei ( $14.50 \times 3$ )

b. It determines the production capacity of the production center and programmed to correlate with

5. It prepares operating budget and allocate these costs on production sites - it serves the indirect costs of production planning, management and administration expenses or the costs of disposal, without this budget includes raw material consumption matting direct or direct labor costs (these items will be taken into account when calculating the unit cost). The operating budget is based on data recorded in the accounting year. When budgeting for the current year do take account of the variable, semi-variable and fixed these expenses and the different degrees of use of production capacity, achieving the operational budgets often flexible. Costs included in the operational budget of the production facilities is performed using the method of supplementing (with single or differential coefficient).

6. Determination of the charge-time-machine and the unit cost of the program (see the calculation in the example below)

### 3. Practical aspects

A unit producing fully mechanized and automated flow gives the following classification of production centers:

Name of production center	Central machines Number	Characteristic data			
		Machine value (V)	work surface (S)	Rating (P)	hours production schedule (Hpl)
CP1	2	60,000 lei	30 m <sup>2</sup>	70 kw	6,100 ore
CP2	3	50,000 lei	10 m <sup>2</sup>	16 kw	2,400 ore
CP3	1	40,000 lei	20 m <sup>2</sup>	14 kw	4,500 ore
CP4	2	52,000 lei	5 m <sup>2</sup>	5 kw	2,300 ore
CP5	2	38,000 lei	15 m <sup>2</sup>	115 kw	6,700 ore
TOTAL		240,000 lei	80 m <sup>2</sup>	220 kw	22,000 ore

Production center (CP)	Number. machines / center	Effectively standard workers / machine	hourly wage per worker (lei / hour)
CP1	2	2 1/ 2	8.3 5
Worker Help the worker			
CP2	3	2 1/ 3	7.1 8
Worker Help the worker			
CP3	1	1 1	6.4 11
Worker Help the worker			
CP4	2	2 1/ 2	12.3 6
Worker Help the worker			
CP5	2	2 1	7 13
Worker Help the worker			

The unit performs two products A and B. For product companies carried 4,000 pieces, and the product B, 1,000 pieces. Individual processing time in each production center is shown in the table below:

Product	For processing individual				
	machines CP1	machines CP2	machines CP3	machines CP4	machines CP5
A	100	100	300	50	150
B	100	200	100	200	100

Unit cost of raw materials and direct materials for product A is 8,000lei / unit and product B of 1,000 lei / piece.

Using the method of calculation to determine THM and total unit cost of each product.

1. Determine staffing structure and production capacity for each production center:

a. Determine the hourly wage in the middle:  $Sh_i = Nm_i \times \sum Sh/l_j \times n_j$

significance notations:

Sh – hourly wage in the middle of production

Nm – the number of machines in the center

Sh/l – hourly wage per worker

i – production center

j – the category of personal

n – the number of workers

$$Sh_{CP1} = 2 \times (8.3 \times 2 + 5 \times \frac{1}{2}) = 38.2 \text{ lei/oră}$$

$$Sh_{CP2} = 3 \times (7.1 \times 2 + 8 \times \frac{1}{3}) = 50.61 \text{ lei/oră}$$

$$Sh_{CP3} = 1 \times (6.4 \times 1 + 11 \times 1) = 17.40 \text{ lei/oră}$$

$$Sh_{CP4} = 2 \times (12.3 \times 2 + 6 \times \frac{1}{2}) = 55.20 \text{ lei/oră}$$

$$Sh_{CP5} = 2 \times (7 \times 2 + 13 \times 1) = 54 \text{ lei/oră}$$

b. Determine the maximum number of hours per year the center:

$$H \max_i = (Zc - Znl) \times r \times Nm_i$$

significance notations:

Zc - calendar days (one year is 365 days)

ZNL - weekends - Sundays, public holidays (it is considered that in a year there are 52 Sundays and 8 days statutory holidays)

Nm - the number of machines the center

r - the practice of machine is exchanged, ie 8:00 / exchange

$$H \max_{CP1} = (365 - 60) \times 8 \times 2 = 4,880 \text{ ore}$$

$$H \max_{CP2} = (365 - 60) \times 8 \times 3 = 7,320 \text{ ore}$$

$$H \max_{CP3} = (365 - 60) \times 8 \times 1 = 2,440 \text{ ore}$$

$$H \max_{CP4} = (365 - 60) \times 8 \times 2 = 4,880 \text{ ore}$$

$$H \max_{CP5} = (365 - 60) \times 8 \times 2 = 4,880 \text{ ore}$$

c. Determine the annual number of hours available in a center (Hd) - is calculated by subtracting the hours paid for planned interruptions (holidays, breaks and other interruptions during the program legal) and expresses its production capacity. The difference between the annual number of hours available on a production center and programmed in hours indicates the ability or lack of production capacity

Production center	Maximum annual hours (Hmax)	Time not worked the center	Hours available (Hd)
CP1	4,880	300	4,580
CP2	7,320	500	6,820
CP3	2,440	200	2,240
CP4	4,880	300	4,580
CP5	4,880	200	4,680
TOTAL	24,400	1,500	22,900

d. Determine production scheduled for each center, which is at the center of

manufacturing direct labor:  $C_{Md_i} = Hpl_i \times Sh_i$

significance notations:

C<sub>Md</sub> – direct labor costs related to the production center

$$C_{Md_{CP1}} = 6,100 \times 38.20 = 233,020 \text{ lei}$$

Hpl – scheduled production hours  
Sh – hourly wage the center of production

$$C_{Md_{CP2}} = 2,400 \times 50.61 = 121,464 \text{ lei}$$

$$C_{Md_{CP3}} = 4,500 \times 17.40 = 78,300 \text{ lei}$$

$$C_{Md_{CP4}} = 2,300 \times 55.20 = 126,960 \text{ lei}$$

$$C_{Md_{CP5}} = 6,700 \times 54.00 = 361,800 \text{ lei}$$

2. It prepares an operating budget - this includes all indirect manufacturing costs, excluding raw material costs and direct material costs. Underlying operational budgeting are costs incurred in the base year, correlated depending on the plan set for the year. These costs are divided into fixed costs and variable costs, in order to know their evolution under the action of various factors. Usually we use the flexible budgets.

#### Operating Budget

Group name and the types of costs	Total cost of the		Criterion for allocating
	fixed costs	variable costs	
Repair machinery and equipment	500	220	Value machine
Depreciation of machinery and installations		800	Value machine
Energy costs	600		Installed power
Fuel costs	220		Hours of operation
Salaries of management staff and protection costs related sectors	320	600	Direct labor
Repair buildings		30	Area
Depreciation buildings		200	Area
Lighting, heating, sewer		45	Area
Other manufacturing expenses		115	Hours of operation
<b>Total manufacturing expenses common</b>	<b>1,640</b>	<b>2,010</b>	
Teaching personnel salaries and expenses related protection		720	Direct labor
Displacements		30	Direct labor
Repair buildings		80	Area
Depreciation buildings		210	Area
Costs of energy and water		50	Area
Other operating expenses		160	Area
<b>Total overheads</b>	<b>1,640</b>	<b>1,250</b>	
<b>TOTAL EXPENDITURE BUDGET</b>	<b>1,640</b>	<b>3,260</b>	

$$K = \frac{CI}{\sum e_i}$$

Dispense production cost centers according to the allocation criteria set out:  
significance notations:

$K$  - coefficient distribution of expenditures on production centers "i"

$\sum e_i$  - criteria based distribution amount

$CI$  - expenses allocated to the production centers

The Parties share the expense is calculated as the product of the coefficient

incumbent previously calculated value based allocation criteria:  $CI_{rep_i} = K \times e_i$

Current number	Assigned criteria	For allocating costs
1	The value of machinery	1,520
2	Productive area	775
3	Installed capacity	600
4	Direct labor	1,670
5	Hours of operation	335
Total budgeted costs		4,900

a. Costs 1,520 lei depending on the criterion value of the machinery:

$$K = \frac{1,520}{60,000 + 50,000 + 40,000 + 52,000 + 38,000} = 0.0063$$

$$CP1 : 60,000 \times 0.0063 = 378.00 \text{ lei}$$

$$CP2 : 50,000 \times 0.0063 = 315.00 \text{ lei}$$

$$CP3 : 40,000 \times 0.0063 = 252.00 \text{ lei}$$

$$CP4 : 52,000 \times 0.0063 = 327.60 \text{ lei}$$

$$CP5 : 38,000 \times 0.0063 = 247.40 \text{ lei}$$

(to be determined by the difference up to the total amount of expenses allocated - review your cost calculation steps)

b. Costs 775 lei depending on the criterion of productive area:

$$K = \frac{775}{30 + 10 + 20 + 5 + 15} = 9.68$$

$$CP1 : 30 \times 9.68 = 290.4 \text{ lei}$$

$$CP2 : 10 \times 9.68 = 96.8 \text{ lei}$$

$$CP3 : 20 \times 9.68 = 193.6 \text{ lei}$$

$$CP4 : 5 \times 9.68 = 48.4 \text{ lei}$$

$$CP5 : 15 \times 9.68 = 145.8 \text{ lei}$$

c. Costs 600 lei depending on the criterion of installed capacity:

$$K = \frac{600}{70 + 16 + 14 + 5 + 115} = 2.72$$

$$CP1 : 70 \times 2.72 = 190.40 \text{ lei}$$

$$CP2 : 16 \times 2.72 = 43.52 \text{ lei}$$

$$CP3 : 14 \times 2.72 = 38.08 \text{ lei}$$

$$CP4 : 5 \times 2.72 = 13.6 \text{ lei}$$

$$CP5 : 115 \times 2.72 = 314.4 \text{ lei}$$

d. Costs 335 lei depending on the hours criterion:

$$K = \frac{335}{6,100 + 2,400 + 4,500 + 2,300 + 6,700} = 0.015$$

$$CP1 : 6,100 \times 0.015 = 91.5 \text{ lei}$$

$$CP2 : 2,400 \times 0.015 = 36 \text{ lei}$$

$$CP3 : 4,500 \times 0.015 = 67.5 \text{ lei}$$

$$CP4 : 2,300 \times 0.015 = 34.5 \text{ lei}$$

$$CP5 : 6,700 \times 0.015 = 100.5 \text{ lei}$$

e. Allocation of costs 1,670 lei by direct labor criterion ( $C_{Md}$ ):

$$K = \frac{1,670}{233,020 + 121,464 + 78,300 + 126,960 + 361,800} = 0.0018$$

$$CP1 : 233,020 \times 0.0018 = 419.43 \text{ lei}$$

$$CP2 : 121,464 \times 0.0018 = 218.63 \text{ lei}$$

$$CP3 : 78,300 \times 0.0018 = 140.94 \text{ lei}$$

$$CP4 : 126,960 \times 0.0018 = 228.52 \text{ lei}$$

$$CP5 : 361,800 \times 0.0018 = 662.48 \text{ lei}$$

$$THM_i = \frac{C_{Md_i} + \sum Chr_{ji}}{Hpl_i}$$

3. Determine THM sites:

significance notations:

$C_{Mdi}$  - direct labor cost

Chr - total cost of the operating budget allocated

Hpl - hours scheduled annual production

i – production center

j – „j” expense allocated to the production center and in relation to the criterion set

Production center	Hours scheduled annual production ( $Hpl_i$ )	Direct labor cost ( $C_{Md_i}$ )	Total cost ( $Chr_{ji}$ )	$THM_i = \frac{C_{Md_i} + \sum Chr_{ji}}{Hpl_i}$
CP1	6,100	233,020	1,369.73 378 290.40 190.40 91.50 419.43	38.42
CP2	2,400	121,464	709.95 315 96.80 43.52 36 218.63	50.90
CP3	4,500	78,300	692.12 252 193.60 38.08 67.50 140.94	17.55
CP4	2,300	126,960	652.62 327.60 48.40 13.60 34.50 228.52	55.48
CP5	6,700	361,800	1,475.58 247.40 145.80 314.40 105.50 662.48	54.22
TOTAL	22,000	921,544	4,900	

4. Product cost calculation:

Cost structure in the design method T.H.M. include:

- the cost of processing returns on items;
- Direct cost of raw materials and related product.

Unit cost of the product is determined as follows:  $cu_j = \sum THM_i \times t_{ji} + cu_{mpmd_j}$

significance notations:

$cu_j$  – unit cost per unit of product j;

$THM_i$  – the cost of running time and production center;

$t_{ji}$  – during the processing unit of product j's center;

$cu_{mpmd}$  – unit cost of raw materials and direct;

The total cost of the product will be:  $C_j = q_j \times (\sum THM_i \times t_{ji}) + q_j \times cu_{mpmd_j}$

Entire production cost can be determined by the relation:



$$C = \sum q_j \times (\sum THM_i \times t_{ji}) + \sum q_j \times cu_{mpmd_j}$$

significance notations:

$C_j$  – Total cost of product j;

$q_j$  – the amount realized from product j;

Production center	Product A			Product B		
	$THM_i$	$t_{ji}$	$THM_i \times t_{ji}$	$THM_i$	$t_{ji}$	$THM_i \times t_{ji}$
CP1	38.42	100	3.842	38.42	100	3,842
CP2	50.90	100	5.090	50.90	200	10,180
CP3	17.55	300	5.265	17.55	100	1,755
CP4	55.48	50	2.774	55.48	200	11,096
CP5	54.22	150	8.133	54.22	100	5,422
TOTAL	$\sum THM_i \times t_{ji} = 25,104$			$\sum THM_i \times t_{ji} = 32,295$		

Calculate the unit cost of the product:  $cu_j = \sum THM_i \times t_{ji} + cu_{mpmd_j}$

$$cu_A = 25,104 + 8,000 = 33,104 \text{ lei}$$

$$cu_B = 32,295 + 5,000 = 37,295 \text{ lei}$$

The total cost of the product:  $C_j = q_j \times (\sum THM_i \times t_{ji}) + q_j \times cu_{mpmd_j}$

$$C_A = 4,000 \times 25,104 + 4,000 \times 8,000 = 132,416,000 \text{ lei}$$

$$C_B = 1,000 \times 32,295 + 1,000 \times 5,000 = 37,295,000 \text{ lei}$$

Calculate the cost of the entire production:  $C = \sum q_j \times (\sum THM_i \times t_{ji}) + \sum q_j \times cu_{mpmd_j}$

$$C = 4,000 \times 25,104 + 1,000 \times 32,295 + 4,000 \times 8,000 + 1,000 \times 5,000 = 169,711,000 \text{ lei}$$

#### 4. Conclusions

Application of the method THM, given the particular process technology that extends places spending (responsibility centers) to the group of cars or even a large capacity machines or production lines. This boundary or entity sectorization production centers enables rational distribution expenses cost carrier to calculate the unit cost and the possibility to liability for costs incurred in each individual establishment.

Advantages and disadvantages of this method are:

a. T.H.M The advantages of:

- production centers created expresses on the one hand the technical and productive potential of an entity on the other side allowing the calculation of economic responsibility centers;
- provides a better utilization of the productive capacity of the entity by referencing the available annual hours scheduled production centers;
- avoid wastage through rational use of labor (service standards are revised machinery and recalculate the corresponding indicators) and eliminating / reducing interruptions in the production process;
- allocation of productive expenditure is made in relation to the processing time, which is considered a more equitable sharing criteria, based on the achievement of program production and utilization of machines.

b. Disadvantages method T.H.M. are:

- the scope of the method is limited to entities with type equipment manufacturing machine tools that perform various products or performing certain tasks. Method

successfully folds the small showing a few products and materials processing to the client;

- it is extremely laborious if performed a large number of products in a large number of production facilities and product is based on the realization cups complex technologies;
- considered as secondary factor consumption of raw materials, consumables and direct elements, and this factor should not be neglected in comparison with the cost of proceses main factor that focus method.

Considering the advantages and disadvantages exposed, use practice this method as long as the hatches sectorization production / cost centers is not conventional, but based on the technical and organizational structure of production sites and rational organization of production and work.

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# THE APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN ROMANIA: ADVANTAGES AND MAIN PROBLEMS

Diana-Andreea, Trăistaru<sup>1</sup>

## Abstract:

*This work is meant to analyze the implementation of International Financial Reporting Standards in Romania. The work tries to focus on the benefits and challenges of International Financial Reporting Standards, mainly on factors pertaining to its adoption connections, statistics and other types of analyses were used in order to show the importance that International Financial Reporting Standards adoption could represent for a large number of stakeholders. The most important features of International Financial Reporting Standards implementation are the costs, which seem to be rather high, the missing of instructions for the adoption, and its complex characteristics.*

*The adoption of International Financial Reporting Standards in Romania are strongly influenced by the stock market, the dimensions of companies and educational degree. The results of this study recommend that the government should start a program to support the International Financial Reporting Standards application.*

**Keywords:** Adoption, Benefits, International Financial Reporting Standards, Romania

**JEL Classification:** M41 – Accounting

## 1. Introduction

Accounting is shaped by the economic and political forces. We assist daily to a globalization of both the economy and politics, which unavoidably leads to a greater theoretical and practical application of IFRSs. Most of the political and market forces will remain firm in the forthcoming future, so the level of convergence in the actual financial reporting practice, is uncertain.

In our research we are going to use both the IAS and IFRS labelling, because at the beginning of the accounting harmonization process, the name of IAS had been employed, and then, from 2002, after signing the Norwalk Agreement, the name of IFRS was used, including also the International Accounting Standards.

The Romania's progressive transition towards IFRS implied also a phase meant to shape the accounting system according to the IFRS provisions (an harmonization phase), followed by the entire adoption of the International Accounting Standards (IAS) in conformity with the EU requirements (a conformity phase). Thus, one of the consequences of the mandatory application of IFRSs in Romania is the fact that for a certain period of time (1999-2005), some entities adopted mandatory accounting regulations, harmonized with both the European Directives and the IFRSs, which lead to a partial application of IFRS.

Among the first reasons presented by the Romanian accounting regulators, there existed arguments for supporting the enlargement of mandatory application of IFRS, such as *the need of an alignment with the international practice of promoting the financial statements' transparency and compatibility*, creating and maintaining an attractive investments background as a consequence to *the country's concern of protecting itself from the loss of foreign stock due to the exploitation of inconsistencies in the accounting standards adopted by companies belonging to multinational groups and due to recommendations from international organizations, especially the World Bank and the International Monetary Fund, for adopting IFRS*. [2]

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The globalization process creates great transformations and challenges for the accounting system. One of them, mentioned lately by the accounting professionals to be the most important and interesting of all, is represented by the process of accounting harmonization, with all its implications, contacts, barriers and advantages.

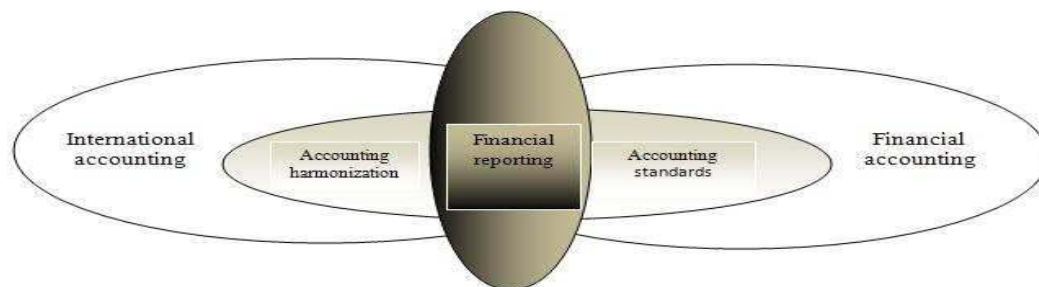
The process of implementation of IFRS is complex and various aspects are to be considered when it comes to their evaluation: the characteristics of the RAS (Romanian Accounting System), its historical background, the characteristics and attitudes of the national companies, the users of financial statements and their expectations and also the features of the Romanian accounting profession.

## 2. Methodology research

The present scientific study implies a series of general methodological elements, meant to facilitate the understanding of the adopted working style. In this way, I have highlighted the main reference points which I used in my research.

The information sources set at the basis of this study are mainly represented by articles published in the trade magazines, both in the accounting area and in the economical one, books written for the domain, regulatory documents, official documents, press releases and other documents issued by various national and international organizations that cater for the accounting area (IAS, IFAC, FASB).

In order to emphasize the importance of this research, I turned to adapting the initial form of the graphic representation of Istrate, C. (2012) from a study published in 2012:



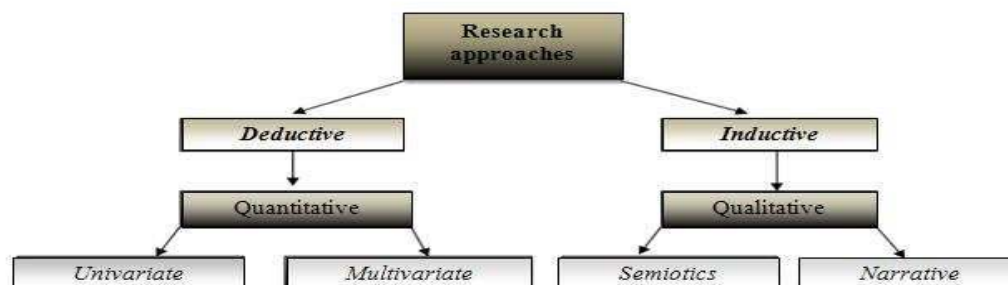
**Fig. no. 1 Accounting area of research**

Source: [9]

I consider that the present research process is large and complex and it implies elements of scientific knowledge and creation, its role being that of enabling the profound examination of disparities and interrelations between the components of the research process. In such a process, the ideas that were developed and the contributions made for the scientific knowledge are to be based on the reliability and relevance of the scientific language used. Accordingly, we find it necessary to reveal an image of the research process from chronological perspective, showing sequentially the steps for the research's progress.

The scientific endeavour implies many methodological elements with general character which are being appointed to make for the understanding of the working process. In order to enhance the undertaking's relevance, we used as approaches for the research both the deductive approach and the inductive one.

Through the deductive approach, I considered the presentation of some principles and quantitative data, the results' generalization, the explanation of associations between different variables and the application of a theory starting with the given information. Through the inductive approach, I appealed to the use of data from a qualitative point of view, I offered an understanding of the context of research and I circumstantiated the results as they had been obtained.



**Fig. no. 2 Ways of analysing the collected data**

Source: [11]

### **3. IAS and IFRS adoption by the Romanian Accounting System and possibilities for their improvement**

The history of the IFRS adoption in Romania consists in different stages of development. Therefore, there is a phase of voluntary adoption, that implies entities which need financial reporting for the IFRS, and this stage takes place in the period of 1990-2014. The voluntary adoption of IFRS's application has also been mentioned in the accounting legal framework starting with 2006, being regarded only as an opportunity for the application of the IFRS in a separate set of financial statements. [14]

Subsequently, starting with 2012, there was another phase of the expansion of the IFRS's adoption in Romania, which aimed to the introduction of IFRS in the individual financial statements of entities listed on a continuous market and to the exclusion double reporting for these companies.

Among the first reasons presented by the Romanian accounting regulators, there existed arguments for supporting the enlargement of mandatory application of IFRS, such as *the need of an alignment with the international practice of promoting the financial statements' transparency and compatibility*, creating and maintaining an attractive investments background as a consequence to *the country's concern of protecting itself from the loss of foreign stock due to the exploitation of inconsistencies in the accounting standards adopted by companies belonging to multinational groups and due to recommendations from international organizations, especially the World Bank and the International Monetary Fund, for adopting IFRS*. [3]

Hereby, companies with capital bonds accepted for trading on a continuous market are required to apply the IFRS in the individual financial statements. However, the Romanian accounting regulators supported a transitional period before the complete implementation so that for the year of 2012, the annual financial statements should be prepared according to the IFRS, through the release of those pursuant to the Romanian Accounting Standards. [9]

Usually, the influence of IFRS in Romania develops, if we consider their adoption by the banking and insurance companies and also by those controlled by CNVM – brokerage firms. Thus, the application of IFRS by the banking entities was an imposed provision as a result of the agreement signed in 2010 with the IMF (International Monetary Fund), the EC (European Commission) and the WB (World Bank), in order to maintain the financial stability in the Romanian environment. [9]

In the main, the factors that are and will be implied in the IFRS' adoption are those presented in Figure 1.3:



**Fig. no. 3 Ranges of members for IFRS's adoption**

Source: [14]

The expansion of IFRS adoption in Romania was due to the conditions imposed to the Romanian authorities by the international creditors – The International Monetary Fund, as an instrument of development (the improvement of financial stability and of the investors' trust in the Romanian economic area). For that, in 2010, the Romanian National Bank and the Ministry of Public Finance reconfirmed their commitment of adoption of the necessary legal framework for the comprehensive application of IFRS at the beginning of 2012 (Section 25 of the letter of intent signed by the Romanian authorities in Bucharest, in 2010, 16<sup>th</sup> of June, Act 257/2010). [5]

As a consequence, starting with 2012, all entities adopt the IFRS after a three years transitional period (2009-2011) during which they were required to prepare two sets of financial statements: one of them in conformity with the European Union Directives, considered to be the official one, and another set according to IFRS, resulted after restating the financial statements in concordance with the European Union Directives and meant to inform those interested in such financial reports. In addition to this, the entities that are authorized, regulated and supervised by CNVM, have to apply IFSR after a transitional period during which the financial reporting is being achieved for the local accounting standards and also for the international ones. [8]

These institutions have the obligation to release for the 2011, 2012 and 2013 financial years, a secondary set of financial statements according to the IFRS, obtained by reissuing those prepared in conformity with the local accounting regulations that comply with the conditions of the Fourth Directive of European Economic Community (EEC). [12]

In the same time, the insurance industry is also considered for the adoption of IFRS to be “the accounting background for the annual financial statements”. Therein, the regulators have completed a *pilot* phase of adoption, involving 11 insurance companies that have to prepare a secondary set of annual financial statements, in conformity with the IFRS, by reformulating those in concordance with the local regulations. The *pilot phase* is intended to function for three year, with the possibility of reducing the period to two years, depending on the results achieved.

For issuing European accounting regulation, a process of proposing a project by a commission of accounting professionals, firstly takes place. This project is going to be approved by the Council of Ministers, and then it is being examined in the European Parliament. The next stage consists in numerous negotiations that lead to the review and redrafting of the regulation that is to be adopted by the states of the European Union. [4]

The precise image of the French regulations refers to the conformity of financial statements which describe a faithful image of the company. Regulations from different countries have distinct foundations, determined by the society and the economy specific for each of them.

Moreover, the European Directives may display inconsistencies when it comes to their application, as a result of the complicated process of drafting.

Romania experimented for the first time the adoption of the IFRS in 2000, through a convergence phase, the improvement of the accounting framework taking place in adherence with the European and international principles and aiming to the elimination of the original elements pertaining to the economic process.

The harmonization with the European Directives remains necessary for the adherence to the European Union, as well as the application of IAS (International Accounting Standards), so long as they are conforming to the European regulations.

The factors which are influencing the improvement of the accounting system involve the total assimilation of the European regulations in what concerns the financial statements' drafting [4]:

- The conformity of financial statements and reporting with the configuration of the annual accounts and the compulsoriness of providing precise information about those accounts;
- The adoption of new accounting regulations;
- The conformation to the rule of "precise image";
- The assimilation of professional language, according to the European Directives;
- The initiation of a project regarding the adoption of IAS (International Accounting Standards) and the issue of NAS (National Accounting Standards);
- The draft of guidelines for a good implementation of the project for the accounting system's development.

The company's management strategy will become more efficient along with the accounting harmonization according to IFRS, which determines a better transparency and a lower complexity of scheduling and reporting. The Committee that issues the International Accounting Standards seeks for creating a single global set of standards.

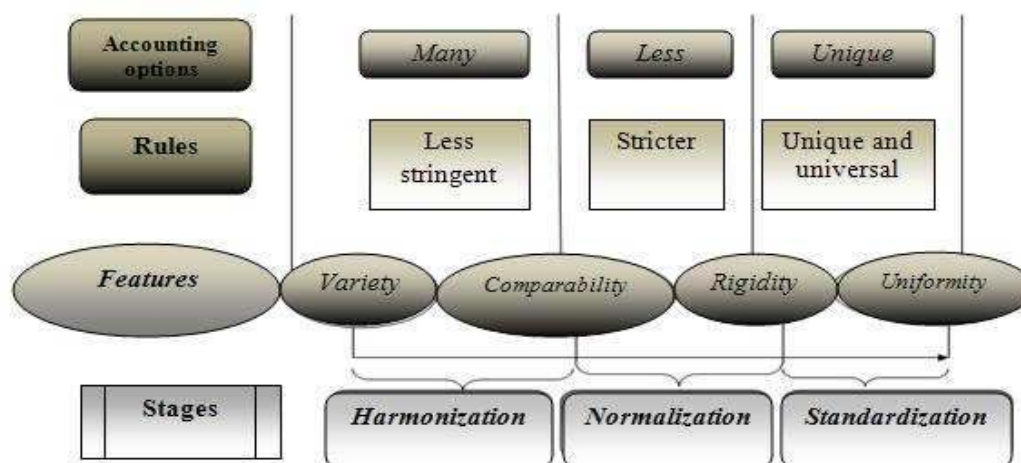
The adoption of the European Directives is compulsory as they represent the background for the accounting authority. Every country takes into account these directives and European standards when it issues its own national standards. [2]

There are accounting bodies that allowed the application of international standards, following the Italian or French model, while other companies chose to apply entirely or partially those standards (for example, Germany or Switzerland). The global economy is on a transitional phase toward a system focused on a group of multinational companies which develop their activity at a global level. Multinational companies comprise a large number of other individual companies maintaining commercial relations, financial or other type of relations. The largest companies aim to internationalization as this one enables the existence of markets, of tax benefits, financing sources and also cost deduction. The local capital market may be influenced by activities that take place at large distances, as a result of companies' spreading on large geographical areas, the providing of comparable financial information from various parts of the world being necessary at the same time.

Accounting normalization consists in issuing regulations and norms in a group of countries, for a group of companies or accounting professionals. It is also necessary that some control bodies may check the functioning and implementation of these regulations in the best circumstances.

These stages are presented in Figure 1.4, and they mark out their general characteristics.





**Fig. no. 4 Characteristics of the harmonization, normalization and standardization process**

Source: [12]

#### 4. Conclusions and future predictions

This study examines the IFRS adoption, its benefits, the challenges of IFRS application and the factors that might influence their adoption in Romania, mainly referring to those companies which have implemented this standard.

The research investigated a large area of issues attached to the IFRS adoption in Romania, focusing on organizations that have already initiated reports on the basis of these international standards and the following conclusions have been drawn:

- *The Romanian Government expressed its endeavour to correlate the financial statements with the International Accounting Standards;*
- *Public Interest Entities have to comply with the IFRS in their financial reports.*

The results of this study refer to the fact that the IFRS should have been implemented earlier in Romania thanks to their great benefits. On the other hand, there are companies that don't apply all these standards although they are obliged to use the IFRS in preparing their own financial reports.

IFRS adoption in Romania determines important benefits for a large number of stockholders, benefits that are going to improve the effectiveness and efficiency of financial reporting for companies.

Considering the economic business by removing the different accounting methods for various transactions, IFRS adoption contributes to the improvement of comparability and trust in adopting these standards.

This application presents also the advantage of transparency for companies, fact that diminishes the problems between management and stockholders.

IFRS adoption will provide better information for the decision making of the management department, and it facilitates a more efficient risk management.

The main challenges implied by the adoption process of IFRS involve important application costs, the need for preparing, the complex nature of some IASB and the lack of appropriate guidelines for implementation.

It would be useful for the future to make researches on the subject of the conformity of IFRS adoption in Romania. This would imply the detailed adoption of standards and how efficiently do the Romanian companies apply these standards. In addition to this, it is not known the degree in which the IFRS mandatory adoption affects the financial



statements and we thus wonder if these statements become more informative when they are in conformity with the compulsory implementation of IFRS.

Another research area could be the way in which the small and medium-sized enterprises adopt and keep up to the IFRS.

Finally, this study has tried to focus on factors influencing the IFRS adoption in Romania. Although the research revealed various important factors that affect the IFRS application, I recommend the performance of much more studies in the area of financial reporting.

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# THE COMMUNICATION OF INTERNAL CONTROL SYSTEM WEAKNESSES - NECESSITY AND RESPONSIBILITY

Mariana, Nedelcu (Bunea)<sup>1</sup>

## **Abstract:**

*In terms of its mission, the control is an inherent part of management, being a specifically human activity, especially useful serving both the management, business partners, public institutions and public.*

*Especially in the last period, amid the economic and financial crisis manifested in recent years, the control has evolved and evolving both by the improvement of organization and management systems and by the response to continuous development of the environment in which it operates.*

*The control activities are an integral part of the management process by which the entity aims to achieve their objectives.*

*The research methodology consists essentially in a literature review and recent regulations in the analyzed field. The objective of this study is to highlight the way in which shall be communicated the deficiencies of internal control systems, to the persons responsible for their governance, inclusively in the banking system.*

**Keywords:** internal control, audit, internal audit, banking system, risk management

**JEL Classification:** M48, G32, G38

## **1. Introduction**

The etymology of Control comes from the Latin "against rolus", which means "checking a duplicate of the original act."

In its semantic sense, control is a "continuous or periodic review of activities of a situation, to follow her progress and improvement measures."

There are, however, in the literature, a number of understandings for the term 'control'.

Thus, in the French specialized literature, control is "a check, a careful inspection of the correctness of a document."

In Anglo-Saxon sense "the control is the supervisory action of someone, of something, a detailed examination or power to lead as a tool for regulating mechanism."

In the other words, the control involves a continuous moral and material monitoring, as well as mastering an activity, a situation, a phenomenon.

According to the International Standards on Auditing issued by the International Standards Board Auditing and Assurance Board (IAASB) of the International Federation of Accountants (IFAC), the internal control is defined as "the process designed, implemented and maintained by the persons responsible with governance, management and other personal with the aim of providing reasonable assurance regarding the achievement of entity objectives regarding the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations".

From the practical, it appears that the controls is a characteristic of management, a tool for analyzing the real situation of the business and remedy of any errors that occurred during the activity development. The most common meaning attributed to the control is verification, monitoring that is frequently associated with knowledge activity, thereby providing management the necessary premises to effective and efficient coordination of activities carried out within the organization level.

Under the aspect of its mission, the control is an inherent part of management, being a specifically human activity, particularly useful serving both the management, business partners, public institutions and public of course.

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Especially in the last period, amid economic and financial crisis manifested in recent years the control has evolved and evolving of both through organization and management systems improvement as well as continuous development in response to the environment in which it operates.

The control activities are an integral part of the management process by which aims to achieve the entity objectives.

Joseph J Mossis, president of the Institute of Internal Auditors from the United Kingdom said in 1991: "It is clear to those who practice within the internal audit function that this should play a vital role in helping management to take in hand the reins of internal control activities."

*The internal control* is an ongoing process designed to provide a reasonable assurance for achieving performance - effectiveness and efficiency of activities - for information - credibility, integrity and timely provision of the necessary financial information and the management - and compliance - compliance with applicable laws and regulations, and internal policies and procedures - which, to be effective, requires implementation of the following three functions: risk management, compliance function and internal audit function. Internal control also includes the organization of accounting, treatment information, risk assessment and their measurement systems.

*The risk management* is the process of systematic application of management policies, procedures and practices in order to establish the context, identify, analyze, evaluate, treat, monitor and communicate the risks within the organization.

*The internal bank audit* is the audit organized within a credit institution as part of the monitoring of the internal control system and the evaluation of the adequacy of level of own funds according to the risks that banks are exposed in order to ensure an independent evaluation of the adequacy of policies and procedures and how they are met.

An effective corporate governance is dependent on risk management so that they understood the problems that occur within the organization and internal control in order to achieve its objectives.

The role of internal auditors is on the one hand to support the organization to identify and monitor risks they expose themselves and on the other hand to understand and supervise the internal control system functionality - the fundamental element in the implementation of corporate governance principles.

## **2. The Internal Control System at the Romanian Credit Institution Level**

At the Romanian banking system level, National Bank of Romania issued in December 2013 the Regulation no. 5/2013 on prudential requirements for credit institutions, Regulation which entered into force from January 1, 2014.

This Regulation shall cover:

- a) the management of credit institutions, the internal assessment of capital adequacy and conditions of outsourcing activities of credit institutions;
- b) some aspects of the own funds of credit institutions;
- c) capital requirements silencers;
- d) the consolidated supervision of credit institutions;
- e) the conditions for approving the use of internal rating models to determine the capital requirements for credit risk;
- f) the requirements for prior notification of the use of the standard approach for operational risk, approving the alternative standardized approach for operational risk and the conditions for approving the use of the Advanced Measurement Approach for the calculation of capital requirements for operational risk;

g) the conditions for approving the use of internal models to determine capital requirements for market risk;

h) Some issues related to the application of Regulation (EU) no. 575/2013 the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012.

Thus, the internal control of a credit institution requires under Regulation no. 5/2013 on prudential requirements for credit institutions:

- the existence of a solid framework for the internal control;
- the existence of independent control functions.

The credit institutions should develop and maintain a robust and comprehensive framework of internal control, including control functions independent of specific appropriate authority in order to achieve their functions.

The necessity for the internal controls is required to cover the banking company as a whole, including the activities of all operating units of support and control functions.

In order to implement a robust framework for the internal control in all areas of activity of a banking company, it is necessary that the business units and support functions, to have main responsibility for establishing and maintaining adequate internal control procedures.

To ensure an appropriate framework for the internal control is essential to check the control functions independent of compliance with policies and procedures in force in their respective fields. Into the control functions are included: a risk management function, compliance function and internal audit function.

According to the Regulation no. 5/2013 on prudential requirements for credit institutions, a control function is considered independent under the following conditions:

a) its staff has no power which fall under the activities that control function expected to monitor and control their;

b) the control function is separated from organizational point of view from the assigned activities in monitoring and control;

c) the coordinator control function is subordinate to a person who has no line management responsibility of activities which control function monitors and controls. The coordinator of the control function should report directly to the management body and other relevant committees and should regularly participate in their meetings;

d) staff remuneration which carries the control function should not be linked to the performance of control activities at function monitors and controls, but by the achieving of the objectives related to those functions.

At the same time the control functions should have an adequate number of qualified staff (both in the credit institution - the parent and the subsidiaries within the group).

The staff which must have appropriate authority should be qualified on an ongoing basis and should receive appropriate training. Staff should have at their disposal corresponding support systems and data with internal and external access to information necessary to fulfill their responsibilities..

At the level of internal control system of the credit institutions in Romania are organized risk management functions, compliance and internal audit respectively.

The function of the risk management contains the risk control function from each business line.

These functions are independently organized both between themselves and to the business lines that monitor and control.

The functions of the internal control system are in subordination of a leader of the Bank which has no responsibility on the management of monitored and controlled activities by them, and reporting lines operate directly from these three functions by the management of the credit institution.

### **3. The Communication of Weaknesses in Internal Control to the Charged Persons With Governance and to the Management**

In most of the times, the customers accuses the auditors by the lack or absence of effective communication with those charged with governance or management entity in aspects related to the events that occur during the development of the audit mission.

Although the audit report involves hard work and assiduous, the customers rarely realize the resulting benefit from the auditor 'work', the added value of its services.

They are aiming at reciprocal and effective communication for understanding the specific and complementary aspects identified by the auditor within the performed audit mission.

On this background, was born the question: What is the utility, added value that it brings the auditor communication with those charged with governance at the level of audited entities? Thus, the Standards Board International Auditing and Assurance issued ISA 265, "Communicating Deficiencies in internal control to those charged with governance and management" in which fundamental emphasis is placed on how the information is communicated by auditors to those charged with governance of the audited entity.

According to the author, is essential an effective and mutual communication between the auditor and those charged with governance under the following aspects:

- On the one hand, this communication supports the auditor to obtain all documents, information necessary to conduct the audit mission in order to express an fair and fundamental opinion on the audit report at the end of audit mission;
- On the other hand, understanding the information and issues arising during the audit mission may be particularly useful to those responsible for the governance of the audited entity and contribute to the development of constructive relations without affecting the independence and objectivity of the auditor, which of course should be manifest throughout the audit mission.

ISA 265 emphasizes aspects of the auditor's responsibility into communicate to those charged with governance and management of deficiencies in internal control, identified weaknesses during the audit mission.

For efficient communication, it is imperative that the auditor should have a clear and precise understanding of internal control that serve to identify and assess risks of material misstatement.

The internal control weaknesses can be detected by the auditor both in the assessment of risks to which the audited entity is exposed and at any other stage of the audit mission. These deficiencies is imperative to be communicated to the auditors of those charged with governance and management of the audited entity and there is no constraint to require the auditor to communicate their other relevant aspects of internal control identified by him during the audit mission.

Internal control issues are considered by the auditors into their approach establishing appropriate procedures for audit but not in the expression of an opinion on the effectiveness of internal control..

Regarding the concept of "deficiency into internal control that exists when (IAASB, 2012):

- a. A control is designed, implemented and operated so that it cannot prevent or detect and correct misstatements financial statements at the appropriate time; or
- b. Missing a necessary control to prevent or to detect and correct misstatements in the financial statements at the appropriate time."

Thus, based on professional judgment, the auditor shall determine whether the identified one or more deficiencies in internal control over its audit mission and to communicate those responsible for the governance and management of the audited entity.

It is also necessary to determine whether some of the deficiencies are significant deficiencies, either individually or in combination with other. At making these

assessments, the auditor should be edify on all identified issues during the audit mission, a significant role in this regard starring their discussions with the management of the audited entity in order to have a correct understanding of identified problems by both the auditor and the management of that entity.

In these discussions, the auditor may obtain a number of other valuable and relevant information for audit purposes like (IAASB, 2012):

- „Understanding by the management of the causes of existing or suspected deficiencies
- The exceptions resulting from deficiencies that management might not be noted, for example, misstatements that were not prevented by the relevant control information systems (IT)
- A preliminary indication from management of its response to these identifications.”

In the auditor's communication of aspects related to the internal control weaknesses occurs the professional judgment on their assessment as significant or not, into the impact that its can have on both the audit results and in the assessment of entity audited performance, and not insignificant or last, into assessing the fairness and quality of entity management.

Therefore, in the author's opinion, the effective and accurate communication of deficiencies related to the internal control by the auditor to the responsible persons for the management and governance of the audited entity has an important role into the smooth running of the audit mission, to identify all aspects and essential information in order to formulate a real and compliant opinion into the audit report at the end of audit mission.

#### **4. Conclusions**

Behold, if we start from the semantics, the control is a "continuous or periodic review of an activity, a situation to track its progress and improvement measures", consider the fact that regardless of sector, companies can implement mechanisms to make this "analysis" (procedures, regulations, policies, systems, etc.) with the involvement of all "stakeholders", from management down to the last employee.

Still of semantics, this analysis aims to "follow" here therefore the role of monitoring what has happened, is happening or will happen, given the types of controls that includes either preventing or detecting and correcting ultimately where appropriate.

The relationship of internal control - internal audit makes us to appreciate the fact that the internal audit intervenes in the continuous or periodic monitoring of the activity and so it has the role of verify the effectiveness of the internal control system.

The question that arises is: internal auditing versus control or consulting? These two components of the internal audit cannot be defined because on the one hand in a process of conformity assessment processes and procedures of the audited entity, with internal and external regulations and norms can emerge the improvement and efficiency opportunities, situation where internal audit can act as a consultant and on the other side during a consulting assignments may arise situations which is identified deficiencies related to compliance with applicable regulations in force.

By the nature of his profession, the auditor should always be responsive and open to both aspects, and hence the added value that management wants and expects to get it.

We believe that all economic entities have implemented some form of internal control, be it at least required by law (for small entities) and for more complex forms or large entities operating regulated markets some authorities, such as the case of credit institutions, which must make efforts to adapt adequately to internal systems, business

models given the important role in preventing and resolving fraud and limit excessive exposure to risk.

Therefore, we consider that it is a necessity, being also the responsibility of the auditor achieving an effective and transparent communication of deficiencies related to the internal control to those charged with governance and audited entity management, identified deficiencies during the audit mission as a background factor on formulate an accurate and real opinion which the auditor have to submit into audit report prepared at the end of its audit mission.

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| ***                      | <a href="http://www.bnr.ro">www.bnr.ro</a>   |
| ***                      | <a href="http://www.cafr.ro">www.cafr.ro</a>   |

# THE INFLUENCE OF TAXATION ON ECONOMIC GROWTH. ECONOMETRIC EVIDENCE FROM ROMANIA

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Roxana, Ioniță<sup>2</sup>

## Abstract:

*One of the most frequently discussed issues in economics is how tax rates affect economic growth. A number of studies have examined the effects of taxes on economic growth, however none of them concluded that through the application of higher taxes, economic growth occurs, but on the contrary, they emphasized the negative effects of taxation on growth.*

*This paper is divided into two parts. The first part presents the theoretical studies on the impact of taxation on economic growth, while the second aims to test the influence of public revenues, especially distortionary and nondistortionary revenues, on growth in Romania. The second part contains a review of the evolution and structure of public revenues of Romanian economy and the econometric tests on the effects of these types of income on growth during 2006-2012, using multiple linear regression.*

**Keywords:** *fiscal policy, growth, taxation, public revenues*

**JEL Classification:** E62, H72

## 1. Introduction

Interest on the influence of taxation on economic growth has always existed among researchers. However, their views on the effects of taxes on economic growth are split. Although opinions are divided, most researchers consider that a high levels of taxation harms economic growth. Below are some specific studies which had as complex theme the relationship between public revenues and growth.

Cardia and others (2003) analyzed the impact of changes in income tax rates on the number of hours worked in several countries, including Canada and the United States. They found that a decrease of 10 percentage points in marginal tax rates contribute to increase of weekly hours worked by 4.5% (in Germany) and 18% (the United States). Number of hours worked per week increased by 9.9% in Canada and in United States the range of increase was between 12.8% and 18%.

Christina and David Romer (2010) analyzed the impact of changes in the level of taxation on economic growth. The authors investigated the effects of tax reforms on GDP in the United States. The study found that such tax changes had significant effects on GDP, an increase in the tax to 1% of GDP led to lower production (measured using real GDP) by 2% - 3%.

Brașoveanu and Obreja (2008) analyzed the relationship between taxation and growth for Romanian economy during 1990-2007 by applying regression and they concluded that the effects of distortionary and nondistortionary taxes on growth are negative.

Burgess and Stern (1993) argue that the structure of taxation in developing countries differs from that of developed countries. For developing countries, about two-thirds of the tax revenue comes from indirect taxes, while for developed countries two-thirds come from direct taxes. They suggest that the tax structure may change over time to maximize the rate of economic growth. Another important finding is that in developing countries there was a relatively weak but significant correlation between tax rate and GDP per capita, but no significant relationship for industrial countries.

Helms (1985) examined the effects of increasing state and local taxes. He argues that a tax increase may stimulate growth if they are used to finance development costs. Helms noted

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that taxes have a negative and significant impact on economic growth, Helms regression coefficient indicating that the tax rate may be positive if tax revenues are used to finance production costs and may be negative if the tax revenues are used to finance social transfers.

Engen and Skinner (1999) have suggested five possible mechanisms by which the taxes may affect the growth, taking into account the decomposition rate of growth based on the contribution factors of production:

(1) investment rate may be inhibited by high taxes, by taxing personal and corporate income as well as taxes on capital gains or reduced deductibility of depreciation;

(2) taxes reduce labor supply by influencing labor-leisure choice for leisure or determination to achieve qualification, training, education;

(3) fiscal policy can affect productivity growth by discouraging effect on research and development expenses, which can boost share capital and labor productivity.

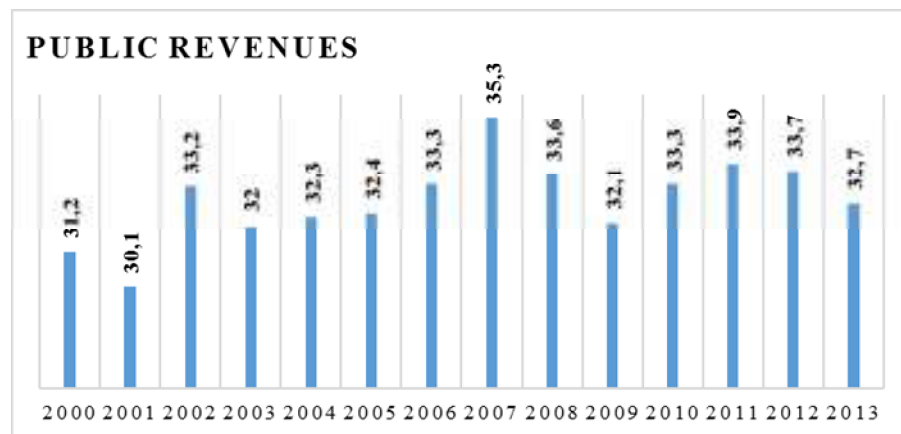
(4) taxes can influence the marginal productivity of capital by targeting investments in a high tax area to another with lower taxes, which have a lower productivity

(5) high taxes on labor supply can distort the efficient use of human capital, discouraging workers to work in areas with high productivity, through high tax burden.

## 2. Radiography of public revenues in Romania during 2000 – 2013

In the market economy, an important part returns to revenue. A change in share and their structure has consequences on consumption, saving, investment, and the gross domestic product. Therefore, most countries, but particularly developing countries, focus on the constitution of public revenues.

The evolution of Romanian public revenues for period 2000-2013, is presented below (graphic number 1).



**Graph number 1. Evolution 2000-2013 public revenues**

Source: Eurostat

In the period under review, public revenues fluctuated around 29-33% of GDP. This means that governments have trained for public, almost a third of the sources generated in the economy. For the period analyzed, the maximum was reached in 2011, when revenues were 32.7% of GDP.

In 2013, the growth rate of public Projected Revenues WAS at half the annual growth, budget Revenues Partially mirrored the rise of the economy. This year, Revenues cam to 32% of GDP, highlighting one of the more "gray" years in terms of budget collection in the last decade.

The structure of public revenues restores a more clear and complete image on the distribution of the tax burden in Romania. Below are presented the main categories of income as a share of GDP during 2000-2013 (table number 1).

**Table number 1. Structure of public revenues during 2000-2013**

%GDP	Income tax	Tax on income and wage	VAT	Excise Duties	Insurance contrib.	Nonfiscal revenues	Amounts from EU
2000	2,5	3,4	6,3	2,6	10,8	1,9	0
2001	1,9	3,2	6,3	2,3	10,7	2,1	0
2002	2	2,8	6,9	2,1	10,7	1,9	0
2003	2,3	2,8	7,2	3,2	9,8	1,7	0
2004	2,6	2,9	6,7	3,2	9,2	2,1	0,7
2005	2,3	2,3	7,8	3,2	9,4	2,2	0,6
2006	2,4	2,9	8,3	3,2	9,8	2,2	1,3
2007	2,7	3,7	8	3,2	9,9	2,1	1
2008	2,8	3,6	8	2,6	9,4	3,2	1,6
2009	2,2	3,8	7	3,2	9,7	3,4	0,4
2010	2	3,5	7,6	3,4	8,8	3,9	1,7
2011	1,8	3,4	8,74	3,4	9	3,5	1,6
2012	1,9	3,6	8,59	3,5	8,8	3,1	1,4
2013	1,74	3,7	8,28	3,4	8,69	2,8	2,1

Source: mfinante.ro

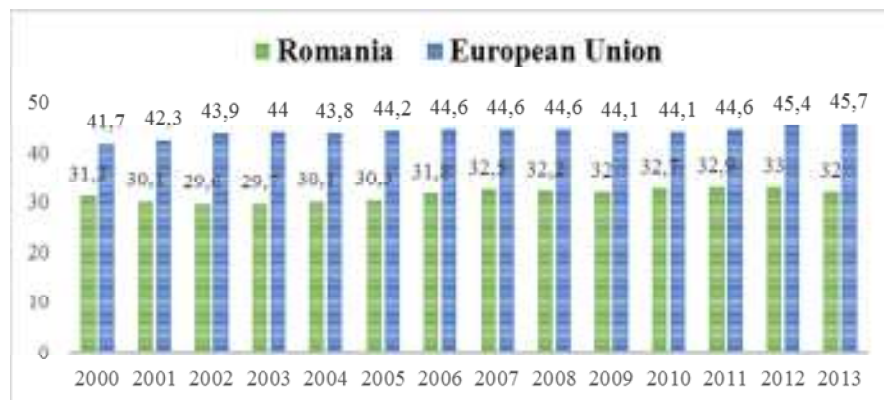
As it can be seen from the table above, in the structure of public revenues in Romania the largest share is held by social security contributions and VAT.

If we analyze the revenues from *direct taxes* it can be said that they have fluctuated during analyzed period. Since 2009, the income tax had a continual downward trend, from 2.2% of GDP to 1.74% in 2013, due to decreasing tax rates related to the tax.

Public revenues from *indirect taxes* are the main source of public income. In the period under review, revenues from these taxes have increased significantly, due to the increase in excise duties and changes in VAT regarding rates applied and the sizing on taxable materials.

Between 2000 -2009, income from social contributions remained around 10.9% of GDP. The big share in GDP can be explained by: (1) increased number of employees in this period, accompanied by increased gross wage; (2) the decrease in contribution rates, achieved gradually, involved reducing the fiscal pressure on both individuals and businesses. Since 2009, revenues decreased due to lower employment levels. During this period, 2009-2013, the unemployment rate increased.

For the analysis to be more extensive and relevant, we considered it would be appropriate to make a comparison of public revenues in Romania with the ones in European Union member states (graph number 2).



**Graph number 2. Evolution of budget revenues in Romania and the European Union**

Source: Eurostat

The discrepancy between the values recorded in Romania and European ones is significant. Average interval for Romania is 31.43 while the average values for the European Union is 44.11.

According to statistics, our country has one of the lowest shares of revenue in GDP. In 2013 they accounted for only 32% of GDP, meaning 13.7 percentage points of GDP less than the average in the European Union.

There are several reasons why public revenue varies from year to year, as a percentage of GDP. However, in general, the main causes are changes in economic activity (with effects on employment levels, the sale of goods and services) and in tax law (which affects tax rates, tax base, thresholds, exemptions). Economic and financial crisis, along with fiscal policy measures adopted in European countries, had a strong impact on the level and composition of revenues.

### 3. Testing the impact of taxation on economic growth in Romania

Estimating the influence of public revenues on economic growth is made by determining the regression coefficients, where changes in dependent variable, real GDP growth rate, are expressed by distortionary, non-distortionary and other incomes.

To determine the effect and intensity of the relationship between public revenues and economic growth in Romania, were used quarterly data collected from Eurostat, International Monetary Fund and the Ministry of Public Finances websites, during 2006-2013. Using a series of annual data would have questioned the effectiveness and significance of statistical tests, ie, it is not possible to obtain reliable results.

To better highlight the effects of public revenues on economic growth, revenues were grouped according to the classification made by Barro and Sala-i-Martin, in 1995, given the theoretical impact that they have on the economy.

Thus, distortionary revenues includes income tax, wage tax, social security contributions, non-distortionary revenue category includes value added tax and excise duties and other revenue category consists of other direct taxes, customs duties and other indirect taxes, non-tax revenues, and capital income.

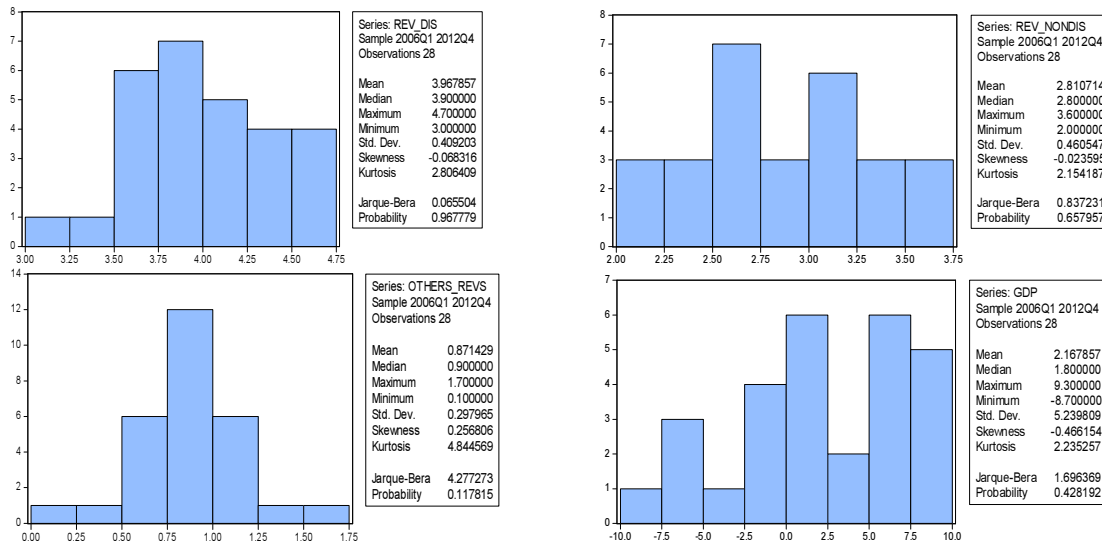
**Table number 3. Correlation matrix of the variables analyzed for the period 2006-2013**

	GDP	REV_DIS	REV_NONDIS	OTHER_REV
GDP	1.000000	0.103833	0.141962	-0.337466
REV_DIS	0.103833	1.000000	0.318305	0.080280
REV_NONDIS	0.141962	0.318305	1.000000	0.199338
OTHER_REV	-0.337466	0.080280	0.199338	1.000000

Source: own processing using Eviews

Analyzing the data in the table above, it appears that between distortionary and non-distortionary revenues and growth there is a positive causal link, while the link between other income and economic growth is negative (table number 3).

The following are statistical descriptions of the four variables considered in the econometric model (graph number 3).

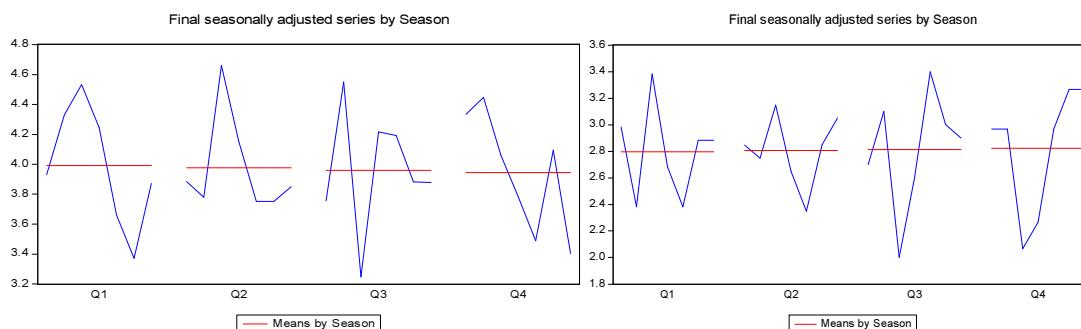


**Graph number 3. Histogram and descriptive statistics of variables**

Source: own processing using Eviews

As it can be seen from the graph number 3, none of these 4 variables has a normal distribution. Distortionary income, non-distortionary income and GDP growth rate have a platykurtic distribution as Kurtosis is less than 3. Other income category has a leptokurtic distribution, having a height greater than a normal distribution.

In order to estimate an econometric model valid it is necessary that the data series show no seasonality. Seasonality will be analyzed using graphs of Eviews. Of the four sets of data, distortionary and non-distortionary revenues are affected by seasonality. To remove seasonality, we applied function Tramo / Seats from Eviews program. The following are the graphs for the two income categories seasonally adjusted (graph number 4).



**Graph number 4. Distortionary and non-distortionary revenues series seasonally adjusted**

Source: own processing using Eviews

Using the new data, seasonally adjusted, we estimate the econometric model to determine the influence of three types of public revenues on growth. The results are presented in table below.

**Table number 3. Regression results of economic growth based on distortionary, non-distortionary and other revenues**

<b>Independent variable</b>	<b>Real GDP growth rate</b>	<b>Prob.</b>
Free period (c)	-3,8887	0,7431
Coefficient of SA distortionary tax % GDP	1,08505	0,0339
Coefficient of SA non-distortionary taxes % GDP	2,8113	0,0297
Coefficient of other income % GDP	-6,1062	0,1763
R <sup>2</sup>	0,6617	
Number of observations	32	

Source: own processing using Eviews

From this analysis it can be seen that the overall relevance of the model is quite high,  $R^2 = 0.6617$ , which explains that 68% the fluctuation of GDP annual growth rate (table number 3).

#### 4. Conclusions

From these 3 categories of revenue, just distortionary and non-distortionary revenues have a significant impact, the probability for these two variables are below the threshold of significance of 5%. As specified in the economic literature, the category of other revenues includes income that have no significant impact on economic growth. Therefore, our econometric model reinforces this assertion, the probability of this variable is 17.63%, well above the 5% significance, so these revenues are not considered during the model.

Distortionary revenues for Romania did not have the expected effect on economic growth. A 1% increase in the share of these revenues in the gross domestic product will determinate an increase by approximately 1.08% of annual real GDP growth rate. This affirmation contradicts specialized literature, that distortionary revenues influence in a negative way economic growth.

This time, non distortionary income confirms economic theory and have a positive impact on economic growth. Thus, a 1% increase of these revenues in GDP share will cause a decrease of approximately 2.51% annual real GDP growth rate.

This model is valid only if are fulfilled the conditions of the assumptions of normality of errors, homoskedasticity hypothesis and autocorrelation of errors hypothesis. The first assumption applied is the assumption of normality of errors and involves using Jarque-Bera test. The probability associated with the test of relevance is more than 5%, so the null hypothesis is accepted, so the errors are normally distributed.

The second hypothesis, homoskedasticity assumption has an important one. The probability associated with the White test is greater than 5%, threshold of relevance. The null hypothesis can not be rejected, there is heteroskedasticity. Last test applied is Breusch-Godfrey in order to test the hypothesis of autocorrelation of errors. The null hypothesis of non-existence of autocorrelation is accepted, as probability associated to the test is higher than threshold of relevance. Finally, the model is valid, both revenues categories, respectively, distortionary and non-distortionary having a significant positive influence on economic growth.

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# REFORMING THE EUROPEAN FINANCIAL AND BANKING ARCHITECTURE IN THE CRISIS CONTEXT. THE BANKING UNION CONCEPT

Magdalena, Rădulescu<sup>1</sup>

## Abstract:

*Deep financial crisis which started in 2007 proved to be extremely contagious affecting the financial and banking EU system. Achieving an integrated banking market is the main component of the European policy in the financial-banking services area. The latest developments underlined that the difficulties faced by the banks can negatively impact on the entire financial stability of the member states. That's why, the European Central Bank will be entitled to supervise any bank of the euro area, especially the ones that benefit of public support. Reforming the financial and banking system must be shaped in the frame of insuring some durable national finances, of an urgent recapitalizing of the banks that need that and of elaborating some common fiscal and financial and banking regulations effective in the eurozone.*

**Keywords:** banking regulations, supervision, banking systems, Banking Union, crisis.

**JEL Classifications:** E42, E63, F33

## 1. Introduction

It is widely recognized that the strong financial crisis that began in 2007 in the USA, as a crisis in the mortgage market, has proven highly contagious and has globally spread and corrupted the financial and banking system of the EU. The risk of contagion depends on the pattern of interbank linkages (Ionescu, 2012).

The international financial markets were located in the epicentre of this financial earthquake, which has led to the uncovering of some weaknesses of the regulatory system, of the profit-hungry corporate governance, as well as to the promotion of some vulnerable financial products, that could even be considered "toxic by some experts".

According to the European Commission, the crisis that initially started in the banking sector has expanded over the public finances, which made necessary the introduction of some austerity programs, which had a heavy impact on the public finances. This critical situation has required the concentration of the EU efforts to stabilize the financial-banking system, in order to remove all irregularities and abuses which existed, in order to prevent the emergence of other crises and not least to promote the sustainable economic growth (European Commission, 2010).

Achieving an integrated market for banks and financial conglomerates is a key component of the European policy on banking and financial services. The policies promoted by the European Commission in regulating the banks and financial conglomerates contributed to the implementation of the Financial Services Action Plan (European Commission, 2012). It is noteworthy that the secure banking financial institutions are crucial for the financial stability in the EU and need to establish a common framework to ensure a prudential supervision and consumer protection across the European internal market.

In order to strengthen the supervision of the financial systems, new European supervisory authorities (ESA) have been established, operational since January 2011: The European Banking Authority (EBA), the European Insurance and Operational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

On 19 January 2011 the European Commission adopted the "Omnibus proposal," which among others amended the Directive 2009/138 / EC to take into account the new insurance supervisory architecture.

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The European Commission considered essential the improvement of the regulations both for banks and investment firms, as well as for the insurance companies.

These regulations include both the increased stability by strengthening the prudential requirements, as well as the improvement of the internal risk management through better corporate governance.

The role of these new financial institutions is to closely cooperate with the financial institutions in the Member States to harmonize the regulations and to ensure their strict and consistent implementation. The European Supervisory Authorities have increased powers in case of critical situations. Thus, if the Council decides that there is a dangerous situation in the financial markets, these supervisors can coordinate the supervision of the financial institutions in the Member States and may require necessary actions for their harmonization across the EU. Thus, the European Systemic Risk Board (ESRB) was established to monitor the threats which endangered the financial system. The ESRB monitors the occurrence of any risks in the financial market and makes recommendations to prevent them.

## **2. The Developments of the Financial and Banking Regulations**

In November 2008, the European Commission mandated a high level group the mission to propose recommendations regarding the ways to strengthen the European supervisory arrangements with the purpose to better protect its citizens and to restore the confidence in the financial system. As one of the two largest financial markets in the world, the EU has a clear responsibility to promote the financial stability and global security, a role that can be performed only with a solid framework for regulation and supervision. The final report submitted by the group in February 2009 proposed a more pragmatic and balanced view on a new European financial supervisory system. This vision is based on proposals to strengthen the cooperation and coordination between the national supervisors.

Later in April 2009, in the European Commission's Communication entitled the "European Financial Supervision", it was emphasized that the current supervisory arrangements proved unable to prevent, manage and resolve the crisis. The National supervisory structures have failed to keep pace with the reality of the current European financial markets based on integration and interconnection, in which many financial firms operate across borders (European Commission, 2009). The crisis exposed serious problems at the forefront of cooperation, coordination, consistency and trust between the national supervisors.

In this context, the European Commission estimated that the new European financial supervisory framework must fully respond to the political authorities of the EU and it is necessary to create a common supervisory culture. Moreover, communitarian experts have stressed the fact that the community interests of all Member States and the need for a balanced and consolidated relationship, which could strengthen the trust between the authorities from both home and host country. The European Commission has revealed the promotion of a system based on high standards of supervision, equally applied correctly and consistently to all market players, while respecting the independence of the supervisors in fulfilling their respective duties.

Another important step was made on June 2, 2010, through the Commission's Communication to the European Parliament, the Committee, the European Economic and the Social Committee and the European Central Bank, entitled "Regulating the financial services for the sustainable growth." This paper aims to improve the safety and responsibility of the financial sector in order to encourage the development of the sustainable economic growth. In this sense, all the reforms undertaken by the European Union (EU) in the financial sector are designed to improve the safety and responsibility of the financial sector in order to encourage the development of the sustainable economic growth (European Commission, 2010).



The proposals presented in the Communication are an addition to the reforms already initiated following the 2008 financial crisis and G20 summits and focus on four key goals:

1. Increasing the transparency of the financial markets;
2. Establishing a monitoring and effective enforcement of the controls in the financial sector;
3. Increasing the strength and stability of the financial sector;
4. Increasing the accountability of the financial players and improving consumer protection.

One of the main concerns of the European Commission is to regulate in a more efficient way the capital requirements of the banks. The capital requirements represent the banks' capitals and guarantee their solvency in case of difficulties. The European Commission reiterates that it is essential to encourage banks to accumulate capital in good economic times, in order to cope with any potential crisis.

As a result of the intensive work of the Financial Stability Board, of the G20 and the Basel Committee, the European Commission proposed amendments to the Capital Requirements Directive (European Union, 2010b) in order to improve the quality and quantity of the capital held by banks, to introduce capital stocks and to guarantee the capital accumulation in flourishing times so that it could be used in case of deteriorating economic conditions. The specialists of the European Commission considers that the recent global financial crisis has highlighted the need for the crisis prevention to start even at the internal level of the banks, for the shareholders and managers to participate actively and responsibly in the prevention activity and that the prevention activity must be based on the robust internal control systems.

Consequently, by introducing the new Basel III regulation it is intended that the European banking system to become more secure by repairing many of the errors that have become visible during the crisis. Improving the quality and size of the capital and liquidity management renewal should encourage banks to improve their capacity to manage systemic risk. The implementation of this new agreement is gradually achieved from 2011 to full implementation at the end of 2018.

The goal is that eventually the banks should achieve the restructuring of risks - which can be considered a new paradigm of risk - which should be good for business, consumers, investors and governments. In response to the new Basel III rules, banks will have to work in the following directions: ensuring an efficient management of the capital and liquidity, balance sheet restructuring, adjustment of the business model and offered financial services (Harle & Lüders, 2010).

Banks provide a number of measures in order to mitigate the impact that the implementation of Basel III would have. Therefore, banks:

- can optimize the scope of consolidated capital through the purchase of minority shareholdings or by restricting the excess of the capital of bank branches;
- can optimize their holdings in the financial institutions by placing unconsolidated investments below the thresholds defined by the regulatory authority for the capital deductions;
- can reassess the pension contracts and requires an accurate value of assets that can be withdrawn from the fund and thus becoming eligible for validation in the regulatory capital.

Besides the effort to align the balance to the new capital requirements, banks must continually invest in their management capacity. Banks face a number of significant challenges: a clearly defined timeline, important results after implementing a major complexity of the measures and interdependence. The challenge comes from three areas: design, data quality and complexity of the reporting activity.

International Monetary Fund, in the "Global Financial Stability Report," October 2012, states that the "major banking groups may be, to a greater extent, capable of absorbing the spending regulations; as a result, they may become even more important players in certain markets, making these markets more concentrated."

### **3. Banking Union**

In September 2012, in order to implement the conclusions of the European Council and the Eurozone Summit, which took place in late June 2012, a set of proposals for legislative measures were adopted which were intended to establish a single supervisory mechanism for banks, being coordinated by the European Central Bank. These measures were presented in the Commission Communication to the European Parliament and to the European Council, "a map to the banking union" (European Commission, 2012b).

It is essential to complete the regulatory reform of the financial and banking system in order to better cope with the threats to the financial stability in the Economic and Financial Union. In this respect, the European Commission proposes both to intensify the efforts to counter the risks of contagion across the whole Eurozone in the case of a new financial crisis and to increase the responsibility of a common monetary policy to boost the economic and financial integration process in the EU, and to break the link between sovereign debt and banking crisis.

The switch of the bank supervision at the EU level will be complemented by other measures such as the: harmonization and simplification of the deposit-protection systems and an integrated management in the case of crises in the European banking system. According to this unique mechanism of supervision proposed by the European Commission, the ECB will oversee all banks in the EU, which apply the specific common rules of the single market.

Thus, if the banks will get in trouble in the future, the citizens must have confidence that the troubled banks will be restructured or closed to minimize the costs for taxpayers. This system will help strengthen the necessary trust between Member States, which is a precondition for the introduction of the common financial arrangements to protect depositors and to resolve failing banks in an orderly manner.

The single market of the financial services is based on common standards which ensure that banks and other financial institutions, that enjoy rights under the Treaty of freedom of establishment and freedom to provide services, are subject to equivalent rules and adequate supervision throughout the EU. Creating the banking union must not compromise the unity and integrity of the Single Market, which remains one of the greatest achievements of European integration. The single market and banking union reinforce each other.

The EU Commission Communication regarding the banking union accompanies two legislative proposals, namely one for the establishment of a single supervisory mechanism by entrusting the ECB with specific features on the policies related to the prudential supervision of the credit institutions and another one on the improvement of the Regulation establishing a European Banking Authority (EBA). According to these regulations, the ECB is given the key and specific supervisory tasks that are essential to ensure the detection of risks that threaten the sustainability of banks. The ECB will be, among other things, the competent authority for authorization of credit institutions, assessment of the qualifying holdings, ensuring the compliance with the minimum capital requirements, ensuring the internal capital adequacy in relation to the risk profile of the credit institution, the supervision on a consolidated basis and supervision of the financial conglomerates. The ECB will ensure compliance with the provisions on the relationship between funds raised and those borrowed (leverage) and liquidity, the application of the capital reserves will be performed in coordination with the relevant authorities and the

early intervention measures when a bank violates the provisions on the capital requirements. The ECB will be invested with the necessary powers of investigation and oversight to perform its duties. It includes the active involvement of the national supervisors in the single supervisory mechanism to achieve the effective training without supervision problems and implementation of the decisions and the necessary coordination and flow of information regarding both local and European issues, with the purpose to ensure financial stability throughout the EU and its Member States.

All the tasks which are not explicitly attributed to the ECB shall be borne by the national supervisory authorities. For example, the national supervisory authorities will remain responsible for consumer protection and fighting money laundering, as well as for the supervision of the credit institutions from third countries which established branches or provide cross-border services within a Member State. The ECB must be able to achieve all supervision functions in full independence and is fully responsible for its actions.

The Commission's proposal contains a number of organizational principles to ensure a clear separation between the monetary policy and banking supervision, which will mitigate the potential conflicts between the different political objectives. All preparation and execution activities will therefore be carried out by separate organisations and administrative divisions separated of the monetary policy functions through a Board of Supervisors established within the ECB for this purpose.

Creating the European Banking Authority (EBA) through the Regulation (EU) nr.1093 / 2010 of the European Parliament and of the Council of 24 November 2010 of establishing a European Supervisory Authority (EBA) and the European System of Financial Supervision has already contributed to the cooperation between the national supervisors. But, the European Commission alleges that in many cases the financial and banking supervision continues to be carried out at a national level in order to cope with integrated markets. In this respect, the new proposed changes will ensure that the EBA can continue to effectively achieve its mission concerning all Member States. In particular, the EBA shall exercise its powers and duties also regarding the ECB.

The works on the operational implementation took place during the year 2013. It is necessary to ensure a clear separation between the ECB monetary policy and its supervisory functions, as well as ensuring a fair treatment and representation of the euro area Member States and those beyond which participate in the SSM (single supervisory mechanism). The single supervisory mechanism was to be based on the highest standards of banking supervision and the ECB was able, in different ways, to exercise direct supervision. Also, the ECB is able to use its powers conferred by legislation effective immediately upon its entry into force. In addition, it is extremely important to establish a single regulatory framework which would be the core of the centralized supervision.

Guido Tabellini (2011) points out that the new European institutions are the only solution, and if the markets cannot perform this activity, the European Commission should act as an intransigent guardian of the public finances and budgetary discipline. The first step is to drastically strengthen the control mechanisms over the national decisions on economic policy. However, the control of the public finances is not enough. The EU institutions should also have tools to prevent the accumulation of excessive debt in national banking systems. All this requires a substantial transfer of economic sovereignty from the EU countries to the EU authorities (the European Commission or the regulatory agencies). Some economists emphasize that the stress tests for European banks may be an opportunity to assess the readiness to act in this direction, but it will be necessary to go beyond the stress tests, and strengthen the powers of the new European Banking Authority. Clearly, the transfer of sovereignty must involve all Member States, including France and Germany, not only the so-called "European periphery" (Tabellini, 2011).

The creation of the "banking union" through a single supervisory mechanism will exert a direct control on banks to ensure the compliance with prudential rules and to conduct effective monitoring of cross-border interbank markets. But in terms of "good governance", the tasks related to the monetary policy will be strictly separated from the supervisory tasks, to eliminate the potential conflicts of interest between the monetary policy and prudential supervision.

The global financial integration and the EU single market has allowed the banking sector in some Member States to exceed several times the GDP recorded by them, resulting in institutions that are "too big to fail" and "too big to be saved". Moreover, history shows that the failure of banks, although relatively small, can cause cross-border systemic damage. Moreover, banks that operate across national borders may critically weaken the national banking systems. The enhanced surveillance in the banking union will improve the robustness of banks. If, however, there is a crisis, it is necessary to ensure that the institutions can be protected in an orderly manner and that depositors have their savings safely secured. A banking union should include a more centralized management of banking crises involving major European institutions.

The obstacles to achieving a banking union are large and numerous. A single supervisory authority, be it the ECB must have the support of all 27 member states. Countries such as Sweden, Hungary, Poland, the Czech Republic are dissatisfied that the Commission's proposal which does not provide favourable conditions for those who choose not to take part and only weak guarantees concerning the authority of the supervisor. The Czech Prime Minister Petr Necas said he would veto a European Union plan of banking union, unless changes are made to the proposed regulations. He stated that the Czech Republic is not a member of the Eurozone and the Czechs are not willing to expose their banking financial sector highly capitalized and protected against the risks arising from pooling risks with other EU Member States. The EU leaders discussed the proposals on banking union during the summit of 19 October 2012, but a number of countries, including other non-euro member states like the UK and Sweden - have raised objections to the plan that would give large regulation power to the European Central Bank.

The challenges and risks of the banking union cannot be neglected. Member States act as guardians of the "sovereignty", even when at stake is the increased financial integration in the EU. Some economists emphasize that financial markets consist of a dense network of credit and financial flows, in which some sections of markets and intermediaries play a critically important role. This network acts as a risk multiplier: when the financial operator does not have cash or becomes financially insolvent, its problems are disseminated in the financial system and its creditors will also suffer losses of liquidity and solvency. Therefore, the size of the risk of a banking system as a whole is much larger and complex to be calculated by simply summing the individual risks of financial operators in the system. In other words, there is a macro-dimension of financial risk, which differs greatly from the micro-size which characterizes each portfolio and each intermediate of the banking sector (Bruni, 2011).

Outside Britain, countries that have not adopted the euro do not object in principle against the banking union, but want more power of influence. The deepening of the financial integration (economic) by achieving banking union is obvious, but there is a danger of a division of the EU. The making decisions process and tasks of the ECB can be questioned, although its role as a supervisor cannot be disputed. The British, who have a strong financial centre-City of London, might find themselves in the minority, but there is still a risk of a strong division of the EU, in terms of the vision regarding the financial sector (Wallace, 2012).

The issue of the democratic accountability of a single supervisor was raised by the representatives of Poland. For states that do not use euro, but where the banking systems are controlled almost entirely by euro area banks, it is raised the question about the degree

of involvement of the ECB and its national impact, as well as the expansion of the liquidity requirements and guarantee schemes, if they adhere to them. The non-euro states entering the banking union did not provide voting rights similar to those in the euro area and the ECB jurisdiction over them remains a sensitive issue, as well as the confidence in the effectiveness of new mechanisms.

#### **4. Conclusions**

In conclusion, the financial and banking system reform must be considered in the context of ensuring a good governance of the EU. There are three key steps that the EU should go through:

1. Firstly, the sovereign finances need to be sustainable. Such a strategy means fiscal joint action. If a Member State carefully approaches long-term risks such as increased spending on pensions or healthcare costs increase, they will have more chances in the short term to support the economic growth and jobs.
2. Secondly, banks need urgent recapitalization. They must be strong enough to withstand the risks of sovereign debt and low economic growth rates. If these issues are not solved, we could easily see the further spread of economic recession in the EU, or even a liquidity crisis. The most efficient solution would be first the recapitalization of banks through private resources, but also using the public funds if necessary. One option would be to mobilize the European Financial Stability Facility or other European funds to recapitalize banks directly.
3. The current economic crisis has highlighted some serious flaws in the Eurozone architecture, flaws that threaten the sustainability of the entire project. So Europe must credibly promote a common vision, and it must be built on solid foundations, including fiscal rules (and banking) that actually work.

The crises in modern times did not differ in terms of causes and effects from the crises in the classical period. The only difference is given by their scale and a more rapid pace with which they succeed at the moment. The failure of the state to mitigate their frequency of occurrence and mitigate the negative effects of these crises is obvious. Even if a better regulation of the financial markets and of the actors' behaviour in these markets is enforced, there will always be new financial innovations that will pass the limit of jurisdiction of these measures. The only way out of the current crisis remains reforming the state intervention in the money markets, limiting the monetary expansion, the moral hazard created by the monetary expansion.

The current economic and financial crisis, beyond the problems it generates both at the micro and macro level, must determine the adaptation of the mechanisms, financial/monetary institutions and policies to the real economy.

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# EXPENDITURE ANALYSIS - PRE DIAGNOSIS COMPANY RESULTS

Ștefăniță, Șușu<sup>1</sup>

## Abstract:

*In many fields of activity the most concrete form under which the competitive fight is carried on is the so-called "price war". In this case, the only form of long-term survival is to reduce the operational costs. Therefore, the accurate knowledge of the costs' level, of their training places and their size in the case of the competitors are vital to the company's management.*

*In the literature, in order to achieve the analysis of the costs' effectiveness, there are used a series of indicators of which the most representative, regardless of the level at which it is determined, is "the average costs" on the basis of which it is realized the analysis from 2012-2013. The theoretical concepts presented in a logical sequence are combined with the practical ones, the source of information representing a profit and loss account of the company Turism Covasna (listed on the Stock Exchange, Bucharest).*

*The results of the analysis are interpreted while trying to formulate some solutions to the economic and financial viability of the entity.*

**Keywords:** Analysis Expenses Cost Efficiency Results

**JEL Classification:** M41

## 1. Introduction

The expenditure analysis is a preliminary stage of diagnosing a company's performance because it facilitates the understanding of its results directly correlated with the dynamics, the structure and the efficiency of expenditure incurred by the undertaking economic activity (Mironiuc, 2006, p. 189). This analysis is particularly important in the management and control activities, because it highlights the way in which the resources (human, material, financial) are used and also their impact on the firm's performance allocation (Vâlceanu, Robu, Georgescu, 2005, p. 176).

According to International Accounting Standards, the expenditures are reductions in the benefits costs which are recorded during the accounting period by subtracting the value of assets or increase liabilities, which are reflected in the reduction of their own equity.

The cost of business, according to accounting regulations in force, are the amounts paid or payable for the consumption of stocks, works and services of the enterprise, the labor remuneration, the execution of legal or contractual obligations, including the cost of depreciation and the provisions established. The expenses for the normal course of business activity are the subject to two separate processing circuits of accounting:

1. *The financial accounting* which takes into account all the costs incurred by the company in order to establish the financial result.

2. *The managerial accounting*, which recognizes only certain expenses to the cost of production. They are grouped by destination, products, works, services (Bîrsan, 2004, p. 158).

Most of these expenses (the actual production costs and the additional expenses) give content to *the production cost*. The cost becomes an expense only as the economic resources available to the enterprise purchased or consumed in production processes become consuming values.

The analysis of costs and cost components that give content to the cost provides basic information for the company's management.

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In a modern view, the Western experts emphasise on the utility of the costs' analysis for each unit for generating the value because each activity has its own cost structure (*activity-based costing*). The cost optimization is provided by the cost effectiveness of any enterprise and its Management's ongoing concern (Mironiuc, 2006, p. 190).

## **2 The analysis of expenditure efficiency at the enterprise level and by categories of expenditure**

The permanent insurance of the spending efficiency is a prerequisite for long-term growth performance of the company.

In the literature (Drucker, 2001, p. 59) states that the best cost control requires the reporting of resources to the results because costs do not appear by themselves, but are put in the service of achieving a particular outcome, and therefore what matters is not the absolute level of costs but the relationship between effects and results.

In this analysis, together with the spending growth it is also monitored their effectiveness which is in correspondence with the revenue they generate (Bîrsan, 2004, p. 179).

If one follows the correlation between income and expenditure they will notice that not all the spending generates income: only the operating expenses relate directly to the operating income. The financial expenses do not result in obtaining the financial income, but some of them (the interest expenses paid for credits) must be correlated with the income from the operations in order to assess the financial risk. The extraordinary expenses may relate in part or not at all to the extraordinary income.

A representative indicator for monitoring the effectiveness of spending, regardless of the level at it which shall be determined: total, by categories of expenditure (operating, financial, extraordinary, variable, fixed, materials, wages, etc.) on operating activities (cost centers) is *the average rate of expenditures (the average efficiency of expenditure, the income or the expenses from 1000 lei turnover)*, mirroring, regardless of the chosen name, resources consumption and their efficiency.

This indicator can be achieved by the following model:

$$\text{Average expenditure} = \frac{\text{Expenses}}{\text{Income}} \times 1000 \quad (1)$$

This indicator reflects the total expenditure needed to achieve 1000 RON total revenues. In order to reflect the efficiency indicator value there must be less than 1000 RON, respectively, in order to achieve 1000 RON total revenues, the total expenses required must be less than 1000 RON (Mironiuc, 2006, p. 195).

The essence of this indicator is that it provides information on the dynamics of income versus the expenditure dynamics. When the company expands its business, it is inappropriate to think that this will be achieved with a smaller amount of resources consumed in absolute value than the ones used in the previous activity. The problem is always relative, that costs may increase in absolute value, but their dynamics must not exceed the income growth, so to return to at least the previous period. Thus, in order to record a further result the index of expenditure must always be exceeded by the revenue development index.

Therefore, by using the rate of spending as a source of information and not the absolute value of spending, the information obtained will be used for future business activity management.

A specific element of this indicator is that it is calculated as a ratio between an indicator of effort (a type of expenditure) and one that expresses effects (specific income), the reduction of the average rate of expenditure reflects the increasing efficiency of the company, as increased means reducing the efficiency of the company (Vâlceanu, Robu, Georgescu, 2005, p. 182).



Consequently, in order to increase the total expenditure efficiency, the manager of the enterprise should promote measures that will result in the faster growth of the total revenues compared to the total expenditure: a better use of the existing production capacities by reducing the output fluctuations; choosing clients with stable demand so as to ensure the sales and the operating income growth; designing products with a low cost; an increased focus on the quality of inputs purchased from suppliers, the labor productivity growth; reducing the specific consumption per unit of product; the realization of investments in technologies etc.

In order to exemplify the methodology for analyzing the efficiency of spending in Turism Covasna company we use the data in table no. 1.

**Table no. 1. Level and dynamic of efficiency costs**

Indicators	Financial year		$\Delta$	(%)
	2012	2013		
Operating revenue	11528 893	10991 900	- 536993	95 .34
Operating expenses	10640 628	10531 693	- 108935	98 .98
Financial income	79543 0	65427 1	- 141159	82 .25
Financial expenses	14719 51	25045 59	+1032 608	17 0.15
Extraordinary income	0	0	0	-
Extraordinary expenses	0	0	0	-
Total revenues	12324 323	11646 171	- 678152	94 .50
Total expenditure	12112 579	13036 252	+9236 73	10 7.63
The average operating costs	922.9 5	958.1 3	+35.1 8	-
The average financial costs	1850. 51	3828. 01	+1977 .50	-
The average extraordinary expenses	0	0	0	-
The average total expenditure	982.8 2	1119. 36	+136. 54	-

Source: author's contribution

The calculation of the *total expenditure elasticity* with respect to the total income can bring more information on cost effectiveness, as follows:

$$E_{Ch/Vt} = \frac{ICh_t - 100}{IV_t - 100} = \frac{107.63 - 100}{94.50 - 100} = -1.39$$

According to the table above we can draw the following conclusions:

Regarding the cost effectiveness on categories, there is a favorable situation in the operating activity in terms of the level indicator ( $\overline{RCh_e} < 1000$ ). In the dynamic, on the other hand, the indicator shows an upward trend (+35.18%), a situation considered to be unfavorable due to the decrease in faster operating income (-4.66%) compared with the rate of development of the operating expenses (-1.02%).

In the financial business activity, the situation is unfavorable from the point of view of the efficiency of spending in both periods (the values are greater than 1000 RON and in development), which does not allow a saving/spending cuts ( $R = 1000 - \overline{RCh_f}$ ). This is due to the increased financial costs by 70.15% as a consequence of the falling by 17.75% of the financial income.

The total economic activity of the company is also unfavorable (the average spending is higher than 1000 in the year 2013 and an there was an increase of 36.54%), due to the fact that the pace of total expenditure (+7.63%) exceeded the incomes (-5.50%).

The coefficient of elasticity of the total expenditures with respect to the total income ( $E_{Ch/Vt} = -1.39$ ) indicates a 1% increase in the total spending, the total revenues are reduced by 1.39%, which explains the decrease of the efficiency of the spending total.

### 3. The analysis of the effect of increasing/reducing company spending efficiency

In order to reflect the  $\overline{RCh}$  indicator should register values lower than 1000 RON. Only then it is possible that in 1000 RON incomes to be covered the expenses incurred in obtaining them and to achieve savings (reduction) of costs ( $R = 1000 - \overline{RCh}$ ), which are actually the profits from 1000 RON revenue. The economy (the reducing) in spending can be obtained by all the incomes and expenses or by categories of income and expenses. As the economy (the reducing) the cost is higher, the benefit will be greater. Thus, depending on the values of the indicator, one can identify the following situations:

a)  $\overline{RCh} < 1000 \rightarrow 1000 - \overline{RCh} = R$  - company records to 1000 RON income benefits;

b)  $\overline{RCh} = 1000 \rightarrow 1000 - \overline{RCh} = 0$  - the firm is in equilibrium point, the revenues fully cover their expenses and the profits or losses are not recorded;

c)  $\overline{RCh} > 1000 \rightarrow 1000 - \overline{RCh} = -R$  - the enterprise's revenues cannot cover the costs of their production and the income losses in 1000 RON.

The effect of the increasing/reducing total expenditure efficiency translates to 1000 RON income benefit/loss on the total revenue derived from the enterprise activity and it can be determined by applying a simple rule of three, according to the following model:

$$\begin{array}{ll} 1000 \text{ RON income} & R = 1000 - \overline{RCh} \\ Vt & B = ? \end{array}$$

Consequently, the effect of the increasing/reducing total expenditure efficiency at 1000 RON revenue ( $B$ ) is:

$$B = \frac{Vt}{1000} \times (1000 - \overline{RCh}) \quad 2)$$

Corresponding to this model analysis, the increase of the benefit ( $\Delta B > 0$ ) is a consequence of the economic growth (reduction) of costs or the increase of the efficiency of the total expenditure 1000 RON total revenues ( $\Delta \overline{RCh} < 0$ ) and the effect of increasing the total revenues ( $\Delta Vt > 0$ ).

By analogy, the effect of increasing/reducing the efficiency of spending to 1000 RON turnover ( $B$ ) is:

$$B = \frac{\text{Turnover}}{1000} \times (1000 - \overline{RCh}) \quad 3)$$

The increase of the efficiency of expenditure turnover ( $\Delta \overline{RCh} < 0$ ) as the increase in turnover ( $\Delta Ca > 0$ ) drives favorable development benefit ( $\Delta B > 0$ ) (Mironiuc, 2006, pp. 205, 206).

In the same way, we can determine the effect of increasing the efficiency of the operating expenses, the financial and the extraordinary, and the benefits, respectively.

In order to illustrate the methodology for analyzing the effect of increasing/reducing the total spending efficiency in Turism Covasna company we used the data in the table below.

**Table no. 2. The analysis of the effect of increasing/reducing the spending efficiency**

Indicators	Financial year		$\Delta$	(%)
	2012	2013		
The average operating costs	922.95	958.13	+35.18	-
The average financial costs	1850.51	3828.01	+1977.50	-
The average extraordinary expenses	0	0	0	-
The average total expenditure	982.82	1119.36	+136.54	-
The effect of reduced efficiency in operating expenses	888265	460207	-428058	-
The effect of reduced efficiency of financial expenses	-676521	-1850288	-1173767	-
The effect of reducing total expenditure efficiency	211744	-1390081	-1601825	-
Result of operations	888265	460207	-428058	51.81
Financial result	-676521	-1850288	-1173767	273.50
Gross result	211744	-1390081	-1601825	-

Source: author's contribution

According to the table above we can draw the following *conclusions*:

In both periods analyzed, the indicator of efficiency in operating expenses are below 1000 RON, reason for which the company records benefits of 77.05 RON to 1000 RON in operating incomes (1000-922.95), respectively, 41.87 RON to 1000 RON in operating incomes (1000-958.13). The effect of operating the expenditure efficiency is the rewards of the company's operating income of 888 265 RON in 2012 or 460207 RON in 2013.

Regarding the company's financial activities in both periods analyzed, the indicator of efficiency in financial expenses exceeds the limit of 1000 RON, reason for which the company recorded a loss of 850.51 RON to 1000 RON in operating income (1000-1850.51), 2828.01 RON to 1000 RON in operating income (1000-3828.01). The effect of the inefficiency of the financial expense is represented by the company's financial income losses of 676521 RON in 2012, respectively 1850288 RON in 2013.

In 2012, the total expenditure efficiency indicator remains below 1000 RON, reason for which the company recorded benefits of 17.18 RON to 1000 RON in income (1000-982.82). The effect of the total expenditure efficiency is the profit of the company's total revenue, respectively 211744 RON.

In 2013, the total expenditure efficiency indicator exceeds the limit of 1000 RON, reason for which the firm lost 1000 RON in revenues of 119.36 RON (1000-1119.36). The effect of the inefficiency of the total expenditure losses is the total income of the company, respectively 1390081 RON; there is therefore a worsening economic and financial situation of the company in 2013.

### Conclusions

The analysis of the data on company's expenses highlights some relevant issues concerning the evolution of the various categories of expenditure, facilitating, through a deviation analysis, the control over the enterprise's resource management.

In terms of increasing the efficiency of spending on the company's activities and it is recommended a more careful and detailed analysis of how the company's resources should be used in order to increase its profitability (improving sales activity, rising prices, reducing costs, outsourcing support operations, increasing efficiency, efficient planning of activities, selling products/services with high profit margins etc).

As a final conclusion of this article, it can be seen that there is an increase in the inefficiency of costs on both categories of the analyzed company, caused, on the one hand,

to the reduction in the operating income, the financial assets, combined with the increased expenditure, adversely affecting the enterprise's results. Knowing that the cost optimization is provided by the cost effectiveness of any enterprise, the decision makers within the company must take urgent measures in order to streamline the costs and to avoid undesired situations.

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# STRATEGIES OF DECREASING ACCOUNTING RISKS

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## Abstract:

*The accuracy of an entity's accounting operations is achieved only through a clear record of all the accounting information and proper management of the threats to which they are subject. Conceiving some strategies that aim to limit the accounting risks is the main approach in enhancing the entity's performance and presenting a loyal image.*

**Keywords:** *accounting activities, accounting risks, strategies, loyal image, performance.*

**JEL Classification:** G32, M41

## 1. Introduction

Risk is an event, an action, a situation with impact on the ability of an entity to carry out its set objectives.

Within an entity there is a variety of risks with different types of materialisation, generating highly various effects in terms of manifestation and amplitude.

In these circumstances, the risk analysis is necessary in order to have a clear record of both the risks and the risk-generating activities.

Risk analysis is an important process that consists of achieving the following activities:

- identifying the risks generating activities and the generated risks;
- risk assessment;
- risk classification;
- proposing measures (strategies) for limiting the risks.

Depending on the specific character of the entity there can be a number of risks, such as: general risks (organising risks; strategic risks; operational risks; project/process risks, etc.) and specific risks (risks from the legal activity; risks in human resource management; financial and accounting activity related risks, etc.).

Reducing the threats that an entity has to face helps to streamline the specific activities, to increase performance and to successfully achieve the set objectives.

## 2. Accounting risks

The purpose of bookkeeping within an entity consists in the preparation and presentation of the financial statements. The objective of the financial statements is to provide the internal and external users with an accurate image. This requires a proper recording of the financial-accounting transactions and events. But, there is a number of risks arising as a consequence of the activities carried out within the financial-accounting department, risks that affect the smooth running of the entity, when the appropriate steps are not taken regarding their minimisation.

The accounting risk analysis must start with identifying the accounting activities specific to the activities of an entity and the risks generated as a result of their implementation.

The following tables illustrate a series of accounting activities and specific risks.

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**Table no. 1: Accounting risks generated by the application of accounting principles**

<b>Accounting principles</b>	<b>Generated risks</b>
<b>a) Activity continuity principle</b>	a1) the risk of the financial position assessment, of the financial performance may influence the economic decision of the financial a2) the risk of undervaluation of the assets and expenses; a3) the risk of overvaluation of equity elements, debts and income; a4) the risk of erroneous identification of the aforementioned elements in a period of time in which they should not have been recognized; a5) the risk of assessing and presenting the entity's results that may not reflect a loyal image; a6) the inflationary risk with impact on the purchasing power, which is reflected in the purchase of goods and services of the entity.
<b>b) The principle of accounting methods permanence and of assessment in accounting</b>	b1) the risk generated by this principle is the assessment risk, namely the situation in which the users of the financial statements are affected because of the failure to fulfil the comparability criterion which has as result an assessment that affects their decisions.
<b>c) The principle of prudence</b>	c1) the risk of transfer of the uncertainties in future years will be avoided.
<b>d) Accrual principle</b>	d1) the risk related to affecting the income of the year in which they were engaged, respectively at the time of their acquisition, as well as the recording of the costs as they are engaged; d2) the risk of not applying this principle is the risk of bankruptcy, manifested by the inability of the entity to achieve its payments.
<b>e) The principle of separate assessment of assets and liabilities</b>	e1) it generates the risk of erroneous assessment of the components of the financial statements' structure, which affects the financial position and the financial performance of the entity.
<b>f) Intangibility principle</b>	f1) the risk of failure to fulfil this principle causes the loss of all qualitative characteristics of the information resulting from the financial statements. It also automatically leads to the failure to fulfil the other accounting principles.
<b>g) The netting principle</b>	g1) the risk generates a misleading image of the financial position and performance of the entity. In this case, the calculation of any performance indicators is questioned in terms of results relevance.
<b>h) The principle of dominance of the economic over the legal elements</b>	h1) the risk of erroneous interpretation of this principle leads to an inaccurate presentation of the economic rights and obligations of an entity within the financial statements.
<b>i) The materiality principle</b>	i1) the risk of failure to fulfil this principle may generate unnecessary expenses, which also affects the entity's financial performance

Source: Personal contribution

**Table no. 2: Accounting risks arising from the recording of the economic and financial transactions in the accounting records**

<b>Accounting activity</b>	<b>Generated risks</b>
<b>Recording the financial and economic transactions in the Journal-ledger; Inventory-ledger; General-ledger</b>	a) lack of written procedures on how to draw up the Journal-ledger; the Inventory-ledger and the General-ledger; b) failure to update on time the above-mentioned documents; c) absence of a person responsible for preparing the accounting records; d) incorrect filling in of these documents.

Source: Personal contribution

**Table no. 3: Accounting risks generated by the financial-accounting documents' archiving**

<b>Accounting activity</b>	<b>Generated risks</b>
<b>Archiving the financial-accounting documents</b>	a) lack of procedures for archiving financial-accounting documents; b) not appointing responsible people regarding the documents' archiving; c) not training people on how to archive documents; d) failure to provide adequate space for archiving; e) inadequate preparation of the financial-accounting documents for archiving;

Source: Personal contribution

**Table no. 4: Accounting risks arising from the use of IT programmes**

<b>Accounting activity</b>	<b>Generated risks</b>
<b>Using the IT programmes in the processing of the accounting information</b>	a) lack of written procedures on the operation of the existing information system within the entity; b) not assigning responsibilities to the people who are entitled to operate and consult the IT system; c) failure to protect against access by unauthorised persons through a system of passwords; d) separating the tasks to the users with controlling role from those with executive role; e) systematic failure to train the staff responsible for using the information system; f) unauthorized access to financial-accounting information from the database.

Source: Personal contribution

**Table no. 5: Accounting risks arising from the use and registration of the assets in accounting**

<b>Accounting activity</b>	<b>Generated risks</b>
<b>Use and registration of the assets in accounting</b>	a) lack of written procedures for the bookkeeping of the balance sheet items; b) the procedures concerning their accounting are not known by the personnel assigned to this task; c) not appointing people responsible for drawing up bookkeeping; d) the existence of persons responsible for bookkeeping of the assets, but who do not have the necessary studies to achieve this task; e) erroneous evidence of the payments/expenses incurred with the acquisition or construction of the tangible assets; f) erroneous highlighting of the acquisition and production costs and of the output value, in violation of the permanence principle of the assessment methods; g) failure to update the receivables from claims documents; h) incorrect registration in the costs, other than those related to the nature of these operations; i) lack of written procedures on the organising activity and operation of the cash desk; j) lack of written procedures for bookkeeping of the cash desk and bank operations; k) misstatement in other accounts of the amounts carried out by banks or cash desk; l) lack of people responsible for the systematic control of cash desk activity; m) failure to ensure space security for the cash desk; n) lack of written procedures regarding the bookkeeping of the costs with the entity's staff; o) not informing the staff currently; a) placing the staff in activities not specific to their professional training.

Source: Personal contribution

**Table no. 6: Accounting risks arising from the use and registration of the entity's capital in accounting**

Accounting activity	Generated risks
<b>Use and registration of the entity's capital in accounting</b>	a) failure to identify all the related parties; b) incorrect establishment of the value of the balance sheet items (sum of subscribed social and paid-up capital; the amount of the legal reserves, as well as of other reserves; the size of the profit or of the loss) at the year-end; c) failure to check the balances of the capital items upon opening and closing of the financial year; d) not identify the persons responsible for the management of the capital operations (authorised persons legally entitled to sign; of the person empowered to keep the Share register; of the persons responsible for the distribution of the dividends, as well as of the persons authorised to seek the contributions of capital to the new shares issuing); e) the changes in the structure and volume of equity (increase or decrease of capital; issuance of shares; the distribution of profits) were not made known to the shareholders. f) the entity reserves have not been properly recorded in the balance sheet; g) failure to present correctly in the financial statements, according to the accounting regulations in force of the reserves; h) accounting regulations in force concerning the entity's reserves are not consistently applied; i) the accounting procedures on bookkeeping of the bebts are not known by the assigned staff; j) failure to repay the loans in due time; k) failure to correctly estimate the provisions and contingent liabilities;

Source: Personal contribution

### 3. Strategies of diminishing the accounting risks

The strategy is “the long-term establishment of the goals and objectives of an enterprise, the adoption of courses of action and allocation of the resources necessary to achieve the objectives” (A. Chandler, 1962, pp. 136) or “a pattern or plan that integrates into an entirety coherent for the organisation's major goals, policies and programs” (J. B. Quinn, H. Mintzberg, R. James, 1988, pp. 312).

Formulating a strategy consists of:

- the analysis of the entity's current situation. It is necessary for presenting an accurate situation to identify information about: the activity of the entity, as well as knowledge of its past and present strategies.
- the analysis of the perspectives and development directions of the entity. This step aims to identify the medium and long term objectives that the entity sets for itself as well as the strategic diagnosis, namely the internal and external environment analysis.

In order to successfully implement the strategy one must achieve a proper matching of the entity's internal potential with the new strategic guidelines for identifying the actions to be performed, as well as the means to be implemented to ensure the convergence. It is also necessary to coordinate the annual targets in order to avoid the failures and the conflicts between the different compartments of the entity.

Due to the current economic conditions, it was necessary to create some strategic typologies for the entity to be able to successfully achieve its set objectives. In this regard, several criteria of classifying the strategies have been developed, but according to the risks they prevent, the strategies can be:

- of diminishing the operational risk, which is based on the cost-volume-profit correlation and seeks to identify ways to maintain the elasticity of earnings to the changes in sales;
- of diminishing the risks arising from the legal activity, which are based on identifying the specific legislation of the entity's activity and its appropriate;
- of diminishing the risks arising from the inappropriate management of the human resources, which focus on the human capital as main resource of any entity;



- of diminishing the financial risk, which starts from identifying the generating activities and presenting some ways to eliminate the hazards with impact on the financial performance;

- of diminishing the accounting risk, which starts from identifying the generating activities and the development of some measures to maintain a loyal image of the entity.

Risk management strategies identify four options for action, namely:

- a) Avoiding risk situations. The aim is to identify those situations that could lead to a number of risks, under the scope of occurrence, in order to avoid them;

- b) Preventing risks. When risks cannot be eliminated, the economic operator must try to reduce the likelihood of occurrence of such situations by implementing certain decisions or by carrying out certain actions;

- c) The transfer of risks to another entity – insurance;

- d) Taking on risks when the other methods cannot be applied. It is necessary for the entrepreneur to build up a risk fund to cover the potential losses or in the event of relatively small losses.

**Therefore, due to the accounting risks identified, the following strategies of diminishing these threats are presented:**

**a) Strategies of reducing the risks generated by the misapplication of the accounting principles:**

- developing a periodic training plan of the staff from the financial-accounting department on the accounting principles stipulated by law and any changes that could occur;

- checking the accurate observance of the general accounting principles as set out and detailed in the legislation in force;

- appointing a person from the control department to monitor the compliance with the accounting principles in the financial-accounting activity and to intervene when there are deviations from them.

**b) Strategies of reducing the risks generated by the misuse of the accounting records:**

- regular training of the staff from the financial-accounting department on the accounting records required by the legislation in force, as well as the manner of filling in and filing them;

- all the accounting records shall be made on the basis of primary documents completed and drawn up in accordance with the legal provisions in force, only after the prior approval of the transactions by authorised persons;

- checking and correcting, where necessary, the accuracy of the registrations from the accounting records by the chief accountant of the financial-accounting department.

**c) Strategies of reducing the risks generated by the improper filing of the financial-accounting documents:**

- the establishment and training of the persons responsible for filing in accordance with the law;

- identifying and using an appropriate space for archiving the documents;

**d) Strategies of reducing the risks generated by the misuse of the financial-accounting data processing software:**

- regular training of the staff from the financial-accounting department in using the specific software;

- providing expert assistance in IT by a specialist.

**e) Strategies of reducing the risks generated by the erroneous recognition and assessment of the elements of the financial statements structures:**

- regular training of the staff from the financial-accounting department on the assessment methods and recognition of the component elements of the financial statements structures;

- development of an accounting policies guidebook that should contain clear procedures on the assessment of the balance sheet items and the profit and loss account, their application method, as well as the dissemination of the material to the personnel responsible for the implementation of these policies;
- continuous checking of the compliance with the accounting policies set by the entity's management by the head of the financial-accounting department and by a person assigned with control attributes;
- obtaining the agreement of the Board of Directors for any deviations or changes in the accounting policies and grounding the need of these changes based on some documents which contain the internal audit's visa as well.

### **Conclusions:**

The reduction of accounting risks has an impact on the drawing up and presentation method of the financial statements, statements that show the overall image of the entity.

Limiting these threats is reflected primarily in the credibility of the financial statements and then in achieving the entity's specific objectives. We consider the development of some strategies regarding the management of accounting risks to be the goal of having a loyal image.

Implementing the accounting risk management strategies will be made by the chief of the financial-accounting department, who must supervise their implementation and their enforcement lies with both the entity's management and the internal audit department.

Once developed the accounting risk management strategies, the internal auditors must appropriate them and supervise both their implementation and their compliance.

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# THE EMERGING ECONOMIES CLASSIFICATION IN TERMS OF THEIR DEFINING, GROUPING CRITERIA AND ACRONYMS USED FOR THIS PURPOSE

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## Abstract:

*The starting point of this paper is represented by an evolutionary approach of the terminology used to define the term of emerging economy, of the review of the acronyms used for the purpose to group some of these economies in relation to certain criteria. The approach of the emerging economies is followed by the presentation and the systematization of some of the definitions that, during the time, was given by certain personalities, groups and international organizations to this concept. Talking about economies, some of the important indicators in the award of the emerging economy status are those who take into consideration the income and the economic growth rate illustrated in this paper by GDP. Subsequently of the screening realized for the mentioned characteristics set was taken into consideration the mode how they are manifested in a number of emerging economies of Europe.*

**Keywords:** terminology, emerging economies, middle class, GDP

**JEL Classification:** H10, H61, H72.

## 1. Introduction

The starting point in the introduction of the term of emerging economy or emerging market was constituted by the term of developing economy used in the 70s to characterize the less developed markets. Because of the fact that the attribution of this term had at basis both objective and subjective value judgments, its utilization was considered not properly adequate. So appears oportune the replacement of it with an other term which characterize properly the economies above considered as doing part from this category. Thus was born the term of emerging market that was introduced in the category of the economic terms in 1980 by the World Bank economist Antoine van Agtamael to characterize the economies with a middle status between the developing countries and the developed countries. Inside the researchs on emerging economies an important place was occupied by authors such as: CK Pralad George Halez, Hernando de Soto, Usha Haley and Several professors from Harvard Business School and Zale School of Management. From the term of emerging economy/emerging market were derived over time a number of new concepts such as the rapidly developing economies (used in markets such as UAE, Chile and Malaysia), BRIC (Brazil, Russia, India and China ), BRICET (BRIC countries plus Eastern Europe and Turkey), BRICS (BRIC countries plus South Africa), BRICM (BRIC countries and Mexico), Next Eleven (Egypt, Indonesia, Bangladesh, Iran, Mexico, Pakistan, Nigeria, Philippines, Turkey, South Korea, and Vietnam) and CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa).

Another term that can be added to the previous list is the "newly industrialized country", referring to emerging markets whose economies have not yet reached the status of developed economies but at the macroeconomic level, are situated before their counterparts developing. Despite the fact that these countries have not a common agenda, most experts have a convergent opinion in terms that their role becomes bigger and bigger in the global economy and on the world political stage. At the end of 2010, BBVA Research has introduced the term of EAGLEs markets (Emerging and Growth - Leading

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Economies) and, respectively, the term of NEST markets. The first of the above terms is considering the systematization of the emerging economies whose contribution to the world GDP will be, in the next 10 years, superior than the average contribution of the G7 countries excluding the USA from this last category. At the opposite pole are the NEST countries whose contribution to the World GDP will be, in the next 10 years, below the average contribution of the G7 countries, excluding the USA from this last category. The characteristic followed for the case of the economies which belongs to some of the acronyms previously presented (table nr. 1).

**Table 1. Characteristics of the emerging economies groups**

<b>Acronym</b>	<b>Based on</b>	<b>Comments</b>
<b>BRIC</b>	Absolute size	The criterion is not very significant because the attribute of "more" is not necessarily a determinant of market potential; the criterion is static because it does not allow any prediction having in view the time horizon which is too long to track these economies (at least 20 to 25 years); at the same time proves to be a subjective one because it only included four economies.
<b>N-11</b>	Population/ GDP size	Are included here the economies with large populations, this fact not representing, as in other cases, a determinant of market potential. It is a static concept including a number of countries characterized by political instability, covering a too big time horizon of 20-45 years and based on absolute values or sizes.
<b>CIVETS</b>	Young population	Are missing from here the "key economies" (Mexico and Korea) and several of other "major economies", the time horizon beyond 2020 is not very clear in terms of economic development for the countries which belongs to this group and another aspect which must be taken into consideration is the one that over 20 years, the average growth will be above 4.5%.
<b>BBVA EAGLEs</b>	Absolute Growth	Is grouping the large enough economies and with fast enough economic growth. It is a dynamic concept that allows the anticipation of economies evolution and the time horizon taking into consideration is a reasonable one (10 years). The number of the countries admitted into the group is flexible, the accession criterion of the memberships being that of performance.

Source: BBVA Research, <https://www.bbvarsearch.com/>

## **2. Certainty, probability and impossibility of assigning definitions for emerging economies**

Parts in the great puzzle of the global economy, emerging economies have raised, over time, the attention of many specialists concerned with defining their economic formation and grouping them into a series of lists and in relation to certain criteria.

### **2.1. Promoters of defining emerging economies**

To give for a country the emerging economy label seems to be a rather complicated process, because of the fact that, all those who have and who had concerns in this direction are bombarded by a multitude of statistics and studies which are not just real, result of certain unintentional creations, emerged precisely as a result of the lack of a precise definition of the term. As a result of this reality appear contradictory statistics on emerging economies, which differ, in certain respects, from an international body to another (IMF, World Bank etc.). Another undesired effect of losing consistency in term of emerging economy is represented the continuing and general trend to increase the number of the countries included in this category and which, often, have not the same characteristics (South Korea, Singapore and Taiwan versus India, Mexico, Argentina, Indonesia, Poland etc.). According to this idea we propose an overview of some of the definitions associated with the term, in an attempt to capture the main connotation of the concept of emerging economy (table nr. 2).

**Table 2. Promoters of defining emerging economies**

<b>Author</b>	<b>Characteristics</b>
<b>General views</b>	Economies in which the social and business environment is in a rapid growth and industrialization process. According to the "The Economist" there are a multitude of opinions that consider the term as obsolete. The term is used due to the fact that currently, there is not another term to characterize these economies.
<b>Center of Knowledge Societies, Emerging Economy Report, 2008</b>	Regions which are experiencing a rapid informationalization under the conditions of a limited or partial industrialization. Emerging markets were positioned at the confluence of non-traditional user behavior and we can also talk here about the rise of new user groups and about the adoption by the community of products and services, and about innovations in product technologies and platforms.
<b>Barron's Finance &amp; Investment Dictionary</b>	Foreign economies that are developing and which, to meet the capitalism have created their own market value. Are also economies marked on the one hand by the existence of a high potential for business environment and, on the other hand, by the existence of a risk as high. They have large territories, large populations, opportunities for achieving significant development projects requiring new infrastructure, such as power supply and telecommunications systems. Promotes economic policies whose effects translates through faster economic growth and expanding trade and investment worldwide.
<b>Saxo Bank</b>	Emerging economies are those with strategies oriented to the incomes, value and to the increasing of the capital investments on markets from Asia, Latin America, Eastern Europe, Africa and Mediterranean economies less developed.
<b>TD Waterhouse</b>	Developing countries with relatively low income per capita, and in most cases have an above average growth potential.
<b>Soundinvesting Organization</b>	Developing foreign markets involving a volatility and an increased risk compared with the stable markets.
<b>Morgan Stanley Capital International</b>	Relatively risky markets, with additional risk factors of political, economic and monetary nature and for which the safety and security is not the primary objective.
<b>Vladimir Kvint</b>	A society in transition from dictatorship to a free market-oriented towards economy and on which the economic freedom is manifested in increasing sense; there is a concern of gradual integration into world markets, promotes the expansion of a middle class, improving living standards, social stability, tolerance and put an emphasis on cooperation with multilateral institutions.
<b>Vital Wave Consulting</b>	<p>According to it, the economies can be divided into the following categories: Strategic Opportunity Markets: the largest and most attractive emerging markets, with a population exceeding 40 million, with strong growth in the GDP's real terms, with an income per capita higher than \$ 2,000 in PPP terms, rapid integration of ICT and improving of the living standards. Examples of such countries: China, Indonesia, Vietnam, Philippines, Thailand, Russian Federation, Turkey, Ukraine, Brazil, Mexico, Colombia, Egypt, Iran, India, Pakistan, South Africa.</p> <p><i>Niche Opportunity Markets</i>: smaller, growing economies, population under 40 million, GNI per capita over \$2000 in PPP, strong real GDP growth, improving standard of living, rapidly integrating ICT, some risk from political or economic instability (Malaysia, Poland, Uzbekistan, Romania, Kazakhstan, Belarus, Azerbaijan, Serbia and Montenegro, Bulgaria, Turkmenistan, Croatia, Georgia, Moldova, Bosnia and Herzegovina, Lithuania, Albania, Armenia, Argentina, Peru, Venezuela, Chile, Guatemala, Ecuador, Cuba, Dominican Republic, Bolivia, Honduras, El Salvador, Paraguay, Nicaragua, Costa Rica, Panama Uruguay, Algeria, Morocco, Iraq, Yemen, Syrian Arab Republic, Tunisia, Libya, Jordan, Lebanon, Occupied Palestinian Territories, Sri Lanka, Cameroon, Angola, Congo, Mauritania).</p> <p><i>Long-term Opportunity Mark</i>: GNI per capita under \$2000 in PPP, very low ICT integration, low income and standard of living, high risk. Putem menționa aici: Myanmar, Cambodia, Papua New Guinea, Lao People's Dem. Rep., Tajikistan, Kyrgyzstan, Haiti, Bangladesh, Afghanistan, Nepal, Nigeria, Ethiopia, Congo Dem. Rep., Tanzania, Sudan, Kenya, Uganda, Ghana, Mozambique, Madagascar, Côte d'Ivoire, Burkina Faso, Niger, Malawi, Zimbabwe, Senegal, Mali, Zambia, Chad, Rwanda, Guinea, Benin, Burundi, Togo, Sierra Leone, Eritrea, Central African Republic, Liberia.</p>
<b>World Bank</b>	Countries that have a gross national income (GNI) of \$11,456 or less per capita.

Author	Characteristics
<b>Business Dictionary</b>	Market new structures arising from the phenomena of digitization, deregulation, globalization and destandardizare and which tilts the economic balance from sellers to buyers. In such markets the information is free and widely available on large scale and can be accessed instantly. Competitors in these markets must always be preoccupied about adopting of new processes based on informational technology, keeping under attentive supervision of the prices, quality and market trends.
<b>Pearson Education</b>	Consider emerging economies all the countries that have not the status of developed economies. This can be achieved by monitoring and assessment of key attributes such as: <i>the income level</i> (GDP per capita USD \$): Low < 755; Lower Middle 755 < 2995; Upper Middle 2995 < 9265; High >= 9265; <i>the economic growth rate</i> : high; <i>stage of development</i> : the economic openness (economic size and the condition of the financial markets); the maturity and the volatility of the financial markets.

Source: own processing using the data provided by <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>.

## 2.2. Emerging economies of Europe inside the classification of certain international groups or bodies

Talking about the main characteristics, in this paper, we focused on the following aspects: have large territories; have large populations; promotes of economic policies whose effects translate into faster economic growth, expanding trade and foreign investments; favoring the expansion of a middle class, the improving of the living standards, social stability and tolerance and also, put an emphasis on cooperation with multilateral institutions; level of the income and growth rate (in terms of GDP). According to the Emerging Markets Index 2008 (compiled by MasterCard), for Europe we can talk about the following countries: Bulgaria, Hungary, Poland, Romania, Russia, Turkey and Ukraine. A retrospective look on the mentioned territories, in terms of lists drawn up by the major international groups and bodies concerned with the classification of emerging economies look like (table nr. 3).

**Table 3. Emerging economies of Europe inside the classification of certain international groups or bodies**

Emerging economy	Classification according to the FTSE, MSCI, S&P, Dow Jones, BBVA research and MasterCard lists
<b>Bulgaria</b>	FTSE - not included in the classification for 2014 of the emerging economies; MSCI - not included in the classification for 2014 of the emerging economies; S&P - not included in the classification for December 2014 of the emerging economies; Dow Jones - emerging market (2014); BBVA - not included in the classification for March 2014 of the emerging economies; MasterCard – emerging economy.
<b>Hungary</b>	FTSE – advanced emerging market (according to the 2014 classification); MSCI – emerging market (2014); S&P - emerging market (2014); Dow Jones - emerging market (2014); BBVA (Banco Bilbao Vizcaya Argentaria, a multinational Spanish banking group formed in 1999) – not included in the classification for March 2014 of the emerging economies; MasterCard – emerging economy.
<b>Poland</b>	FTSE - advanced emerging market (according to the 2014 classification); MSCI - emerging market (2014); S&P - emerging market (2014); Dow Jones - emerging market (2014); BBVA - NEST market (March 2014) which mean that, for this country, the Expected Incremental GDP in the next decade to be lower than the average of the G6 economies(G7 excluding the US) but higher than Italy's; MasterCard – emerging economy.
<b>Romania</b>	FTSE - not included in the classification for 2014 of the emerging economies; MSCI - not included in the classification for 2014 of the emerging economies; S&P - not included in the classification for 2014 of the emerging economies; Dow Jones - emerging market (2014); BBVA - not included in the classification for March 2014 of the emerging economies; MasterCard – emerging economy.
<b>Russia</b>	FTSE – secondary emerging market 2014; MSCI - emerging market (2014); S&P - emerging

Emerging economy	Classification according to the FTSE, MSCI, S&P, Dow Jones, BBVA research and MasterCard lists
<b>Turkey</b>	market (2014); Dow Jones - emerging market (2014); BBVA – EAGLEs (Emerging and Growth – Leading Economies) market (2014) which mean that, for this country, the Expected Incremental GDP in the next 10 years to be larger than the average of the G7 economies, excluding the US; MasterCard – emerging market. FTSE - advanced emerging market 2014; MSCI - emerging market (2014); S&P - emerging market (2014); Dow Jones - emerging market (2014); BBVA - EAGLEs market (March 2014); MasterCard – emerging economy.
<b>Ukraine</b>	FTSE - not included in the classification for 2014 of the emerging economies; MSCI - not included in the classification for 2014 of the emerging economies; S&P - not included in the classification for 2014 of the emerging economies; Dow Jones - not included in the classification for 2014 of the emerging economies; BBVA - not included in the classification for March 2014 of the emerging economies; MasterCard – emerging economy.

Source: own processing by FTSE, MSCI, S&P, Dow Jones and BBVA Research, provided from:  
<http://www.ftse.com/products/home> [http://www.msci.com/products/indexes/country\\_and\\_regional/em/](http://www.msci.com/products/indexes/country_and_regional/em/)  
<http://www.standardandpoors.com/>  
<http://new.dowjones.com/>, <https://www.bbvarsearch.com/>.

To motivate below the status of emerging economies for the countries systematized in Table 3 we propose, further on, an analysis of how the characteristics of such economies are in a smaller or greater measure fulfilled for the case of the specified European territories. Thus, if we take into debate the first feature that is represented by the territory size (tables nr. 4 -5).

**Table 4. The territory owned by some of the emerging economies of Europe**

Emerging economy	Territory size
<b>Bulgaria</b>	With a territory of 110,994 square kilometers, Bulgaria is the 15 th largest country in Europe.
<b>Hungary</b>	With a territory of 93,030 square kilometers, Hungary is the 109 th largest country in Europe.
<b>Poland</b>	With a territory of 312,685 square kilometers, a Poland is the 69 th largest country in Europe.
<b>Romania</b>	With a territory of 238,391 square kilometers, Romania is the 82 nd largest country in Europe.
<b>Russia</b>	With a territory of 17,075,400 square kilometers, Russia is the 1st largest country in Europe.
<b>Turkey</b>	With a territory of 783,562 square kilometers, Turkey is the 18 th largest country in Europe.
<b>Ukraine</b>	With a territory of 603,628 square kilometers, Bulgaria is the 46 th largest country in Europe.

Source: own processing using data provided by  
[http://en.wikipedia.org/wiki/List\\_of\\_sovereign\\_states\\_and\\_dependent\\_territories\\_in\\_Europe](http://en.wikipedia.org/wiki/List_of_sovereign_states_and_dependent_territories_in_Europe)

**Table 5. The population of some of the emerging economies of Europe and its evolution**

Emerging economy	Population and evolution		
	2001 (persons)	2014 (persons)	Comments
<b>Bulgaria</b>	7,930,000	7,167,998	place 98 in Europe; decreasing population trend; with a density of 65 people it /square miles ranks place 139 in Europe.
<b>Hungary</b>	10,198,315	9,933,173	place 83 in Europe; decreasing population trend; with a density of 107 people it /square miles ranks place 94 in Europe.
<b>Poland</b>	38,635,000	38,220,543	place 34 in Europe; decreasing population trend; with a density of 118 people it /square miles ranks place 83 in Europe.
<b>Romania</b>	21,681,000	21,640,168	place 52 in Europe; decreasing population trend; with a density of 91 people it /square miles ranks place 104 in Europe.

Emerging economy	Population and evolution		
	2001 (persons)	2014 (persons)	Comments
<b>Russia</b>	145,105,000	142,467,651	decreasing population trend; with a density of 8 people it /square miles ranks place 217 in Europe.
<b>Turkey</b>	71,158,647	75,837,020	place 18 in Europe; decreasing population trend; with a density of 97 people it /square miles ranks place 108 in Europe.
<b>Ukraine</b>	48,457,102	44,941,303	place 28 in Europe; decreasing population trend; with a density of 74 people it /square miles ranks place 115 in Europe.

Source: own processing using the data provided from <http://www.worldometers.info/world-population/population-by-country/>

Looking the middle class of some of the emerging economies of Europe, this can be characterized as follows:

Bulgaria is marked by the existence of a stable and urban middle class. The economic strenght and the country's future depends on the existence of this middle class. The fact that almost all businesses in Bulgaria are small or medium size is an important factor in the development of the middle class but not sufficient to increase the competitiveness of this country. The Bulgarian middle class includes almost 40% of the active population and consists of young educated (in secondary or higher education) aged between 15-40 years. They have well-paid jobs in private companies or even their own private business. Some of them works in public administration. The Bulgarian middle class is underrepresented in terms of political parties. Though the country's living conditions are substantially lower than other EU economies, the Bulgarian government is making significant improvements to meet the high standards set by the other EU states. Looking the living standards, according to the CIA data, the percentage of population living on less than \$ 1.25/day is smaller than 2% and the percentage of population living on less than \$ 2/day is about 02.4%. The population living below national poverty line is about 14% (2008; after that there are no available data).

Hungary's middle class is characterized by insignificance and fragmentation. The low rate of employment remains the main impediment in the acquisition of high standards of living. Looking the living standards, according to the CIA data, the percentage of population living on less than \$ 1.25/day is smaller than 2% and the percentage of population living on less than \$ 2/day is also smaller than 2 %. The population living below national poverty line is about 12% (2014 data).

In Poland exists a larger middle class characterized by the fact that now can afford some luxury goods and is more familiar with established brands as a result of travel abroad. Looking the living standards, according to the CIA data, the percentage of population living in this country on less than \$ 1.25/day is smaller than 2% and the percentage of population living on less than \$ 2/day is also smaller than 2 %. The population living below national poverty line is about 17% (2008; after that there are no available data).

Romania has growing middle and upper classes with relatively high per capita incomes. The net average wage was 1,192 lei (roughly 380 USD) in March 2008, rose to 1,352 lei (430 USD) in 2009 and is expected to reach 1,819 lei (570 USD) by 2013. The income from salaries in Romania had the highest growth rate in the region during 2006. Although the wages have seen an increase, Romania is placed on an unwanted place 2 in the top of the countries with small earnings from European Union, on first place being situated Bulgaria. Looking the living standards, according to the CIA data, the percentage of population living on less than \$ 1.25/day is smaller than 2% and the percentage of population living on less than \$ 2/day is about 04.1 %. The population living below national poverty line is about 25% (2005; after that there are no available data).



Russia's middle class can be characterized by elements such as: the domain of activity (a rate of over 50% works in the public sector, industry, and only very few persons carrying out activities by agricultural type, forest management, science, research and science service); specific features (which makes the difference between this and other social groups); increasing tendency of the middle class, willingness to work in the interest of democracy and modernization. The recent increase in the middle class percentage is seen by experts as a trend which inspires optimism and guarantees sustainable growth. Looking the living standards, according to the CIA data, the percentage of population living on less than \$ 1.25/day is smaller than 2% and the percentage of population living on less than \$ 2/day is also smaller than 2 %. The population living below national poverty line is about 13.1% (2009; after that there are no available data).

In Turkey, economic growth has led to the emergence of a “new middle class.” whose members have a different approach to ideology and life but who have, as common point, a liberal and pluralist mindset. The urban middle class includes groups which are orientated to the Turkish culture (civil servants, proprietors of medium-size businesses and industries, many persons in service occupations, some skilled workers, and university students). The composition of the middle class includes, virtually, the entire upper strata of the provincial cities. Looking the living standards, according to the CIA data, the percentage of population living on less than \$ 1.25/day is smaller than 2% and the percentage of population living on less than \$ 2/day is also smaller than 2 %. The population living below national poverty line is about 17,11% (2008; after that there are no available data).

Ukraine's middle class is more sober and practical, if equally misguided about their social identity. They likely have a university education and quite possibly greater sensitivity to culture than their Anglo counterparts. But they often miss the mark when it comes to middle class values. Looking the living standards, according to the CIA data, the percentage of population living on less than \$ 1.25/day is smaller than 2% and the percentage of population living on less than \$ 2/day is also smaller than 2 %. The population living below national poverty line is about 35% (2009; after that there are no available data).

The income levels of the emerging economies of Europe took into discussion in this paper is presented in table nr. 6. Its importance lies in the fact that, for operational and analytical purposes, the World Bank uses, as main criterion for classifying the economies, the gross national income (GNI) per capita in which has been transformed, according to the new terminology, the older gross national product or GNP (according to the 1993 System of National Accounts (SNA)).

**Table 6. The income level in some of the Europe's emerging economies**

Emerging economy	Income level	Comments
<b>Bulgaria</b>	Upper middle income	GNI per capita between 3,976 - 12,275 USD \$.
<b>Hungary</b>	High income: OECD	GNI per capita more or equal with 12,196 USD \$.
<b>Poland</b>	High income: OECD	GNI per capita more or equal with 12,196 USD \$.
<b>Romania</b>	Upper middle income	GNI per capita between 3,976 - 12,275 USD \$.
<b>Russia</b>	Upper middle income	GNI per capita between 3,976 - 12,275 USD \$.
<b>Turkey</b>	Upper middle income	GNI per capita between 3,976 - 12,275 USD \$.
<b>Ukraine</b>	Lower middle income	GNI per capita \$1,006 – 3,975 USD \$.

Source: own processing using the data provided from <http://data.worldbank.org/indicator/SI.DST.04TH.20>

The last, but not the least, between the indicators meet in the definition of the emerging economies make the object of the data from the table nr. 7.

**Table 7. The economic growth rate for some of the Europe's emerging economies  
(GDP – real growth rate %)**

Emerging economy	Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Bulgaria</b>	5	4.8	4.3	5.3	5.5	6.3	6.2	6	-5	0.2
<b>Hungary</b>	5.5	3.2	2.9	3.9	4.1	3.9	1.3	0.6	-6.3	1.2
<b>Poland</b>	4.8	1.3	3.7	5.6	3.4	5.8	6.6	4.8	1.7	3.8
<b>Romania</b>	2.2	4.8	4.5	8.1	4.1	7.7	6	7.1	-7.1	-1.3
<b>Russia</b>	6.3	4.2	7.3	6.7	6.4	6.7	8.1	5.6	-7.9	4
<b>Turkey</b>	6	7.8	5.8	8.2	7.4	5.3	4.5	1.1	-4.7	8.2
<b>Ukraine</b>	9	4.1	9.4	12	2.6	7.1	7.7	2.7	-15.1	4.2

Source: own processing using the data provided from  
<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

### **3. The emerging economy status in terms of causal aspect. advantages and disadvantages of this status**

Seen on a middle path between developing economies and developed one, emerging economies are due on one hand, of the the failure of centralized economy, in the effort to ensure sustainable economic growth and of the negative impact it has had. On the other hand, we talk here about the need for capital investment. Even if, thanks to the contribution they have and the status of key actors on the stage of the global economy, emerging economies would seem to have an enviable position compared to the other partners, their associated characteristics revealing also a number of issues which make less attractive their status.

Thus, in the "advantages" category the discussion focuses on the following: due to the structure of population and size, the public policies adopted by emerging economies can make poignant mark on the market; these economies are characterized by changing the source of funding, replacing foreign assistance with foreign investment as an engine for economic propagation; trade and capital injections are the consequence of the existence of an open market rather than political considerations reflecting, on the emerging markets - industrialized countries axis, the transition from dependence to global interdependence; gains tax is on average, lower than in developed countries; advantages of geographic, demographic and economic are primarily responsible for the inflow of FDI in these countries; offers attractive investment opportunities because they have a high level of GDP, foreign exchange reserves, a relatively low level of debt and provides large gains compared to the corresponding rate in the banking market (assuming creation of bank deposits as a way of capitalizing financial resources); not confronted with developed economies problems in terms of meeting their citizens' needs related to health care and unemployment rate, issues that put extra pressure on their treasuries and so exhausted.

Regarding the disadvantages of this type of economy that faces: their economic and political system continues to raise traditional, especially in terms of redefining the state's role in economic growth and reduce its undue interference; the control of corruption and the negative impact of this phenomenon on the business environment and thus on economic development; the need for structural reforms in the financial system, legal and political, as the basis of a disciplined and stable economy; high level of risk compared with developed markets; exchange rate fluctuations (monetary instability); inflation, as factor for diversion of economic growth; the economic growth cost becomes prohibitive in the situation where the ignoring of the environmental problems associated to this growth have negative effects on neighboring countries.

### **4. Conclusions**

The criteria for grouping under various acronyms the emerging economies are not homogeneous because some of these are based on the size of the economy and others are

based either on the economic growth or a number of other values. However, the differentiation of these criteria is given by their static or dynamic character, by the time horizon to which they refer in the analysis.

Although the term of emerging economy was defined in different ways over the time and by many individuals, groups or international organizations, an analysis of these definitions highlights a number of common characteristics such as: the possession of vast territories and large populations; the promoting of economic policies whose effects leads to the economic growth acceleration, the expanding of the trade and investments; the favouring of the middle class growth whose primary objective is the good evolution of the economy both in terms of production and consumption; the existence of continuous concerns about the improving of the living standards, social stability and tolerance. In terms of economic indicators, the economic growth rate of the analyzed emerging European economies, during the 2005-2014 period of time, had the following evolution: in 2005 the minimum level of the economic growth was recorded in the case of Romania and the maximum level for Ukraine. In 2006 was placed on the first place, in terms of economic growth, Turkey and, at the opposite pole, Poland. For 2007 and 2008, the lider position is occupied by Ukraine and the last place belongs to Hungary. In 2009 the ranking is led by Turkey and ended by Ukraine. The 2010 and 2012 brings on the first place România and on the last place Hungary. For the year 2011 the biggest rate of economic growth was registered in the case of Russia and the lowest rate of economic growth belongs, also as in 2012, to Hungary. In 2013, with the exception of Poland, all the economies analyzed faced with economic loss. In 2014, the one of the analyzed economies which not recorded economic growth was Romania. Regarding the income level, the majority of economies under consideration register a Gross National Income per capita under the value of 12,275 USD \$.

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# FUNDING PUBLIC INSTITUTIONS IN ROMANIA

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## Abstract:

*The development of this article started from the fact that in the field of public institutions accounting there have been many changes and it aims to capture the essential aspects of their financing. Thus the article covers a series of issues related to the credit officers, to employment, to settlement and payment of public institutions expenditure, to the budgeting and budgetary credits accounting. It also presents a brief classification of the public institutions according to several criteria, as well as their financing sources.*

*The paper also practically presents the accounting of the budgetary credits and their sharing mechanism between the principal, secondary and tertiary budgetary credits officers.*

**Keywords:** public institutions, budgeting, budgetary credit, budgetary credit officer, budgetary commitment

**JEL classification:** M41 – Accounting

## 1. Introduction

A definition of the public institutions is given in Law 500/2002 on public finances according to which they represent the generic name that includes the Parliament, the Presidential Administration, the ministries, the other specialised bodies of public administration, other public authorities, autonomous public institutions, as well as institutions subordinated to them, regardless of their mode of financing.

In a broader sense, public institutions can be defined as patrimonial units created and organised by the state for carrying out its functions in the field of public administration, of social-cultural activities, of defence, public order and national security and those related to the organisation of other services and public interest activities in the non-profit system.

Public institutions can be classified according to several criteria, but according to the most representative criteria they are classified as follows:

- according to the subordination relationship public institutions are divided into two main categories:
  - Institutions of central public administration;
  - Institutions of local public administration.
- according to the legal status, public institutions are divided into:
  - Public institution with legal personality;
  - Public institution with legal personality.
- according to the hierarchy:
  - Higher public institutions;
  - Subordinated public institutions

## 2. The literature

The management of public institutions is done through the credit officers who have the ability to approve the public expenditure.

By credit officer we understand the natural person empowered to fulfil a leadership position within a state agency, an institution vested by the legislator with the right to have budgetary credits approved by its own budget of revenue and expenditure of the respective institution (C.O. Țenovici, 2008, p. 11).

Public spending refers to the economic and social relations expressed in money, which manifest between the state, on the one hand, and individuals and businesses, on the

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other hand, on the occasion of the distribution and use of the state's financial resources to fulfil its functions (I. Văcărel, 2006, p.127).

Public expenditures are made within the limits of the budgetary credits. The budgetary credit represents the amount approved through the budget, representing the maximum limit up to which one can order and make payments during the fiscal year for the commitments made during the budget year and/or the previous years for multilateral actions, namely one can engage, order and make payments from the budget for other actions (Law 273/2006).

The engagement of all the expenditures from the public sources comprises two components: the legal commitment and the budgetary commitment.

The legal commitment is that phase in the budgeting execution that represents any legal act which results in, or could result in an obligation on the public funds (M. Dumitru, C. Pitulice, A. Ștefănescu, 2014, p. 9). The legal commitment must be submitted in writing, signed by the credit officer and take the form of a public contract, order, convention, etc.

The budgetary commitment represents any act by which a competent authority, under the law, distributes public funds to certain destinations, within the limits of the budgetary credits approved (M. Dumitru, C. Pitulice, A. Ștefănescu, 2014, p. 9).

### **3. Research Methodology**

The approach is based on what a public institution is and considers the financing method of its activity, as well as the mechanism through which the funding is achieved. Thus, the following aspects are analysed:

- credit officers;
- budgeting;
- sources of public institutions funding;
- budgetary appropriations;
- accounting of budgetary credits.

### **4. Credit officers**

The managers of public institutions are credit officers. They are granted by law the right to assign and distribute or only use budgetary credits, as appropriate, depending on the category they belong to. Thus, according to the rights and powers they have in the budgeting execution, the budgetary credits officers fall into three categories:

- main credit officers;
- secondary credit officers;
- tertiary credit officers.

The main credit officers for the public institutions financed from the state budget, the state social insurance budget and special funds budgets are the heads of the public authorities, ministers and heads of other specialised bodies of the central public administration. Locally, the main credit officers are the presidents of the county councils or mayors, depending on the budget.

The main budgetary officers have the ability to approve the expenditures from their own budget, in compliance with the law, and to allocate the budgetary credits approved by the state budget, the state social insurance budget and special funds budgets, to the subordinate units, in accordance with their tasks listed in the respective budgets, in compliance with the law.

The secondary and tertiary credit officers are the heads of the other public institutions who are in direct subordination to the main credit officers or secondary officers when it comes to the tertiary credit officers.

The secondary credit officers are the heads of the public institutions subordinated to the main credit officers. The secondary credit officers approve the expenses out of their own budgets and of those from the special funds budgets, in compliance with the law, and allocate the budgetary credits approved for the subordinate units whose heads are the tertiary credit officers.

The tertiary credit officers are leaders of the public institutions authorised by the main or secondary credit officers to use the budgetary credits which were allocated only for the needs of the institutions they lead. They do not subordinate other public institutions and do not have the ability to allocate budgetary credits to other institutions.

The credit officers are responsible, according to the law, for:

- the use of the budgetary credits;
- making the income;
- efficient and effective use of funds received from the state budget, from the state social insurance budget, from the special funds budget, from the local budgets and from other budgets of the public institutions;
- the integrity of the goods entrusted to the unit that they manage;
- organising and updating the accounting and presentation on time of the accounting reports on the budgetary execution;
- organising the internal audit and the preventive financial control.

## **5. The budgetary process**

The budgeting represents all the actions and steps taken by state institutions in order to define the financial policy applied by the budgetary authority. This is a very complex process, which is achieved by involving a large number of participants, some of whom have the right to decide on the budget and others perform the budget execution or the control on it.

The budgeting has a number of features that offer it specific features:

- it is a decision making process, since it involves meeting the needs of the companies for public goods and services with limited resources and most often insufficient in relation to the requirements;
- it is a democratic process, because during the performance of its stages the attributes of the rule of law are manifested on the one hand, and on the other hand the possibility of imposing the economic and social interests of various groups of citizens who have the majority of the political decision;
- it is a mainly political process, since the options reflected in the budget represent an act of political decision of the major political forces in the parliament;
- is a cyclical process, because the budgeting stages are carried out and achieved in concrete terms, stages that are repeated for each budgetary year;
- is a process with a broad public impact, with implications at macro and micro economic level, which manifests itself both economically and socially.

The budgetary process is a sequence of stages that the public budgets go through with institutional involvement through the use of methods, techniques and procedures in the design and implementation of specific indicators of income and expenses based on a clearly defined legal framework.

The budgetary process involves going through the following steps consecutively:

- drafting the budget project: it is the first phase of the budgetary process and consists of formulating the proposals on the budgetary revenue and expenditure by the budgetary credits officers, their communication to the Ministry of Public

Finance where the centralisation takes place in a document called project of the state budget law. The state budget draft includes:

- presenting the reasons and the draft of the state budget law;
- annexes to the draft of the budgetary law;
- documentation information on the substantiating method of the budget.
- approving the budget: the Parliament is the public institution empowered by the Constitution to approve the annual budgetary laws and the laws of rectification, developed by the Government in the context of the macroeconomic strategy undertaken by it.
- implementation of the budget: consists of cashing the budgetary revenues and making the expenditures approved by the budget, in other words in the execution of the part of the budgetary revenue and the execution of the part of the budgetary expenditure:
  - the execution of the part of budgetary revenue involves the following steps staggered in time:
    - settlement of the budgetary revenues;
    - liquidation of the budgetary revenues;
    - issuance of the cashing securities;
    - levying the budgetary revenues.
  - the implementation of the part of budgetary expenditure involves the following distinct phases:
    - engaging the budgetary public expenditure;
    - liquidation of the budgetary expenditure;
    - authorisation of the budgetary expenditure;
    - payment of the budgetary expenditures.
- the end of the budgetary year requires specific works that aim to establish the result of the implementation of the budget, namely the income earned, the expenses incurred and the balance recorded at the end of each budgetary year. For this purpose the budgetary execution account shall be made. It reflects the purpose of the revenue and expenditure execution operations and leads to the establishment of the execution result, which may be a surplus or deficit on the respective budgetary year.
- the control of the budgetary execution: the Court of Accounts performs the judicial control and prepares the Annual Public Report containing the observations on the execution accounts of the budgets subject to its control, the financial irregularities and deficiencies, the accountability measures taken and other issues it deems necessary.
- the approval of the budgetary execution: the general annual execution account of the state budget is finalised by the Government and presented for approval to the Parliament, which approves it through the law.

## **6. The financing sources of the public institutions**

The financing sources of the public institutions may differ from one institution to another.

The spending of the public institutions may be financed as follows:

- entirely from the state budget or from the local budgets, as appropriate, the social security budget or the special funds budget;
- wholly or partly on account of its own income through self-financing;
- based on the subsidies allocated from the state budget, the local budgets, the social insurance budget or the special funds budget;
- special purpose budgetary allocations, etc.

The public institutions financed entirely from one of the budgets listed above are required to transfer the budget fully to the budget from which the revenues achieved are funded. The income made by the public institution increase the budgetary credits related to the budget from which the funding is made.

The own income of the public institutions financed out of the own revenues are used in accordance with the income and expenditure budget approved for the institution in question.

#### **7. The budgetary credits and their accounting**

The budgetary credit is defined as the maximum limit to which a public institution can make cash payment.

The distribution or supply with funds of the accounts opened on behalf of the approved budgetary credits is made at the request of the main credit officers only after the opening of the credits.

The main credit officers require the Ministry of Public Finance to open the budgetary credits both for their own activity and for the activity of the subordinate units, based on the opening request of the budgetary credits.

The budgetary credits approved for a credit officer cannot be used to finance another credit officer's activity, and the expenses approved in a chapter cannot be used to finance another chapter's expenses. There is though one exception, when during the budgetary year additional tasks occur, and the credits in a particular chapter are not sufficient, and in others there is a surplus of availabilities, starting with the third quarter of the year one may make transfers of budgetary credits. The transfer of budget credits involves a reduction of the budgetary credits for a specific category of expenses, where there has been a surplus of availabilities and most of them in another category of budgetary expenditure, where these are insufficient.

Opening the budgetary credits are made based on the application procedure of starting the budgetary credits, a request stating the amount and purpose of the budgetary credits with breakdown on the budgetary classification structure.

The main credit officers retain from the budgetary credits opened their amounts necessary for their own expenses and allocate to the subordinated units the budgetary credits approved for this purpose, based on the budgetary provision for apportionment.

The opening and distribution of the budgetary credits is followed by the process of their use in accordance with the approved budgetary objectives. The payments made by the credit officers from budgetary or extra budgetary funds are known as cash payments.

The budgetary credits' accounting is performed using the off-balance sheet accounts. To illustrate the accounting of the budgetary credits we consider that: the Ministry of Public Finance allocates to the Ministry of Administration and Internal Affairs, as the main credit officer the amount of 150 million lei, out of which 100 million lei for their own activity, and the remainder to be distributed to the five secondary credit officers subordinated.

The first secondary officer subordinated receives the amount of 15,000,000 lei, out of which 10 million lei for his/her own activity, and the difference is distributed to the three subordinate tertiary officers in the following way: for the first tertiary officer the amount of 1,500,000 lei, for the second tertiary officer the amount of 2,500,000 lei, and the difference of 1,000,000 lei for the third secondary subordinate officer. The second secondary subordinated officer receives the amount of 10 million lei, out of which 8,000,000 lei for his/her own activity, and the difference for the tertiary officer subordinated to him. The third secondary subordinated officer receives the amount of 9,000,000 lei, out of which 7,000,000 lei for his/her activity, and the remainder is distributed equally to the two tertiary subordinated officers. The fourth secondary subordinated officer shall receive the sum of 12 million lei, out of which 6,000,000 lei for his/her own activity, and the remainder is distributed equally to the two tertiary



subordinated officers. The fifth secondary subordinated officer receives the amount of 4,000,000 lei, out of which 3,000,000 for his/her own activity, and the difference for the tertiary officer subordinated to him.

- the approval of the request to open the budgetary credit is recorded:

D	806.00	150,000,000
	“Budgetary credits approved”	

D	806.10	50,000,000
	“Budgetary credits to allocate”	

D	806.20	100,000,000
	“Budgetary credits opened for own expenses”	

- the budgetary credit distribution by the secondary officers is recorded:

C	806.10.OS1	15,000,000
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	“Budgetary credits to allocate”	
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	806.10.OS2	10,000,000
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	“Budgetary credits to allocate”	
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	806.10.OS3	9,000,000
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	“Budgetary credits to allocate”	
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	806.10.OS4	12,000,000
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	“Budgetary credits to allocate”	
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	806.10.OS5	4,000,000
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	“Budgetary credits to allocate”	
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- recognition of the opening of the financing in accounting of the secondary officers (based on budgetary allocation provision):

a) in the accounting of the first secondary officer:

D	806.00	15,000,000
	“Budgetary credits approved”	

D	806.10	5,000,000
	“Budgetary credits to allocate”	

D	806.20	10,000,000
	“Budgetary credits opened for own expenses”	

b) in the accounting of the second secondary officer:

D	806.00	10,000,000
	“Budgetary credits approved”	

D	806.10	2,000,000
	“Budgetary credits to allocate”	

D	806.20	8,000,000
	“Budgetary credits opened for own expenses”	

c) in the accounting of the third secondary officer:

D	806.00	9,000,000
	“Budgetary credits approved”	

D	806.10	2,000,000
	“Budgetary credits to allocate”	

D	806.20	7,000,000
	“Budgetary credits opened for own expenses”	

d) in the accounting of the fourth secondary officer:

D	806.00		12,000,000
	“Budgetary credits approved”		
D	806.10		6,000,000
	“Budgetary credits to allocate”		
D	806.20		6,000,000
	“Budgetary credits opened for own expenses”		
e) in the accounting of the fifth secondary officer:			
D	806.00		4,000,000
	“Budgetary credits approved”		
D	806.10		1,000,000
	“Budgetary credits to allocate”		
D	806.20		3,000,000
	“Budgetary credits opened for own expenses”		
• the allocation of the budgetary credit is recorded, for the own expenses, towards the tertiary officers (based on the budgetary allocation provision):			
a) in the accounting of the first secondary officer:			
C	806.10.OT1		1,500,000
	“Budgetary credits to allocate”		
	806.10.OT2		2,500,000
	“Budgetary credits to allocate”		
	806.10.OT3		1,000,000
	“Budgetary credits to allocate”		
b) in the accounting of the second secondary officer:			
C	806.10.OT1		2,000,000
	“Budgetary credits to allocate”		
c) in the accounting of the third secondary officer:			
C	806.10.OT1		1,000,000
	“Budgetary credits to allocate”		
	806.10.OT2		1,000,000
	“Budgetary credits to allocate”		
d) in the accounting of the fourth secondary officer:			
C	806.10.OT1		3,000,000
	“Budgetary credits to allocate”		
	806.10.OT2		3,000,000
	“Budgetary credits to allocate”		
e) in the accounting of the fifth secondary officer:			
C	806.10.OT1		1,000,000
	“Budgetary credits to allocate”		
• recognition of the budgetary credits in the accounting of tertiary credit officers:			
D	806.00		
	“Budgetary credits approved”	The record in each tertiary officer’s accounting is repeated with the amount allocated	
D	806.20		
	“Budgetary credits opened for own expenses”	The record in each tertiary officer’s accounting is repeated with the amount allocated	

## 8. Conclusions

The management of the public institutions is done with the help of credit officers, who after the rights and powers they have in the budgeting execution can be divided into three main categories: main credit officers, secondary credit officers and tertiary credit officers.

The credit officers implicitly help to the development and implementation of the financial policy applied by the budgetary authority by the fact that they are participants in the budgetary process.

Depending on the rights and duties that they have in the budgeting execution, the credit officers shall request, use and distribute the budgetary credits as follows:

- the main credit officers have the ability to approve executing the expenditures from their own budget and to allocate the budgetary credits approved towards the subordinated secondary and tertiary budgetary credit officers;
- The secondary budgetary credit officers are the leaders of the public institutions subordinated to the main credit officers and have the ability to approve the execution of the expenditures from their own budget and to allocate the budgetary credits approved for the subordinated units whose heads are tertiary credit officers;
- the tertiary credit officers are the managers of the public institutions empowered by the main or secondary officers to use the budgetary credits which were allocated to them only for the own needs of the institutions they lead.

The budgetary credits' mechanism involves following the next steps: opening the funding through the application of opening the budgetary credits; the use and allocation of the budgetary credits based on the budgetary provision for apportionment.

The accounting of the budgetary credits is organised at the level of each public institution by the credit officer.

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# EFFICIENCY OF PUBLIC SPENDING FOR EDUCATION WITHIN THE EUROPEAN UNION IN THE CONTEXT OF THE STRATEGIC FRAMEWORK "EDUCATION AND TRAINING 2020"

Ionela, Popa<sup>1</sup>  
Camelia, Marin<sup>2</sup>

## Abstract:

*Education is universally recognized as one of the foundations of human development and one of the most powerful tools that a society has for poverty reduction, sustainable development in the long term.*

*The world we live in today can be defined as a global arena, a planet increasingly crowded, faced with a real problem - population growth and thus increasing the number of young people, which means educational systems and to able to support them and to answer their needs. Educational policies should reflect the responsibility of building a world based on a more on mutual support. Marginalization, exclusion, ignorance of the rules of democracy and lack of education are factors that may cause the gap between a minority of people are able to find a path to success and a majority that feels manipulated events. Providing everyone access to knowledge, education has the task of helping people understand the world and to understand others.*

*In the context of the Europe 2020 strategy makes in education provides a new strategic framework for European cooperation in education and training, created from his predecessor's work program "Education and Training 2010", "Education and Training 2020". This paper aims to highlight the strategic objectives for the Member States, the implementation of these, and a number of statistics on the efficiency of public spending on education in the European Union.*

**Keywords:** public expenditure, education, efficiency, strategic framework

**JEL Classification:** I2, H1, H6.

## 1. Introduction

Spending for education is one of the most important categories of public expenditure. Overall development of learning is done in accordance with the requirements of the different stages of economic and social development and the training and education of equalizing conditions of all members of society. Education is called to contribute to the extent of increasingly higher in overall progress of society.

Spending for education is a paramount feature policy makers and State authorities, as this category of expenditure is an investment for any company extremely important in the medium and long term in this factor of production, the labor. This is an advance of gross national product, as budgetary resources used for education is not consumed completely, but are included in the training of members of society. Intellectual investments have some specific features, namely producing qualified teachers with a range of knowledge that give high productivity; intellectual investments are long-term, lasting 10 to 18 years; have long lasting effects throughout their working lives; not subject to obsolescence as they can be adapted continuously to the requirements of economy, science, technology, culture; education shall give the necessary flexibility to adapt to new requirements of economic standing and culture through specialization, retraining, recycling; intellectual investments have multiple effects have economic-social, human, and are far more difficult to quantify compared to physical investment. These public expenditure alive transposing the constitutional right to education and facilitates fulfilling the educational ideal as it presented the National Education Law 1/2011 "educational ideal is the free, full and harmonious development of human individuality, personality formation

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and autonomous the assumption of a value system that are necessary for personal fulfillment and development, entrepreneurship development, citizens' active participation in society, social inclusion and employability."

### **3. Criteria for evaluating the effectiveness of public expenditure programs**

The need to evaluate public programs, and consequently those of education, imposed identification tools that can highlight their effectiveness.

Performance of a public project can be assessed in terms of the relationship between the expected effects and the effort to achieve them. In this respect, the performance indicators used in most OECD countries on program evaluation policy refers to economic measures, efficiency measures, measures of effectiveness, measures of service quality, financial performance measures.

Efficiency of public expenditure expressed an optimum size of a proportional basis between financial efforts and public financial resources consumption and effects measurable or estimated on account of the objectives funded states.

With the public needs require elevated public goods and state resources do not increase as fast rhythm it creates a gap that leads to a permanent state of low resources.

Assessing the effectiveness of public expenditure is for the policy makers and of the executive.

During the process of utilization of funds allocated solutions can be found to minimize the cost of investment and current expenditure on public services. Effectiveness of spending is done in terms of social optimum when the following conditions are met: it is possible to choose the least costly alternative in relation to the outcome of the public service; modernization of public service production to maximize the utility of the consumer; consumer utility maximization in economic terms based on the price paid and the lowest cost in use; power projection in a fixed time horizon.

Corroborating these matters: cost minimization objectives financed, resulting in minimum social cost (less tax); affordable prices paid by consumers; increasing the quality of public goods consumption, so the public consumer satisfaction.

The limited public financial resources makes the problem use will be crucial. In analyzing the economic efficiency of expenditure shall be set and indicators of actual use or post calculus using the same methods. With these indicators compare predictions and results in prior periods with the periods for which the analysis is performed, identifying the causes and results of the measures required to improve these results.

### **3. Strategic framework for education and training in the European Union**

The European politicians have recognized the essential nature of education and training to foster the development of the knowledge society and the current economy. EU strategy is based on the need for collaboration between Member States in order to achieve mutual benefits.

Education and training policies in the European Union gained momentum after the adoption of the Lisbon Strategy (2000), a comprehensive program aimed at transforming the EU into the most competitive and dynamic economy. The strategy recognized that indeed knowledge and innovation as a result of its most valuable assets are the European Union, especially in the context of global competition intensified.

After 10 years adopted Europe 2020, this is the EU's growth strategy for the next decade. In a rapidly changing world, the EU wants to become a smart, sustainable and inclusive growth. These three priorities are mutually reinforcing and are able to help the EU and its Member States to achieve a high level of labor employment, productivity and social cohesion.

In practice, the Union has set five major objectives - on employment, innovation, education, social inclusion and environmental / energy - to be reached by 2020. Member States have adopted their own national targets in these areas. Various actions at European and national level in support of the strategy.

In the field of education "Education and Training 2020" (ET 2020) is a new strategic framework for European cooperation in education and training, created from his predecessor's work program "Education and Training 2010" (ET 2010). This framework provides common strategic objectives for Member States, including a set of principles to achieve these objectives and working methods common areas for each work cycle periodically.

The main purpose of the framework is to support Member States in the further development of their education and training. These systems should provide all citizens the means to achieve their potential and to ensure sustainable economic prosperity and employability. Framework should take into account the whole spectrum of education and training systems from the perspective of lifelong learning, covering all levels and contexts (including non-formal and informal education).

They established four strategic objectives of the framework:

- implement the lifelong learning and mobility;
- improving the quality and efficiency of education and training;
- promoting equity, social cohesion and active citizenship;
- creativity and innovation, including entrepreneurship, at all levels of education and training.

In order to have efficient and flexible ways of working for European cooperation in education and training, the framework provides a number of work cycles by 2020 for each cycle adopted several priority areas, based on the above strategic objectives: achieving in practice lifelong learning and mobility, improving the quality and efficiency of education and training, promoting equity, social cohesion and active citizenship, fostering innovation and creativity, including entrepreneurship, at all levels of education and training ,

To measure progress in achieving these goals, they are accompanied by indicators and European benchmarks:

1. Adult participation in learning throughout life. In order to increase adult participation in learning throughout life, especially those with a low level of qualification is intended that by 2020, an average of at least 15% of adults should participate in learning programs de- of the lifelong

2. Low achievers in basic skills. To ensure that all students reach an adequate level of basic skills, especially reading, mathematics and science: - by 2020, the proportion of people aged 15 years with low reading skills, mathematics and science should be less than 15%.

3. Attendance tertiary education. Given the growing demand for tertiary education graduates, and while acknowledging the equal importance of education and training by 2020, the proportion of 30-34 attending tertiary education should be at least 40%.

4. Early school leavers from education and training

As a contribution to ensuring that a maximum number of students complete their education and training is intended that by 2020, the proportion of early school leavers from education and training should be less than 10%.

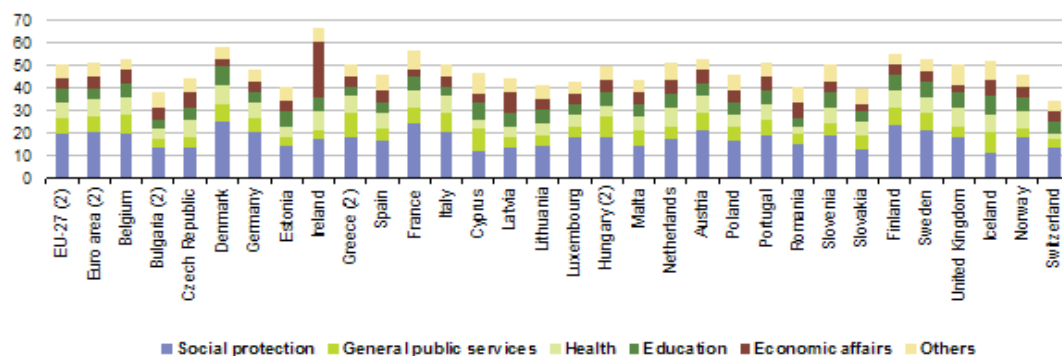
5. Pre-school education. To increase participation in early childhood education as a basis for later educational success, especially those from disadvantaged backgrounds program aims that by 2020 at least 95% of children aged 4 years and the age for starting compulsory primary to benefit from preschool education.

Other areas of importance highlighted in the strategy are: mobility, employability, language learning.

#### 4. Statistical data on public expenditure on education in the European Union

An EU report highlight the following development indicators in education: the average share of public spending in the EU is 40%. With above average identify countries such as Ireland, Denmark, France, Austria, while Romania recorded a pondere public expenditure in GDP of 30% (with 10 percent below average).

**Table no. 1: Structure of public expenditure in EU Member States**



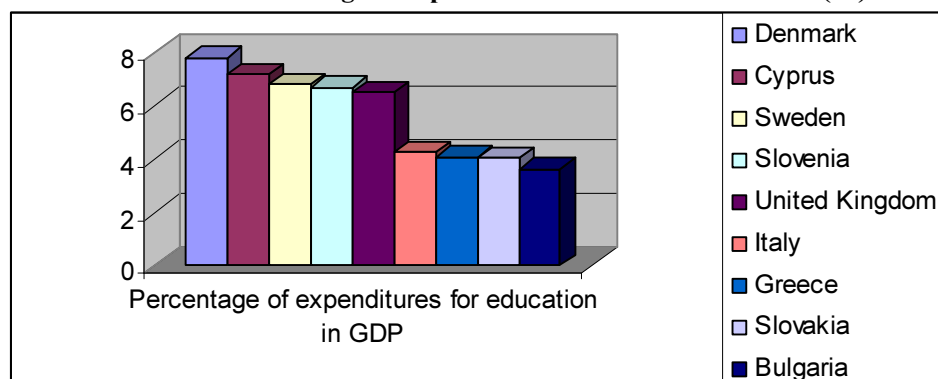
(1) COFOG: classification of the functions of government; data extracted on 22.10.2012.

(2) Provisional.

Source: Eurostat (online data code: gov\_a\_exp)

According to data from Eurostat EU average in terms of expenditures for education in GDP is 5.34%. We revealed the involvement of several European Union states in education funding in 2011:

**Table no 2: Percentage of expenditures for education in GDP (%)**



Source: Created by author based on data taken from the Eurostat

States leading to funds allocated to education are Denmark (7.8% of GDP), Cyprus (7.2%) and Sweden (6.67%). If Bulgaria ranks last in the rankings, the indicator is 3.6%.

A comparative analysis shows that Romania was the last country in the European Union position on the size of state funds allocated for education, one of the most important areas for developing countries, public expenditure on education to GDP in 2011- 2013 with the following values:

**Table no. 3: Evolution of education spending in Romania**

	2011	2012	2013
Total public expenditure (million lei)	205818.5	207922.1	216168.3
GPD (million lei)	556708.4	587446	628581
Expenditure on Education (million lei)	17606.1	17777.4	18920.8
Percentage of expenditure for education in total public expenditure	8.5	8.5	8.7
Percentage of expenditure on education in GDP	3.2	3	3

Source: Created by author based on data taken from the final budget implementation reports in 2012 and 2013, the Ministry of Public Finance, <http://www.mfinante.ro/execbug.html?pagina=buletin>

Note that in absolute education spending had continued growth in the range 2011-2013, amid increasing total public expenditure in the general government. Their growth rate was approximately equal to the growth rate of total expenditure which made that overall, their share in total remains constant.

The share of education expenditure in GDP remains at around 3% lower than the average value calculated for the European Union.

Other statistics on the educational policies of the European Union are provided by the OECD. Organization for Economic Cooperation and Development, an international organization of those developed nations that accept the principles of representative democracy and a free market economy Each year the report "An overview of education." The report provides data on education in 34 OECD countries, including 21 EU Member States. Six EU Member States are not part of the OECD (Bulgaria, Cyprus, Latvia, Lithuania, Malta and Romania) and therefore not included in the report. Report 2013 presents the following situation for EU countries:

- Expenditure on education per student tend to decrease in most EU countries, although it is still slightly above the average of OECD countries. In 2010, expenditure per student at all levels of the 21 OECD member states were 7 200 EUR compared to 6 900 EUR in all OECD. This is a concern; Moreover, the EU's own data on public expenditure on education as percentage of GDP shows that five EU member states (Bulgaria, Greece, Italy, Romania and Slovakia) combines low investment in absolute terms with a tendency the decrease in expenses from 2008/2009.

- On average, 15% of young people aged between 15 and 29 years were not intended employment, education or training, a situation somewhat better than the OECD average of 16% in 2011, however, the Greece, Ireland, Italy and Spain, over 20% of young people were in this situation. Recent figures show that the EU situation worsened in 2012 for the three countries of the South. Specific programs of education and training, including apprenticeships and training programs of high quality in the EU initiative "European Youth Guarantee" have an important role in avoiding the risk that young Europeans to become "a lost generation".

- On average, teachers in EU countries receive between 77% and 89% of full-time workers pay the same level of education; their wages fell by about 4% between 2009 and 2011 in real terms. If this trend continues, it could pose a threat to recruit a new generation of motivated teachers to replace the aging workforce will retire in the near future.

Usually, the results of investment in human capital does not appear immediately, but long term they are observed. Increasing these costs, including education, is necessary to ensure high qualification labor and hence economic competitiveness internationally.

## 5. Conclusions

High quality education and training are essential if Europe is to make a speedy recovery from the most severe economic and financial crisis for 50 years. Qualified people with the right skills can boost the European Union's economy by leading innovation and improving competitiveness. However, as a result of the financial and economic crisis, public finances in all



Member States are under great pressure. Governments are seeking ways to reduce budget deficits and manage public debt without dismantling the foundations of sustainable growth. While no direct link can be established between the level of funding of the education systems and student's learning outcomes, there is a general understanding that investing in high quality education and training should continue to be a priority.

We appreciate that some of the characteristics of education in the European Union can be considered real progress in the educational act. We highlight here a distinct trend towards the extension of compulsory schooling is evident in high quality fresh all education systems in Europe, in line with the objective of reducing the dropout percentage and increased autonomy for schools and higher education institutions. Schools have more freedom when daily educational activities, such as selection of teaching methods and textbooks, grouping students for learning activities and establishing internal evaluations. In schools, teachers enjoy greater autonomy in terms of teaching methods, establish criteria for internal evaluation and selection of textbooks, according to decisions about grouping students.

There are also a number of deficiencies, of which we highlight the fact that the teaching profession seems to be devoid of attractiveness and problems in financing education, are representative of something that should be a major concern for policy makers.

For education and training systems can fulfill a decisive role in achieving the strategic goal set at the Lisbon European Council, namely to make the European Union (EU) the most competitive and dynamic knowledge economy in the world, Member States are encouraged to invest sufficient resources to do so that they can be targeted and managed in the most efficient manner possible. In a highly competitive international context and dynamic investment policy in education and training must take into account the new requirements of the knowledge society.

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# DEVELOPMENT AND EFFICIENCY OF BUDGET OF PUBLIC INSTITUTIONS BY THE METHOD BASED ON PERFORMANCE

Irina-Ștefana, Cibotariu<sup>1</sup>

## Abstract:

*In Romania, public sector performance is a concept on which it has been written very little and rarely applied in practice. The situation is not the same in developed countries economically to where we focus our attention, regarded as models for our country.*

*Internationally, since the early 70s of the last century there were initiated processes of modernization and reorganization of public institutions in different countries. The society required a higher efficiency of the services provided by it, a better use of public services and also an effective bureaucratic model. It can be said that only in this context, government institutions can gain strength, consistency and can become more reliable.*

*Flexibility, decentralization, creativity, self-management and management contract, all used as measurement tools are the basic features of a managerial reforms that focus on results.*

*Determining the results in the public sector and implementing a system of financial and nonfinancial performance measurement requires a clear definition of the objectives and goals of each organization and component institution.*

**Keywords:** *Financial performance, Performance Budgets, Budget of public institutions.*

**JEL Classification:** G30, G31, H70

## 1. Introduction

### *Performance measurement – theoretical approaches*

Performance measurement is a systematic process that allows evaluating the efficiency and effectiveness of an organization or program. Performance measurement can provide real information (quantitative and qualitative characteristics) that helps managers and customers (in this case citizens) to determine if the expected results are according to expectations.

Therefore, performance measurement process is a sequential action taken inside or outside of the public institution to establish performance standards, to evaluate performance and to make some corrections where necessary. The process involves selecting, defining and applying a set of indicators that quantify the efficiency and effectiveness of the institution, program or service analyzed, based on inputs, outputs and outcomes.

Public administration can be seen as an institution that influences inputs, produces outputs and has a significant impact on the results of state policies (Bilouseac, I., 2013, p.23-32). Operation of public administration will therefore have a significant influence on the efficiency of public spending. Empirical researches indicate a positive impact of modern and efficient public administrations on productivity and economic growth. There is evidence according to which the EU Member States have reformed public administrations to achieve growth efficiencies. Based on information on reforms to increase efficiency of Member States, most national reform initiatives in the last five years address the following issues:

a) *Orientation towards performance:* there is evidence that in many EU countries there is a larger focus on medium-term budget planning. In addition, many countries have adopted an approach oriented towards obtaining the results set in the planning budget. Finally, a coherent analysis of all budgetary resources could prove a significant tool for improving the efficiency and effectiveness of the public sector;

b) *Organizational issues:* in many Member States, the roles and responsibilities of the various government departments have been revised to simplify the organization of

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public administration. The trend towards outsourcing of public sector recorded an impact on management practices in the public administration;

c) *Human resource management*: reorganizing the public administration was in many cases accompanied by reforms in the management of human resources, including recruitment flexibility, flexible job opportunities, performance-based pay systems and performance evaluation systems;

d) *Use of tools specific to information technology*: many countries use these technologies to reduce costs and increase the quality of services offered to people and businesses by creating opportunities for interaction with the public through the Internet, and by optimizing internal processes by extended use of information technologies. However, experience shows that determining optimal reforms should be based on good understanding of the dynamics of the national system of public administration.

The concept of improving the quality of public services and performances of public service providers are often judged by several courts. However, consumers, taxpayers, employees, etc. use different criteria for analysis regarding the standard of public services. Therefore, in the literature there is not a widely accepted set of criteria and generally valuable in evaluating the performances of public services providers. This does not exclude the existence of more tangible factors such as the *amount of output* (examples of this are multiple: the number of roads built, the number of operations performed in hospitals, etc. ; quality of output (speed and consistency of service, courtesy of employees), *efficiency* (the ratio between costs and final results), *equity* (balanced distribution of costs and benefits among different groups), *effectiveness* (cost per unit of outcome); *customer satisfaction* (which may be an aggregate measure for the above, depending on the questions asked to those who benefit from public services).

Boyne G., (2003, p. 767-783) identifies the following *key dimensions* of performance in providing public service:

The first dimension is that of **resources**. The idea according to which more resources will lead to better results is probably the simplest theory of increasing the quality of public services. A more general version suggests that the high level of public spending is a sufficient condition to increase the quality because it should lead to a greater quantity or quality of public services. A narrower version suggests that a growing number of funds are a necessary but not sufficient: resources must be managed effectively to achieve possible maximum of benefits. In these cases, the basic assumption is that the relationship between resources and increase service quality is positive.

The second is the one of **rules**. Public service providers are not free to choose their own processes and strategies but must act within the political constraints set by political authorities. The simplest form of regulation is the laws that impose obligations or prohibit certain activities. Beyond this, political organizations have a wide range of regulatory instruments including audits, inspections, financial controls, performance indicators, plans and annual reports.

The third dimension is the one specific to **market services**. This is translated by boosting efficiency and innovation. In other words, competition involves rivalry between providers. If competitive behavior rather than the owner of the organization is the key variable, the quality of services should increase if the rivalry is between public organizations or between public and private organizations.

## 2. Elaborating the budget of public institutions by the method based on performance (Performance Budgets)

The significance of the concept of budget emerged economically in the conditions in which the state began drawing up lists of income and expenses reflecting the activities of its institutions. In preparing the budget projects there exists initially a preliminary stage which consists of evaluating public finance resources and expenditure flows. This is done taking into account the income and expenditure for previous years, and the decline and growth of GDP and government debt. In developing such a project public accredited and specialized institutions participate.

Elaborating the budget by the method stated implies that any public organization tends to maximize its production of goods and services by low costs and with a given level of resources. This involves an efficient operation and allocation of available resources.

Such an approach requires a *set of essential criteria* such as:

- *Participation and transparency in decision process* (participation throughout the development process is a right and obliges the state and other stakeholders to create an enabling environment for the participation of all stakeholders);

- *Responsibility of actors* (public and private institutions with actors should be accountable to the public, especially to the poor, to promote, protect and fulfill human rights and to be held accountable if they are not applied);

- *Non-discrimination* (equity and equality over all rights are key ingredients for development and poverty reduction).

From the definitions presented in the literature on the Method of Performance Budget we stop in the analysis to the one exemplified by Hager Greg and Alice Hobson. According to the authors mentioned, this method represents - *a tool to improve efficiency in the public sector*. This budget type cannot be applied to all public institutions. Demarcation criterion refers to ways of quantifying the performances. For example, specific to this method are: theaters, libraries, public utilities companies, etc.

These issues mentioned above point out that the budget process can help improve the allocation of funds, for example, by using fiscal rules or information on the performances recorded. Moreover, modern management practices such as achieving performance budgets help simplify budgeting processes and increase their results. Such developments reflect the effectiveness of different types of policy measures (different outputs produce a single result). It is difficult highlighting the various outputs of the final result. Often there are delays between the implementation of the measures and their impact; also, there is interpenetration between the various public programs that affect certain results. These are often determined by external factors such as lifestyle and socioeconomic conditions. It is therefore very difficult to determine all the influences and causes. Even if policymakers are interested in the final results of the implemented policies such as increasing growth potential, these are only partly under their direct influence and often materialize in periods exceeding the election cycles. For example, to achieve higher rates of literacy (goal) the public sector takes steps to increase enrollment rates in schools and improves public library services (output). However, the rate of literacy will not increase immediately.

In this context, McGill identifies *seven principles* governing the implementation of such a budget:

1. Performance budgeting cannot succeed if the change of the budgeting method based on input and output is not supported and implemented;
2. The need for a strategic context to facilitate the allocation of resources;
3. The requirement to perform public annual reports of revenue and expenditure;
4. Resource allocation is made taking into account the current performance and future intentions;

5. Performance budgeting requires establishing priorities according to importance, making it impossible to avoid difficult choices;
6. The key unit of planning and analysis of performance budgeting is the program; However, performance budgeting should harmonize the structure of the program with the organizational structure;
7. Measurement of efficiency and effectiveness is made by budgeting performance.

### 3. Conclusions

In conclusion, the literature pays attention to public sector performance measurement. Rows written by consecrated authors in the field revolve around *two goals*: one made to reduce public budgets and increase the efficiency and the second, the effectiveness of government. In light of these objectives there have been introduced in the public sector market-specific mechanisms such as: privatization, competition between administrations, sharing public units in non-governmental and quasi-autonomous organizations, etc. Such changes have led to the adoption of the growing number of techniques to measure and improve performances.

Quantifying performance itself may not oblige people, but this important management tool of the public institutions can convince and ultimately determine them to performance, depending on the credibility held by everyone involved in the process. The principles that guide the process and rules should be presented, discussed, and agreed upon by all participants in the life of the city in which operates the public institution.

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# PRESENT AND FUTURE OF NATIONAL ACCOUNTING REGULATIONS COMPLIANT WITH EUROPEAN DIRECTIVES

Dorina, Luță<sup>1</sup>

## Abstract:

*Financial statements are the basic form to submit accounting information and they envisage the provision of information on an enterprise's financial status, performance and cash flow. The quality of financial reporting arises from accounting norms that impose a joint terminology ensuring accounting information's comparability, communication and understanding.*

*In the European Union, the standards adopted by the Council of European Communities aim at harmonizing accounting systems, preparing and submitting annual financial statements. To apply them, member states must first incorporate them into their own legislations resorting over time to various implementation solutions, which involves certain difficulties due to economic, social and political peculiarities.*

*In this respect, the European Parliament has adopted Directive 2013/34/EU regarding annual financial statements, consolidated financial statements and associated reports of various types of enterprises. The present paper envisages a comparative study of old directives (Fourth Directive and Seventh Directive) and the new Directive.*

**Keywords:** *financial statements, microenterprises, public interest entities, fair value.*

**JEL Classification:** M41

## 1. Introduction

Directive 2013/34/EU of the European Parliament and of the Council dated 26 June 2013 regarding annual financial statements, annual consolidated financial statements and related reports of certain types of enterprises was published in Official Journal of the European Union no.182/29 June 2013. The new Directive repeals the Fourth and the Seventh Directives. Reviewing the current accounting directives has been imposed since they have been used in Europe for over 25 years, during which the business environment and accounting practices have changed and evolved.

Standard setters in European Union (EU) member states are required to bring into force its provisions by 20 July 2015. In addition, member states:

- inform the European Commission on the law and administrative documents issued to comply with the published Directive;
- transmit “compliance tables” between the provisions of the published Directive and national acts in order to ensure compliance with the new provisions.

## 2. Novelties of Directive 2013/34/EU

European Union member states have resorted over time to different implementation solutions related to the Fourth and the Seventh Directives. Given the important role played by small and medium enterprises, this Directive is based on the principle “think small first” both in the preparation and in the development of regulations on financial reporting

The main objectives of the Directive aim at:

- *reducing administrative costs* especially for small and medium enterprises with potential benefits to the business environment, and creating jobs. The Directive aims at developing regulations to ensure at the same time that the administrative tasks caused by their application are commensurate with the benefits they bring.

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- *improving the comparability of annual financial statements* at EU level in order to encourage cross-border investment by increasing the relevance and understandability of financial reporting requirements, responding to the information needs of different user categories of annual financial statements.
- *increasing the transparency of payments to governments* made by the entities operating in the mining industry or the exploitation sector of primary forests.

The Directive is developed in nine chapters envisaging: scope, definitions and company categories, general provisions and principles, balance sheet, and profit and loss account, notes to financial statements, consolidated financial statements, disclosure requirements, audit issues, provisions regarding their exemptions and restrictions, reporting payments to governments.

### **2.1 Reducing Administrative Costs Related to Financial Reporting**

Directives are recommendations and relate in particular to annual financial statement models, assessment bases, accounting principles, financial reporting requirements.

Financial reporting involves:

- costs related to production, printing and publishing of financial information;
- costs related to auditing;
- potential costs generated by disclosing information to a competitor;
- costs of compliance with legal requirements.

Many of these costs are fixed or do not proportionally vary with a size, being more significant to microenterprises, and small and medium enterprises.

Businesses or groups are classified into small, medium and large, depending on size criteria referring to total assets, the net turnover and to the average number of employees during a financial year. Size criteria have been accepted by member states with slightly different values. Thus, an enterprise regarded as large in Romania and which submits audited financial statements can be classified as a medium-sized enterprise in another member state, without any obligation to submit audited financial statements. For this purpose, standardizing the existing criteria applicable to European entities is intended to determine financial reporting obligations.

Below there are the differences between the existing criteria laid down in national regulations and those provided in the new Directive.

*National regulations by OMFP 3055/2009* classify enterprises into:

- Entities which in the end of a financial year do not exceed two of the three size criteria:
  - Total assets 3,650,000 Euro;
  - Net turnover 7,300,000 Euro;
  - Average number of employees during a financial year 50.

These enterprises submit only short versions of balance sheet, profit and loss account and notes to simplified financial statements.

- Entities which in the end of a financial year exceed two of the three size criteria:
  - Total assets 3,650,000 Euro;
  - Net turnover 7,300,000 Euro;
  - Average number of employees during a financial year 50.

The entities that exceed two of the three size criteria submit a full set of annual financial statements:

*National Regulations by OMPF 2239/2011* state that the people who in the previous financial year had a net turnover in RON less than its equivalent in 35,000 Euro and total assets in RON less than their equivalent in 35,000 Euro can choose the simplified accounting system.

Regulations on the classification of enterprises laid down in Directive 2013/34/EU are shown in the following table (Table no.1).

**Table no. 1. Quantitative Criteria to Classify Enterprises According to the New European Directive**

	<b>Microenterprises</b>	<b>Small enterprises</b>	<b>Medium enterprises</b>	<b>Large enterprises</b>
<b>New European Directive:</b>	Microenterprises are companies that, on the balance sheet date, do not exceed at least two of the following three criteria: - total balance sheet: 350,000 Euro; - net turnover: 700,000 Euro; - average number of employees during a financial year: 10	Small enterprises are companies that, on the balance sheet date, do not exceed at least two of the following three criteria: - total balance sheet: 4,000,000 Euro; - net turnover: 8,000,000 Euro; - average number of employees during a financial year: 50.	Medium enterprises are companies that are not micro- or small enterprises and that, on the balance sheet date, do not exceed at least two of the following three criteria: - total balance sheet: 20,000,000 Euro; - net turnover: 40,000,000 Euro; - average number of employees during a financial year: 250.	Large enterprises are companies that, on the balance sheet date, exceed at least two of the following three criteria: - total balance sheet: 20,000,000 euro; - net turnover: 40,000,000 Euro; - average number of employees during a financial year: 250.

- Optionally, there is the category of *microenterprises* as such companies have limited resources and one can avoid burdensome requirements for them.

- There is also the category of *public interest entities*. This category includes listed entities, credit institutions, insurance companies and “entities designated by member states as public interest entities, e.g. companies having significant relevance to the public by the nature of their operations, their size or number of employees”. For the purposes of the Directive, these entities are regarded as large enterprises, regardless of the size criteria for enterprise classification.

The above shows the possibility of significantly reducing the number of entities in Romania that will be required to submit a full range of statutory audited financial statements. A decision to be made aims at either maintaining single accounting regulations under the new Directive containing simplification elements for microenterprises and SME’s or creating differentiated regulations for microenterprises, small and medium enterprises and for large enterprises and groups. Professional accountants think as most appropriate to have a solution to develop a separate regulation for SME’s and microenterprises.

## **2.2 Improving the Comparability of Annual Financial Statements**

Annual financial statements are intended to provide information to various external users so another objective is to increase the comparability of financial statements of entities performing international operations and having a larger number of external users, to protect investor interests by retaining the essential information for them.

The new Directive does not specify what full range of financial statements should be included, stating they constitute a whole and to all enterprises, it comprises at least a balance sheet, a profit and loss account, and notes to financial statements. Member states may provide that enterprises, except the small ones, must incorporate other statements, too in their annual financial statements. Additionally, there is an exemption that member states can provide to SME’s after the publication of the directors’ reports provided the notes should include information on the purchase of own shares.



In this respect, there are the *formats of annual financial statements, the general principles of financial reporting, assessment rules*.

- Regarding the *format of annual financial statements*, two formats of balance sheets and profit and loss accounts are provided. Member states may require one or both structures in either situation.

The new Directive has two balance sheet formats. The former format is horizontal and is based on the equation  $ASSETS = OWNERSHIP\ EQUITY + DEBTS$ . The latter format is vertical and is based on the equation  $ASSETS - DEBTS = OWNERSHIP\ EQUITY$ . There are no significant differences between the balance sheet patterns referred to in the old directives and that in the new Directive. Microenterprises are exempted from the submission of items “Accrued expenses and accrued income” and “Deferred income and debt incurred”.

The old Fourth Directive provided two models of profit and loss account (the model of operating expense allocation by nature, and the model of allocation by function) in two (horizontal and vertical) formats. The new Directive keeps only the format list for both the expense allocation model by nature, and the expense allocation model by function. A significant difference is that the new Directive does not provide any separate submission of extraordinary items. This solution is consistent with the one adopted by the IASB in revised IAS 1.

Depending on size criteria, entities have different reporting obligations (Table No. 2).

**Table no. 2. Reporting Obligations of Enterprises and Enterprise Groups under the New European Directive**

	<b>Small enterprises</b>	<b>Medium enterprises</b>	<b>Large enterprises</b>
<b>New European Directive:</b>	member states may allow the submission of: - short-version balance sheet; - short-version profit and loss account; - notes to financial statements; - directors’ report.	member states may allow the submission of: - short-version balance sheet; - short-version profit and loss account; - notes to financial statements; - directors’ report.	- balance sheet; - profit and loss account;; - statement of cash flows; - statement of changes in ownership equity; - explanatory notes; - directors’ report - audit report.
	<b>Small groups</b>	<b>Medium groups</b>	<b>Large groups</b>
	- small groups are exempt from the obligation of preparing consolidated financial statements and directors’ consolidated reports, unless one of the affiliated companies is a public interest entity.	- member states may exempt medium groups from the obligation of preparing consolidated financial statements and directors’ consolidated reports, unless one of the affiliated companies is a public interest entity.	- full set of consolidated financial statements; - directors’ report; - audit report.

Member states may provide simplifications such as:

- small enterprises can prepare short-version balance sheets only submitting certain information;
- small and medium enterprises can prepare short-version profit and loss accounts, combining certain elements into one;

- Regarding the **information submission requirements in the explanatory notes to financial statements**, they meet the principle: “think small first”, as firstly there are requirements common to all enterprises regardless of their sizes, and distinctly, gradually, additional requirements applied to different categories of enterprises (medium, large, public interest entities).

The information required to all categories of enterprises refers to:

- accounting policies adopted;
- information on reassessment;
- information on fair value assessment;
- information on financial commitments;
- amount of advance payments and credits granted to administration, management and supervision members;
- amount and nature of income and expense items that have exceptional size or incidence;
- amounts due by an enterprise, amounts that become enforceable after more than five years;
- average number of employees during a financial year.

• Regarding *general financial reporting principles*, the national regulations by OMFP 3055/2009, as it is now, prescribes the ten principles retained in the new Directive. No changes are expected in terms of the accounting principles applicable to financial reporting.

To ensure that the general principles of financial reporting are applied in a manner consistent with the specifications of the Directive, certain accounting policies set out by the Order should be reconsidered, namely:

➤ Member states may exempt enterprises from applying the principle of substance over form. It is believed, however, that using this option would affect the quality of reported information and it would be inconsistent with a true and fair view.

➤ *Great importance is given to the principle of prudence*. The Directive provides that member states may allow the recognition of expected debts and potential losses.

➤ *The principle of intangibility* requests that an opening balance sheet should correspond with a closing balance sheet. Nevertheless, member states may require the adjustment of figures for the previous financial year if the amounts shown in financial statements are not comparable. If values are not comparable or if they are adjusted, this must be stated in the notes to financial statements, accompanied by explanations.

• Regarding *assessment*, the new Directive states that the items recognized in annual financial statements should be assessed based on the historical cost principle to ensure that the information contained in financial statements is valid. However, member states should be authorized to allow or to impose on enterprises the re-assessment of fixed assets in order to provide more relevant information to financial statement users. For the financial information across the Union to be comparable, it is necessary for member states to allow the introduction of a fair value accounting system in the assessment of categories other than financial instruments. Fair value is determined by reference to market price. If market prices are not reliably determinable, fair value is calculated as the updated sum of future cash flows (Grigorescu, 2008, p. 182). Fair value assessment should be allowed to all enterprises or enterprise groups other than microenterprises using the exemptions provided for in this Directive, both for annual financial statements and for consolidated financial statements.

### **2.3 Increasing Transparency of Payments to Governments**

To ensure greater transparency of payments made to governments, large enterprises and public interest entities operating in the extractive industry or in the exploitation sector of primary forests should submit significant payments made to governments in the countries where they operate, in a separate annual report.

The report includes:

- total amount of payments made to each government;
- total amount per type of payment made to each government;
- whether payments have been assigned to a specific project.

For the purpose of the Directive, a “project” means operational activities which are regulated by a single contract, license, location, concession or other similar legal agreements which form the basis of a payment obligation to a government. It is not necessary for a payment, whether it is a single payment or a series of related payments, to be considered in relation to whether it is less than 100,000 Euro during a financial year.

### 3. Conclusions

In this article, the authors have tried to show significant elements of this new Directive compared to national accounting regulations:

The new Directive does not entail fundamental changes in financial reporting models. The main contribution of the Directive is to uniform size criteria according to which entities and groups are classified as small, medium and large, simplification requirements for certain categories of entities (microenterprises and SME's) and additional information requirements imposed on others (entities and large groups).

Accounting standard setters in the EU member states *have an important role as to what extent they will integrate* in local regulations or standards the accounting policies inspired by international financial reporting standards (IFRS), as this new Directive in its current form is not closer to the IFRS referential.

It is appreciated that OMFP 3055/2009 in its current form is a consistent product that can be rendered relatively easily compliant with the requirements of the new Directive. What must be decided is whether to issue variable regulations according to the categories of entities concerned or whether the legislation will be unique and will include simplifications to microenterprises, SME's and small groups. In the authors' opinion, the best solution would be the development of three different regulations: accounting regulations applicable to microenterprises; accounting regulations to SME's and small groups; accounting regulations applicable to large enterprises and medium and large groups.

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# ISSUES ABOUT THE EVALUATION OF THE FINANCIAL INSTRUMENTS AND TAX IMPLICATIONS

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## Abstract:

*Accounting assessment is a process with tax implications on accounting figures. In fact, when it comes to evaluation, we need to clarify exactly what is being referred to: it is about the individual assessment of an asset or liability, or about the global assessment of a business. So, in a narrower approach, in accounting we are particularly interested in the individual assessment of assets and liabilities.*

*In the evaluation, the concept of value is the primary element, accounting, especially along with the application of the principle of economic prevalence over the juridic, managed to convey the best measure those interested, information about how to create, to measure and how to communicate to business partners the value.*

*The tax implication that arises after the evaluation of the individual elements of the asset, influence the result of the exercise by including the expenditure in the total expenses generated by the evaluation.*

*The main asset elements, which following the evaluation generate tax implications are the tangible fixed asset, financial and stocks. Based on this consideration, one of the main objectives of this paper is to highlight the tax implications arising from the evaluation of financial instruments that generate tax liabilities.*

**Keywords:** *financial instruments, evaluation of financial instruments, the tax implications, fair value, IAS 39/IFRS 9*

**JEL Classification:** G23 Financial Instruments

## 1. Introduction

The objective of this paper aims to achieve an overview of the main changes contained in IFRS (International Financial Reporting Standards) related to financial instruments, capturing their consequences for entities that apply IFRS or are preparing to apply IFRS.

The evaluation of financial instruments is performed in order to gain their recognition in the financial statements.

Thus, an important aspect presented also in the content of the paper refers to the debt evaluation and financial assets. In the scientific approach of the paper, points of analysis focused on the one hand the concept of fair value, present the advantages in terms of fair value measurement of the financial instruments compared to historical cost, evaluation of financial instruments in the four moments of evaluation, depreciation presentation of financial instruments, as well as an overview of IFRS 9 – Financial Instruments, on the other hand surprise some tax issues relating to evaluation of financial instruments.

For financial instruments, since the taxation of the financial instruments evaluation refers to how they are recognized accountant, is important to note that from an accounting perspective, they can be recognized as financial assets or short-term investment. From a fiscal perspective, the evaluation of financial instruments as assets have a general rule that income and expenses resulting from the evaluation are included in the tax base, but only consider gains and losses were made. From a fiscal perspective, the evaluation of financial instruments held as assets, have a general rule according to which the revenues and expenditures that results from evaluation are not included in the taxable base, but take into account only gains and losses which were made.

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If the financial instruments are not held as fixed assets, if the evaluation has recorded income, these will be registered as taxable incomes. If following the evaluation is recorded expenses from the losses of value, these are registered as expenses non deductible, even if they are held as assets or not.

## 2. The Concept of Fair Value

A controversial issue in establishing the fair value occurs in the situation of debts and financial assets, since there are discussions on the historical cost advocates and supporters of fair value.

The historical cost is a defining concept of traditional accounting, representing the value of the asset at the time when it is obtained or liability when it is contracted. Depending on how to obtain the evaluated elements, the historical cost may be represented by acquisition cost, production cost or nominal value.

Currently the historical cost guides the accounting entity to the past because it reflects the values of the balance sheet items, at the time when they were purchased, being maintained over time. This does not provide a true and fair view of the heritage (assets), even if it has entered the correction of historical cost with the amortization, this procedure is being used only when the value decrease because in case of growth, this proceeding is not applicable.

Thus currently, the objective of accounting is not to show an past picture of heritage but a present reality. That is why the historical cost began to be exceeded, because the more intense use of financial instruments did not made possible their registration in the financial statements. Thus arises the concept of fair value.

„Fair value appeared in order to try to supply the shortfalls of historical cost by correcting the acquisition costs of assets with their market value which is achieved through constant re-balance sheet items”. The correction takes into account the profit and the potential loss, and not just the effective, as in the case of the historical cost, leading to a result that puts into consideration the current economic situation.

In Table no. 1. are a number of advantages of the fair value, compared with the historical cost of the evaluation of financial instruments.

In our country we chose to combine these two systems of evaluation, except that fair value is used only for the evaluation assets, received with free title.

Accounting regulations according to European Directives only allow the use of fair value for financial instruments and derivatives found in the consolidated financial statements.

**Table no. 1. Advantages of the fair value compared with the historical cost**

<b>Fair value</b>	<b>Historical cost</b>
Enhance the usefulness by providing information on the assets benefits and the disadvantages of assuming liabilities in the current market conditions.	Providing information on the assets benefits and the disadvantages of assuming liabilities in the current market conditions, only at the time of their acquisition, having a lower utility
Shows the effects of management decisions to preserve assets and liabilities or to purchase / contract others, on company performance.	Shows the effects of management decisions to preserve assets and liabilities or to purchase / contract others, but ignores those that are kept or not settled.
The total accounting values, in derivative financial instruments.	Does not appear in the balance sheet in terms of using the historical cost.
The estimation of future cash flows (predictability).	The estimates does not provide reliable information.

### 3. The Evaluation Moments of Financial Instruments

*The initial evaluation* techniques and the subsequent financial instruments were provided in the IAS 39 standard - Financial Instruments: Recognition and Measurement. According to this standard, assets and financial liabilities as well as derivatives are initially measured after a single rule that is the fair value. Following the requirements expressed by the G20 Group to review the way in which the financial instrument are accounted, the IASB published IFRS 9 "Financial Instruments" in several stages. IFRS 9 Financial Instruments was published in November 2009, replacing the international standard IAS 39, including requirements for measuring financial assets.

Based on the controversies surrounding the fair value measurement of financial liabilities and the recognition of a gain when the entity's credit risk deteriorates, IFRS 9 initially has treated only the aspects of financial assets accounting. Since October 2010, were added to IFRS 9 requirements for valuing liabilities financial, most of the requirements for financial liabilities have been taken over unchanged from IAS 39. Thus, the issues of derecognition of financial assets and liabilities were taken from IAS 39, IFRS 9 maintaining the IAS 39 fair value option in case of financial liabilities, the only modification is related to the portion of the fair value of financial liabilities of the entity associated to credit risk (changes in value) which would not affect the profit and loss, as in IAS 39, but other elements of comprehensive income in the balance sheet (with some exceptions).

Financial institutions are the most affected by the application of this standard, which is why they must aim the changes adopted to ensure the continuity of IFRS. In December 2011 the Council amended the IFRS 9 to its application for annual periods beginning on or after January 1, 2015. From this date would not require the restatement of financial statements of the comparative period from initial application. IFRS 9 now contains guidance for: recognition and derecognition of financial instruments, the classification and evaluation of financial asset and the classification and evaluation of financial liabilities.

On initial recognition, an entity shall measure a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability which is not to fair value through profit or loss, transaction costs that are directly attributable to the acquisition or to the emission of the financial asset or financial liability. We can take thus, the example of an entity that has a portfolio of loans with early payment, and the fair value of the loans at the date of transaction is 20 200 um and the fair value of additional margin of 0.5% is 40 um.

The entity will calculate the gain or loss to the sale of 80% of cash flows. Assuming that, on the transfer date are not available the fair values of 80% transferred part and the 20% retained part, the entity allocates the carrying amount of the asset as follows in Table no. 2:

**Table no. 2. The allocation of the carrying amount of the asset**

Parts	Fair value	Percentage	Carrying amount allocated
Transferred part	16.160	80%	16.080
Retained part	4.040	20%	4.020
Total	20.200		20.100

The fair value is the input value that is entered in the accounts the financial instruments, being composed of elements shown in Table no. 3.

**Table no. 3. The components of fair value**

No. crt.	Components	Elements which do not become part of fair value
1.	Transaction price	The financing costs, internal management and retention
2.	Transaction costs	Premiums and discounts

Generally, it is considered that, at the time in the accounting, the best evidence of fair value of a financial instrument is determined by the transaction price (paid or received). Transaction price can be determined knowing the market and prices, the prices which is practiced on that market of similar instruments. If this market does not exist, is taking into account the similar markets with the recent transactions of the same instruments. But if there is a situation in which we can not determine a market price, it does not exist, it's arising to update the future cash flows.

For example a company acquires 150,000 stocks with a fair value of £ 7,500,000. The Company pays a commission of £ 150,000 to brokerage companies, classifying the actions in assets for trading, registering the commission per expense.

%				7.650.000
Financial asset	=	Balances with banks	7.500.000	
Current expenditure (transaction costs)			150.000	

If the company considers the actions available for sale, in addition to their initial fair value, the costs will be included and trading. For example, we'll consider the case where the price of the transaction (still outstanding) is £ 7,500,000 and the commission of payment is £ 150,000.

Financial assets available for sale (including transaction costs)	=	% Debt Balances with banks	7.650.000	7.500.000 150.000
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The operations which are performed after the initial evaluation are considering the transaction costs, which are included in the value of the instrument, at amortized cost, is attenuating along it's life period, periodic cost being registered in profit and loss account by the effective interest method. For instruments which have no fixed maturity and doesn't offer payments, the generated cost are registered at the time of their sale, affecting the result of that period.

The Romanian companies which do not apply the IAS and the IFRS, realize the initial measurement of financial instruments according to some requirements similar to those of IAS 39. *Financial Instruments: Recognition and Measurement*, as follows in the Figure No. 1.

**The future evaluation:** At the initial evaluation of the financial instruments the things were very simple, whereas all were recognized at fair value, instead for further evaluation are some difficulties in applying the evaluation rules, as they are constantly changes depending on the instrument, as can be seen in Figure no. 2.

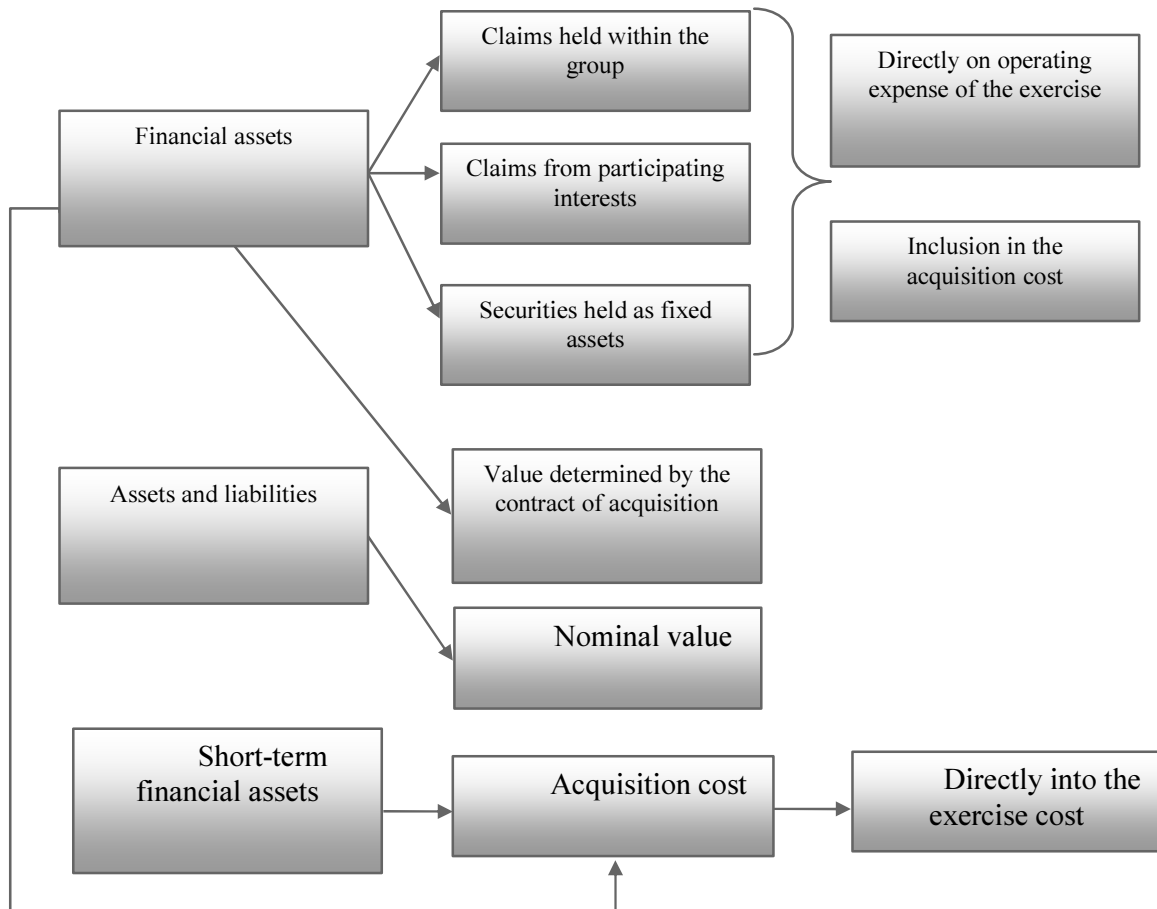


Figure No. 1. The evaluation of financial instruments of companies that do not apply IAS and the IFRS

#### 4. Depreciation of Financial Assets

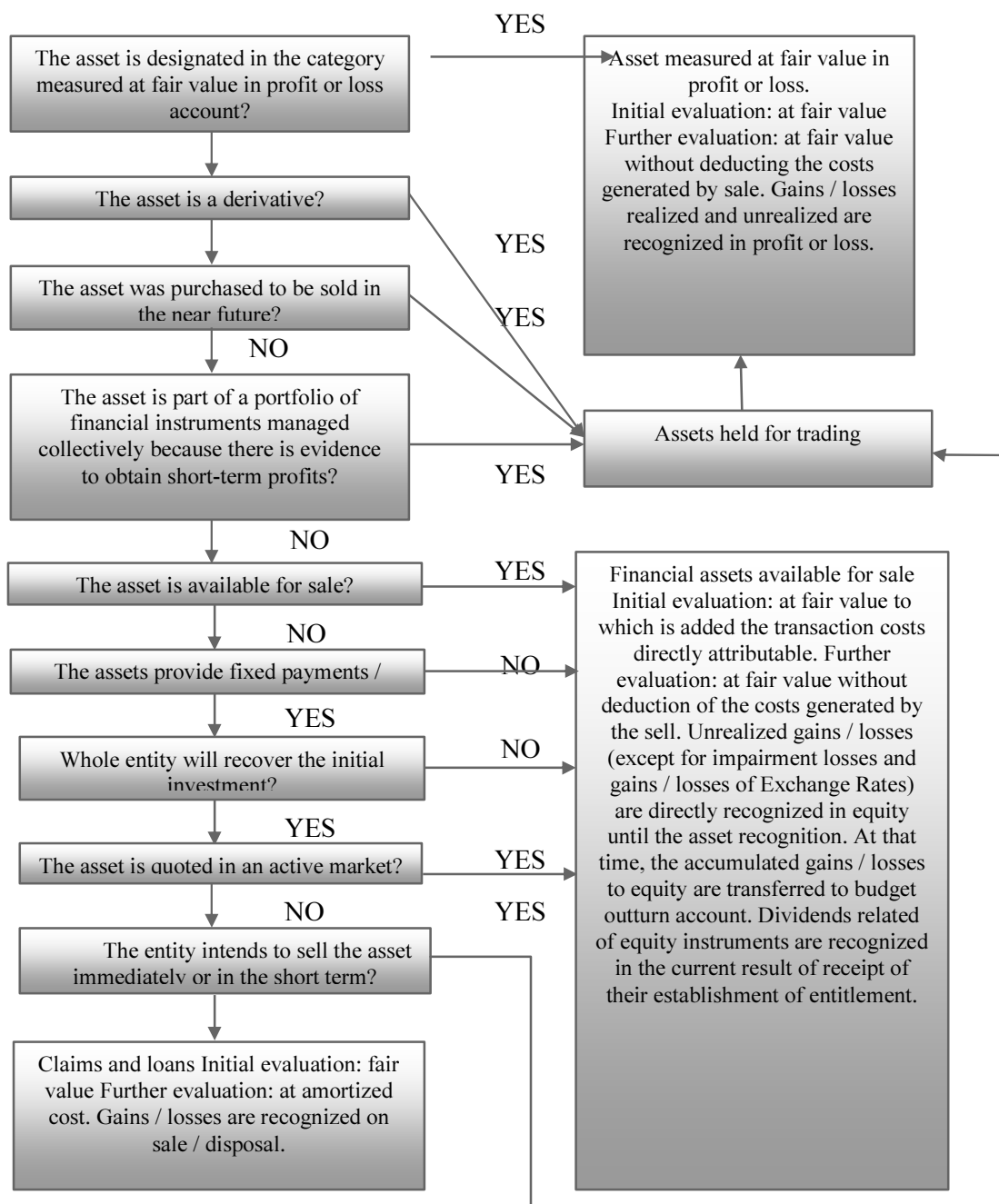
All the financial instruments evaluated at fair value having the registrations of changes in the profit and loss account do not depreciate, instead the other financial assets require depreciation testing. The losses of value which is registered after the impairment test, can be calculated as the difference between the discounted present value and the book value. The existence of financial assets depreciation can be felt through the presence of the following factors related in Figure no. 3.

Depending on the way of further evaluation, different accounting treatments of depreciation are apply to financial assets, such as: *amortized cost*, *fair value* and *historical cost*.

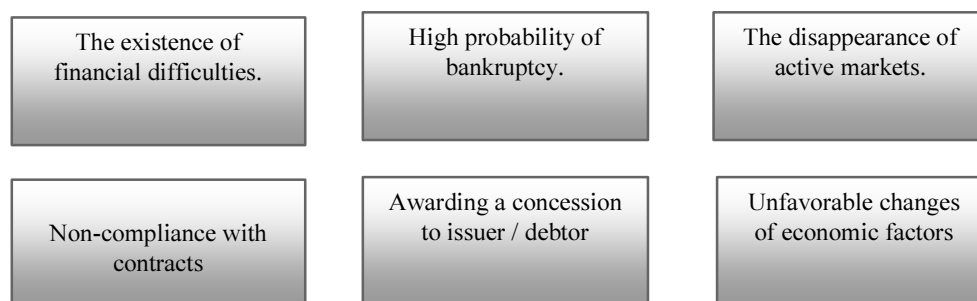
*Depreciation of assets evaluated at amortized cost.* Depreciation in the case of evaluation at amortized cost is determined by the difference between the book value (carrying amount), being the largest and the present value of future cash flows, which are updated according to the original effective interest rate. The registration of losses is realized in the profit and loss account on a current period, based on an adjustment account for depreciation.

*Depreciation of assets evalued at fair value.* For financial assets evaluated at fair value, their depreciation involves the transfer of losses in the profit and loss account from equity. The loss which will transfer into the result of period, will have a value equal to the difference between the acquisition cost and the fair value, excluding the depreciation previously recognized.





**Figure No. 2. Subsequent evaluation rules for financial assets**



**Figure No. 3 The evidence of depreciation (loss in value)**

*Depreciation of assets valued at cost.* The financial assets evaluated at cost are unquoted equity instruments for which the fair value can not be reliably determined, as well as the derivatives related to settlement or through the delivery of such unquoted instruments.

If the impairment losses are registered, these are determined as the difference between the carrying amount and the present value of estimated cash flows, the loss can not be resumed.

## **5. Fiscal Issues in the Evaluation of Financial Instruments**

Entities that have in their portfolio various financial instruments such as equity, stock and shares and other investment funds should have the costs that are generated by their management as well as fiscal related costs. Since the taxation of financial instruments evaluation refers to how they are recognized accountant, is important to note that in accounting terms it can be recognized as financial assets or short-term investment.

Compared with the participation titles, if the problem that appears is rather of interpretation of the legal text, in the case of stock and shares issued for long term, there is an obvious discrepancy situation between the applicable fiscal arrangements income and expenses from revaluation. This discrepancy is based on different criteria taken into account in determining the income tax system and respectively, the costs of unrealized evaluation differences. Thus, in terms of revenue, it is regarded the accounting recognition criteria of the instrument (as immobilization or not), in terms of expenditure it is regarded the maturity criterion of the instrument (if issued for long term or short term).

More precisely, the income from revaluation of stock and shares are considered taxable income, if the financial instruments are held as assets. On the other side, the expenses from revaluation of the same financial instruments are deductible if the stock and shares are issued for long term. Given the above, in the event that a company will have in heritage long term stock and shares issued, but will not be registered as assets because they are purchased with the intent to be alienated in a very short time horizon, the income from the evaluation of such instruments will be taxable, while expenses will be deductible.

In this case, the current wording of the legislation makes it almost impossible to apply a consistent fiscal treatment regarding the income and the expenses arising from the evaluation of long-term stock and shares issued that are not recognized as assets from accounting point of view. This situation is most often seen in major financial institutions which have significant portfolios of government securities, long-term, but not held as assets but also for trading of government securities issued for long-term, but not held as assets, but also for trading.

Also, a similar situation to those listed above for stock and stock and shares may appear with other types of financial instruments held in the portfolio. In this regard, I want to mention that while the provisions relating to the classification of an income as tax fee are general and aim any financial instrument, the provisions relating to the recognition of costs as non-deductible, refers only to certain categories of financial instruments, namely participation titles and stock and shares issued for long-term.

To facilitate law enforcement, it would be appropriate and equitable to ensure the consistency tax treatment in terms of income and expenses, resulting from periodic evaluation of the financial instruments. In this sense it can be considered a uniform framing criterion, for both income as well as expenses.

The recognition criterion of accounting as assets, currently used to determine if the evaluation income are taxable or not could be applied by the authorities in regard to the deductibility of costs evaluation regime.

In addition, such an approach would also have an economic justification since it allows, for the financial assets of which the price can fluctuate significantly over time, the tax may not reflect income or expenses that do not correspond to actual gains or losses.

## 6. Conclusions

In conclusion, the aspects of applying IFRS 9, indicates a significant impact on the classification and on the evaluation of financial assets, and of a reporting change for those entities, which have designated financial liabilities using the option of fair value evaluation. Thus, the classification of financial assets evaluated at fair value assets and assets evaluated at amortized cost, according to IFRS 9, will take place at initial recognition and depends on how the entity will manage the financial instruments and the flows of cash characteristic of those financial instruments.

We have to remember that in July 2014, IASB published the final version of IFRS 9 giving a brief overview of this standard, providing also the most recent additions and changes. The structure of IFRS 9 includes the fellow parts: a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics; a new expected loss impairment model, that will result in more timely recognition of loan losses; an improved hedge accounting new model that aligns the accounting treatment with risk management activities, the objective of hedge accounting being to represent in the financial statements the effect of an entity's risk management activities.

The Standard will come into effect on 1 January 2018, but entities can however choose to apply IFRS 9 before then. These entities would need to apply the version published in July 2014, taken in consideration all three parts of the summary project: the classification and measurement, impairment, and hedge accounting.

The entities that prepare financial statements in accordance with IFRS will be required to examine whether the accounting policies used will be changed as a result of amendments to fullfills IFRS 9 (a section of the financial statements is allocated the amendments to IFRS and their impact on the financial statements). The entities which prepare the transition to IFRS will have to take into account these amendments in selecting the accounting policies and configuration information systems to perform the necessary restatements and ensure the preparation of financial statements in accordance with IFRS.

## **“ACKNOWLEDGMENT**

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# RISK MANAGEMENT – AT THE CONVERGENCE BETWEEN PRUDENCE AND CONTINUITY, A BASIS FOR AN EFFICIENT GOVERNANCE

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Grazia-Oana, Petroianu<sup>2</sup>

## Abstract:

*The accountancy principles are sine qua non for a faithful image, nevertheless when it is about evaluation, accountancy is considered a source of uncertainty.*

*The principle of being prudent is the pillar of accountancy having a view to protect the invested capital, although under the conditions of organizations development and of the desire to better results, which inevitably implies risk, this would infringe initiatives and change. Even more, prudence offers a continuity in organization activity, becoming accountancy fundamentals in the principles of corporation governance, the organization management respectively, by accepting the benefits of risk management, of financial management and internal control under the monitor of internal audit.*

*The activity continuity is not only an accountancy principle but also an absolutely necessary element to guarantee the financial information. The principle of continuity also confers the accountancy science a provisional role because it extends its action from a simple elaboration of financial statements to the assurance of financial information to prevent difficulties, the finding and removal of risk and offering the necessary factors for an efficient provisional management.*

*A good governance within a company reduces risks, increases performance, opens the way to financial markets, improves the marketing capacity for goods and services, the management style, shows transparency and social responsibility.*

**Keywords:** *the prudence principle, activity continuity, risk management, corporation governance*

**JEL Classification:** M41, M42

## 1. Introduction

Both the estimation and assessment of the financial health of an entity within the boundaries of a financial - accounting diagnosis require a risk assessment which accompanies the entity, some of which indicate the fragility and vulnerability of the enterprise, and others looming the bankruptcy or insolvency that threatens its survival.

The risks which affect the company are one of the key factors affecting the performance of the company. The assessment of the business risk is of utmost importance in managing business entities. The business risks may be controlled through the implementation of a business strategy, an operational and financial plan oriented towards the achievement of the business objectives.

The presence of a risk within the environmental components surrounding the enterprise/company requires that all the internal decisions shall be based by taking into account that particular risk.

## 2. The Risk Dimension at the Economic Entities Level

In the competitive economy, both the existence and viability of any business are closely related to risk as far as the present and future results lie under the influence of unforeseen events. The problem of risk, certainty and uncertainty has concerned of specialists in all the fields. As a rule, they assess both the risk and uncertainty as opposed to certainty. Thus, the concept of “risk” is closely linked to the concept of “uncertainty”, which expresses a state of uncertainty about the future.

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The relationship between uncertainty and risk should be reflected in the decision-making process by managing and controlling the factors that may generate different risk categories, with direct or indirect impact on the way of achieving the objectives of the entity.

The economic activity always involves a degree of risk.

“The risk – inherent to any activity – may be equated to the outcome variability under the environmental pressure.” [15]

The profitableness of any activity is assessed only in relation to the risk that it involves. The economic agents also assume the risk in performing an activity only in terms of the lucrateness which they expect to obtain from that activity. The concept of “risk” is linked to the concepts of “profitableness/lucrateness/return”.

An entity’s activity outcomes depend on random factors that occur at all times of the provisioning process - production - sales.

In the economic theory, the concept of “risk” is often related to that of work flexicurity”. “Flexicurity is defined by the company’s ability to adapt and effectively respond to the environmental changes”.[15]

The risk becomes an obstacle in the development and expansion of any activity, whereas it makes the decision-making process difficult. Any efficient activity may run effectively on condition that those who achieve it are protected by the negative effects of the risk.

“The variability of the outcome is as controlled by the economic agent as it exhibits a greater flexicurity. The risk represents the inability of the company to adapt in time and at the lowest cost, to the variations of the environmental, economic and social conditions.” [4]

Some authors consider that, for any economic activity, the risk is an exogenous variable, opposed to profitability and also that “the risk translates into the profit variability towards the return average of the last years” [13] or “into the outcome variability, affecting the economic return, and, consequently, the invested capital.”[12]

As some may foresee, the risk expresses the profit’s estimated variability compared to the hope of return. The risk measure is given by the variance and the profit’s square standard deviation in terms of the volume of.[22]

The risk arises from the inability of an entity to adjust in time and at the lowest cost to the changes in the economic and social environmental conditions and may be viewed from two points of view:[18]

- that of the enterprise as socio-economic organisation which aims to increase the owners’ property in view of proper remunerating of inputs;
- that of external capital contributions, interested in achieving the best investment in terms of particular financial markets with different advantages and risks.

The enterprise’s risk analysis consists in both identifying the present risks and assessing their economic and financial, direct and indirect outcomes. Following the enterprise’s risk estimation, the managerial corpus will have to find effective solutions to reduce it and, if possible, to reduce or eliminate it.”[5]

Some authors consider that the main risk forms an enterprise may face can be grouped into the following categories [2]:

**1. Economic risks** - arising from developments in the enterprise’s contextual background and the quality level of the economic activities displayed within it. The most common risks that fall under this category are: the rising inflation risk, the risk of increasing the interest’s rate on loans; the risk of modifying the exchange rate, the investment risk.

**2. Financial risks** - the risks occurred due to the obtaining and using own and borrowed capital: the risk of lacking liquidities; excessive leverage risk, the risk of failure to return as a result of bankruptcy and large expenses.

**3. Commercial risks** - associated to supplying and selling operations on domestic and foreign market: the price risk, the transport risk, the sale risk.

**4. Manufacturing risks** - arising from technological and organizational failures within the context of production activity: the risk of not-obeying the prescribed quality level; the risk of failure to achieve in quantitative terms, the production envisaged, the risk of exceeding the specific consumption norms; the risk of occurring of scraps and implicitly of denying to comply with orders because of quality inobservance, the risk posed by the possibility of labour accidents.

**5. Political risks** - arising from changes in strategy, tactics and current actions of policy makers in their own country or in countries which the enterprise has direct and indirect contact with: the risk of restriction of imports and / or exports, the currency transfer restriction risk; the risk of denying the enterprise's products on the territory of particular states.

**6. Social risks** - arising from the relations built with the enterprise's staff and its behavior: The risk of staff de-motivation; the risk of increasing the expenses with the personnel above the maximum required limit; the risk of losing managerial positions by managers; the risk of shaping an counter-economic organizational culture.

**7. Legal Risks** - arising from the incidence of the domestic law and, more rarely, of the international law on the activities of the enterprise: the risk of losing or destroying goods and products, the risk of not collecting the due amounts for the economic transactions which have been carried out, risk of property loss, the risk of paying duties and additional or increased taxes, the economic or criminal penalty risk, the risk of business-blocking.

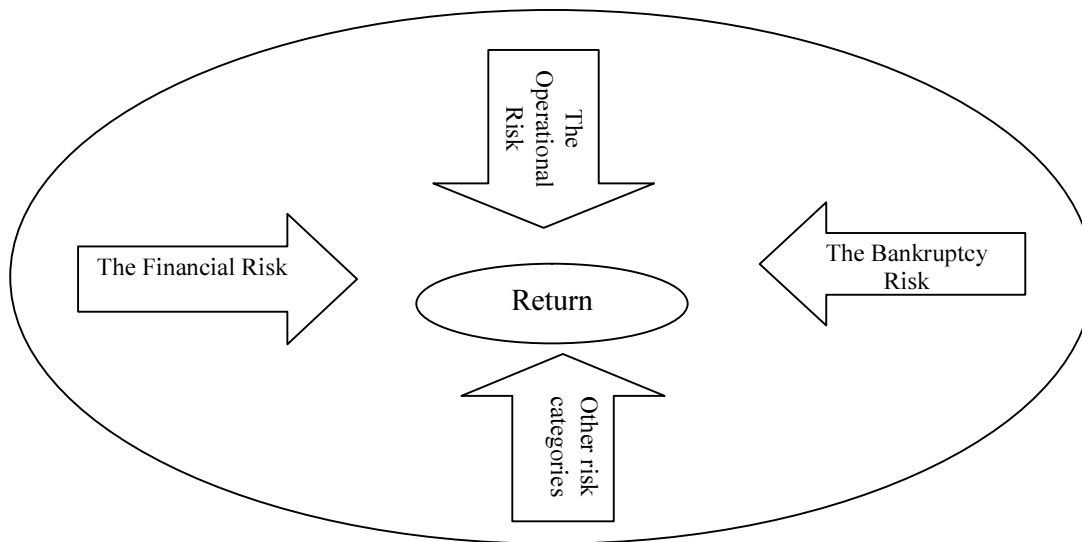
**8. Natural risks** - caused by natural disasters or other induces causes in which natural factors have a decisive share: the fire risk, the earthquake risk, the flood risk, the storms risk, the volcanic eruptions risk.

Phil Griffiths, an English theoretician, considers that the most common risk categories are the following [20]:

- **Strategic risks** – comprise: political risks, economic risks, social risks, risks concerning customers.
- **Operational risks** – in which there are: competitive risks, physical / material risks, contractual risks.
- **Financial risks**
- **The risks concerning reputation or brand**
- **Informational risks related to IT** – encompass: technological risks; the physical risks related to IT .
- **Risks concerning the personnel**– comprise: professional risks; leaders and managers.

Next we shall focus on the analysis of the most significant risks that arise at the micro-economic level, i.e. the economic or operational risk, the financial risk, the risk of bankruptcy.

**Figure no. 1. The main risk categories having influence on the enterprise's rentability**



### ***The Economic or Operational Risk***

In the French thematic literature, "the economic risk is most commonly defined as being the enterprise's inability to adapt in time and with the lowest cost at the environmental variations".[4] This definition has been cited in the Romanian literature by many specialists such as: M. Coșea and L. Nastovici in "Risk Assessment – Methods and Analysis Techniques at Micro and Macro-Economic Level", p. 30, as well as by M. Niculescu in the paper entitled "Global – Strategical Diagnosis", p. 397. The economic risk also represents the profit variability towards the average gross profitability in recent years. In addition, it is said that the operational risk expresses the economic outcome's volatility expressed in terms of operational conditions.[21]

In his paper entitled "Financial Administration", Ion Stancu analysed the economic risk from two perspectives:[22]

- that of the enterprise as socio-economic organisation spirited by the intention of increasing the shareholders' property and the staff's wages;
- that of financial investors who are interested in achieving the best investment in a financial market with more profitable sectors and risk levels.

M. Coșea and L. Nastovici in the paper entitled "Risk Assessment – Methods and Analysis Techniques at Micro and Macro-Economic Level" define the economic risk as being "the potential harm which the patrimony, interests and entrepreneurial activity are exposed being caused imposed circumstances, such as natural disasters, acts of reckless management, damage, or circumstances resulting from the competitive nature of the market." [3] The authors also consider that the economic risks are: the foreign currency risk, the risk of increasing manufacturing costs of the products being exported and the risk of interest rate fluctuation.

Some specialists consider that the outcome of an enterprise is sensitive to a number of events such as: improving competition in the market, the rising of wages, the advancement in science and technology.

"The variability level of the outcome determines each firm to be more or less risky investment. The risk does not only depends on general factors (sales price, cost, turnover), but also on the cost structure, their behavior towards the volume of activity. In this context, in the terms of the economic theory, the cost - volume – outcome analysis has been



imposed, being also called a breakeven point analysis as a way of effective operational and risk analysis.” [15]

“The sensitiveness of the outcome is determined by calculating a correlation coefficient between the variation of a factor and the variation of the operating result. The more these correlation coefficients are higher, the more likely the company is liable to risk. The risk does not only depend on cost determinants but also on the cost structure, which may be based on the volume of production and sales.”[12]

The breakeven point is also called “critical turnover” or “operational dead point”. This indicator considers the flexibility of a company in relation to its business fluctuations, thus measuring the risk that is associated to the respective activity. The breakeven point also highlights the point where the operating costs are equal to the turnover, therefore, the result is zero, and after its cost overrun, its work becomes profitable.

The operational risk assessment may be done by using a “position indicator” towards the breakeven point. This indicator, in absolute form, shows the enterprise’s capacity to change its production and adapt to the market requirements. It is also known as the “flexibility/flexicurity.” [17]

The more the position indicator in absolute value is higher, “the higher the enterprise’s flexicurity, respectively the more reduced the operational risk”. [15] The flexibility of an enterprise depends on its technical equipment, human potential and its organizational structure.

In relative size, the position indicator is called the coefficient of volatility and shows the enterprise’s ability to adapt its production to the market requirements.

The economic or operational risk is particularly important not only for the economic assessment of an enterprise, but also for the adoption of the most appropriate funding measures in the view of the economic growth of the respective enterprise.

#### ***The Financial Risk***

Many specialists consider that “the financial risk characterizes the variability of the outcome indicators under the financial structure of the enterprise” [3].

The equity and borrowed capital make up the capital of an enterprise. These are fundamentally different in the cost that it entails. An undertaking which resorts to loans must be aware of the associated financial costs. “The leverage of the firm, by its size and cost, involves a variability of the results, thus changing the financial risk”. [3]

The financial risk arises when an enterprise resorts to loans to finance its operations. The financial risk depends on the financial structure of the enterprise, and its indebtedness.[16]

For the developing of any activity, an enterprise needs financial resources that may be owned or borrowed. The equity capital that belongs to shareholders is paid by means of dividends and the borrowed capital is remunerated by the paid interest. The financial leverage occurs only if the financial return obtained from resorting to loans is higher to the economic return.

The financial risk is considered to be an additional risk borne by shareholders, following the enterprise’s decision to resort to loans. Theoretically, the firm has a certain degree of risk inherent to its activities, which represents the business risk, and when it resorts to loans, an additional risk to shareholders, also entitled the financial risk, may occur. [21]

The financial risk may be assessed by measuring the variability of the return rates from the past towards the average rate of return. The financial risk is thus measured by means of the dispersion or average square deviation of the rates of return previously observed.

“The leverage risk is also known as financial leverage and is expressed within the indebtedness of the enterprise on return on equity capital.” [5]

The financial leverage effect or the financial efficiency increase, also called the return on equity rate variation depends on the economic rate of return and the cost of committed credit or the interest rate.

For an enterprise that resorts to credits in order to increase its return on equity capital, the return on assets should be higher than the interest rate paid to the engaged credit. Otherwise, if the paid interest rate is higher than the return on assets' rate, the result is decreased, which results in the decreasing of the return on equity capital, i.e. of the financial return, which becomes lower to the return on assets. In this situation it is said that the borrowing has the effect of "bludgeon" since it determines the decrease of the financial return. [21] Thus, the financial leverage effect is underlying the financing decision of any enterprise's activity.

If the return on assets is higher than the interest rate, the situation is favorable for shareholders and the financial return is an increasing function of the leverage of the firm. Conversely, when the credit cost is higher than the economic return, the financial return is a decreasing function of the enterprise's leverage. The leverage deteriorates the economic performances of the enterprise, therefore, it is necessary to minimize the ratio between debt and equity capital. When the return on assets' rate is equal to the interest rate, the enterprise is characterized by the financial structure's stability. If the financial leverage is high, this allows shareholders to obtain a high economic return, but at the same time exposed to a higher risk of major losses if the return on assets is low. Calling on credits may lead to the limitation of the management's independence of the respective enterprise. Lenders are interested in the indebtedness of the enterprise aiming that the ratio between the debt and equity capital shall be as low as possible.

Lenders are interested in the financial history of the enterprise in question, and its liquidity and less in its circulating funds. Therefore, both the current assets and short-term commitments have a greater importance than information concerning the values of fixed-term commitments.

Also, lenders are interested in results, because the actual ability to create profit influence s current operations and future profits.

For a company to register a win situation for shareholders, with a greater economic return than the interest rate and a rate of financial return greater than the economic one, measures are required from the management equip to enter new markets, create new and more competitive products.

### ***The Bankruptcy Risk***

"The bankruptcy risk is related to the difficult situation of the enterprise which is considered to be a permanent situation of financial crisis. From the legal point of view, a firm is considered to be in difficulty when it is in a state of suspension of payments, not being able to cope with outstanding debts, the law providing in this case, the reorganization or liquidation of the enterprise." [5]

The bankruptcy risk is of great interest to both investors and company managers. The bankruptcy risk is the probability that an enterprise to record losses, and not to be able to honor its obligations due to its creditors, that is, to be insolvent.

The diagnosis of the bankruptcy risk consists in assessing the enterprise's ability to meet assumed commitments to third parties, so the enterprise's solvency assessment.[22]

S. Daigne mentions in his paper entitled "Entreprise en difficultes" that any financing of a company in difficulty, through grants or loans, has the same effect as a drug. [21]

The bankruptcy risk assessment may be performed both by statistical methods of analysis of the state, by using the financial balance sheet analysis and statistical methods of analysis of the dynamics, by means of the funding streams highlighted by the financing panel.

The analysis of the bankruptcy risk is based on patrimonial or functional balance. When using the patrimonial balance, the net assets of shareholders and overall economic

activity is envisaged, these actually representing the warranty offered to creditors. The state analysis which is based on the functional balance has in view the assembly of all resources and their allocation on different financial cycles, namely running, financing, investment in order to better understand how the enterprise operates.

Regarding the analysis of the bankruptcy risk's dynamics, it allows diagnosing and explaining the financial imbalance established by the state analysis. Thus, the two types of analysis are complementary, both achieving their goals at the same time. The dynamics' analysis starts by determining the dynamics of the financing flows, arising from capital transactions highlighted in financing picture. The dynamics' analysis of the bankruptcy risk operates with a number of concepts such as: the operating cash surplus, the capacity of self-financing and the cash flow. These being the basics, there are calculated a series of installments such as the repayment capacity rate, the rate of financial autonomy and the operating cash surplus.

### **3. The continuity ensured by the prudence and risk management results**

In business, the going concern assumption is not just the accounting principle, but an absolutely necessary element in ensuring financial information. For users of financial information it should be clear why it is considered that an economic entity will continue to operate, which are the assumptions that have led to this conclusion and the risks that actual events differ from the estimates. For a rigorous assessment of this principle by the economic entities it is necessary to study and analyze some relevant indicators to the identification and review of the risks arising from the entity, namely: the dynamics of liquidity, solvency, balance indicators and financial performance. Thus, the continuity of the activity of the economic entity is ensured if the risks are properly prevented and managed.

Prudence - lies in carefully assessing the assets and liabilities, expenses and income to avoid overstatement of earnings. According to this principle is admitted overstatement of assets and income, respectively undervaluation elements debts and expenses, taking into account depreciation, risks and possible losses arising from current year or previous activity.

It remains to discuss the idea of anticipating risk is less clear than the realization of gains. Risk is pervasive in economic activity: to what extent should be cautious? Findings of "reasonable" enjoy a real bias, influenced by factors of the most diverse. Applying the precautionary principle aims to events that occurred during the year and closing financial year and subsequent events that may impact on annual financial situations. It is a rule of thumb, but not indestructible, if we think that this rule of individualization of risk can be "inverted" to the provisioning of statistical risks, where it is an event rather than a probability, not limit risk anticipation clearly specified. Romanian accounting privileged not attach importance of prudence. Instead, all the traditions, customs and above all professional rules make it occupy a privileged place, appearing as an interesting and at the same time, the dominant compared to the other, without abusing it by "reserving latent or occult".

According to the *International Standard on Auditing 315* "Identifying and assessing the risks of material misstatement through understanding the entity and its environment" [24], the business risk is defined as "a risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies".

In carrying out its activity, the economic entity is subject to multiple risks. Given the complexity of risks, the specialists have affected a distinct field of their study, respectively *risk management* done in a sequence of steps [13], such as risk identification, risk analysis and assessment, determination of priority interventions to limit risk and risk treatment.

In the specialized literature and in economic tradition there are different classifications of risks, the analysis being conventionally structured on three types of risk: economic or operational risk, financial risk and bankruptcy risk.

It is known that the profitability of the activity of the economic entity should not be dissociated from the risks to which it is subject to, namely economic or operational risk and financial risk. *Financial risk* deepens *economic risk* (in addition to the reimbursement of loans the interest expenditure needs to be paid), and finally generates a default of the company that may lead to the *risk of bankruptcy*.

Analyzing the economic or operational risk, the main indicator measuring the risk is *the profitability threshold*.

*The profitability or breakeven threshold* of an economic entity is the point where revenues equal expenditures. It is also called “critical point” or “critical turnover”. So at this point the profit is zero. This threshold is considered to be the threshold of “cost efficiency” and is used in the analysis of economic and financial risk. The indicator can be calculated at the product level and at the total turnover level. [11]

The information supporting the analysis of the economic or operation risk represents the balance sheet as well as a series of data provided by the management accounting. The results fundament the strategies regarding: supply, management of the technical capital, production and commercialization.

#### **4. In conclusion - corporate governance risk management solution**

Corporate governance has emerged as a response to a series of spectacular failures in the private sector in a relatively short time, that rocked through their scale, investor confidence in how they were conducted both large corporations.

Corporate governance provides a higher degree of assurance that the entity is implemented an effective control system, thereby ensuring that business is conducted in the interest of investors (Shareholders) and stakeholders (stakeholders). So if corporate governance is a prerequisite for transparency of the activities of the company, in order to protect the interests of the social partners, to achieve security objectives is the audit. While the shareholder model aims to maximize shareholder value, stakeholder model objective is achieved, rather defensively overall interest of the parties involved, in one way or another, in the life of the company (employees, business partners, shareholders, managers) .

The purpose of corporate governance is provided by the following:

- facilitating the globalization of business by increasing investor confidence in the methods and principles of organization and management of companies. This requires, first, a better balance between the various leaders decision-making powers, so that no person can abuse the position he holds;
- avoid future economic crises and financial scandals that have affected large corporations in recent decades in America, Europe or Asia;
- large companies tend to provide more and more information to the general public (media) in order to increase confidence in the brand of these companies, in order to attract new investors or business partners.

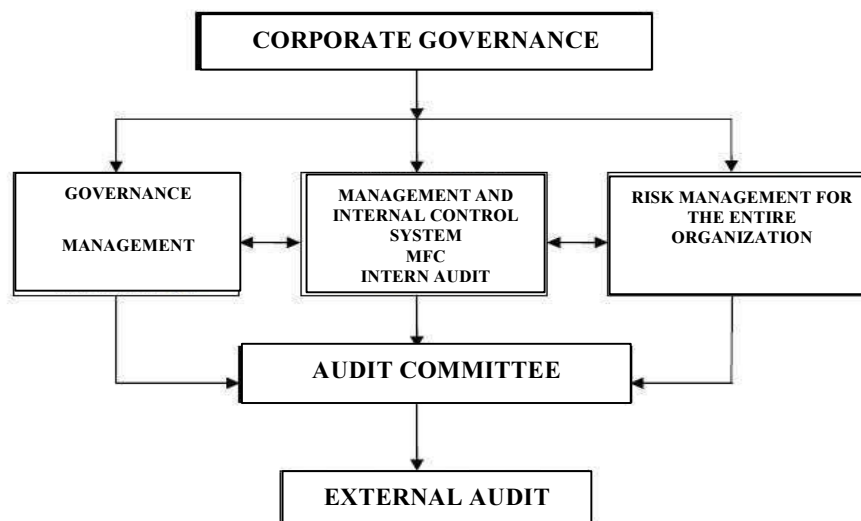
Components of corporate governance

Corporate governance - means overall leadership of the entire organization by accepting all internal components, operating together, which ultimately will be integrated management and implementation of the organization's risk management (ERM) and the financial management system and internal control (MFC) including internal audit (Fig. 2).

Corporate governance includes the following elements:

- Managers responsible for the accuracy of the information in the financial statements;
- the existence of very tight deadlines for financial reporting;
- communication and full transparency on financial results;
- transparency of internal audit and external audit processes.

**Figure no. 2. Components of corporate governance**



Source: M. Ghiță (coord), Guvernanță corporativă și audit intern, Ed. Tipo Moldova, Iasi, 2009, p. 12

Good corporate governance ensures improved economic efficiency and establishing an interactive investment climate. Among the most important benefits of implementing high standards of management companies include: resource efficiency, low capital cost, increase investor confidence due to the slight decrease discretionary attitude of managers and reducing corruption. In contrast, poor corporate governance distorts the efficient allocation of capital in the economy, hampering foreign investment, reduce equity holders trust and fosters corruption.

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# AUDITING OF EUROPEAN FUNDED PROJECTS

Niculina, Stănescu<sup>1</sup>

## **Abstract:**

*A mission on the European funded projects performed by the financial auditor consists in the complete checking of the amounts requested for reimbursement by the beneficiary in the Reimbursement/payment application of the costs for the action financed in compliance with the terms and conditions of the financing contract, fitting the project budget into the sums planned, verifying the registration in the bookkeeping, the reconciliation of the accounts, the drafting of the expenditure and the submission of the report of the factual findings to the beneficiary on the agreed procedures applied. Thus the checking of the expenditure is done by the auditor in terms of reality, legality, accuracy and eligibility.*

**Keywords:** *financial audit, european funded projects, factual findings report, reimbursement application*

**JEL Classification:** M40, M42

## **1. Introduction**

The citizens' welfare, aimed at developing regions, the EU's cohesion policy provides the member countries the possibility of investing in agriculture, environment, human resources, etc., amounts that are obtained after explaining and respecting the project assumed by the beneficiary of the financing.

In this regard, the auditor performs the procedures agreed upon to verify the data included in the reimbursement application requesting the recovery of the amounts specified representing the eligible expenditures made by the beneficiary of the project as a contracting party within the financing contract signed with the Managing Authority. The beneficiary is responsible for drawing up the reimbursement applications according to the appropriateness framework (financing contract, instructions, government decisions, etc.); while the auditor is responsible for the findings resulted from the procedures applied according to the factual findings report.

## **2. The Financial Auditor's Role in Achieving the Factual Findings Report**

Financial auditors may conduct audits of financial statements on 30 December by applying the provisions of the International Standards on Auditing, of reviewing the interim financial statements by applying the ISRE 2410 provisions, of reviewing the historical financial statements by applying the ISRE 2410 provisions, of reviewing the financial information by applying the ISRE 3400 provisions, missions based on the agreed upon procedures by applying the ISRS 4400 provisions and compilation missions by applying the ISRE 4410 provisions.

The category of missions performed based on the procedures agreed upon which means understanding and complying with the ISRS 4400 provisions also include the auditing missions of the projects financed from EU funds. According to the Standard on Related Services (ISRS 4400) the auditor does not express any assurance and therefore does not issue any opinion. The Managing Authority / Intermediary Body will express their own conclusions as a result of the procedures made by the auditor and of the findings set out in the factual findings report.

The auditing of projects financed from EU funds is compulsory. According to the cooperation protocol 1005/21.01.2014 signed between the Ministry of European Funds and the

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Chamber of Financial Auditors (CAFR), the financial auditors who perform missions on the EU-financed projects must meet three cumulative conditions: to be rated with the A qualifier at the last inspection by the CAFR Department of Competence and Monitoring, to promote the checking test of the knowledge on the national and European legislation on EU funds, the auditor should not have been definitively disciplinarily sanctioned in the last 3 years.

The auditor's objective regarding the audit of projects financed from EU funds is to achieve the agreed-upon procedures regarding the checking of the expenditure (if it is real, accurate and eligible) and stipulated within the financing contract signed by the beneficiary with the Managing Authority. The agreed procedures are performed in accordance with the grant agreement, the International Standard on Related Services ('ISRS') 4400 *Missions to Achieve the Agreed-Upon Procedures Regarding the Financial Information* issued by the International Federation of Accountants ('IFAC') and adopted by CAFR and the Code of Ethics issued by IFAC. The auditor prepares the factual findings report respecting the provisions contained in the specifications and in the existing financing contract. For the new European funds that are launched for the period 2014-2020, the Chamber of Financial Auditors of Romania (CAFR) has developed a series of projects for the standard contract format, letter of mission and the financial auditor's report that will be used by the financial auditors in performing the missions after the CAFR consultation with the Ministry of European Funds. Furthermore, the financial auditors will audit the eligible costs in compliance with the International Standards on Auditing (ISA 100-805) and will issue a financial audit report with an opinion according to ISA 700 in conjunction with ISA 805, or where appropriate, a modified audit report under ISA 705 and the eligible expenses from the reimbursement application will be fully checked (the coverage ratio of the expenditure will be 100%).

Currently, for the 2007-2013 European Funds, although ISRS 4400 provides that the independence is not a requirement for the missions on the agreed-upon procedures; the Managing Authority requires that the auditor also complies with the independence requirements of the Code of Ethics.

Without conducting an audit mission or a reviewing mission, according to the conceptual framework of the International Standards on Auditing, the financial auditor when making agreed upon procedures does not provide any assurance on the expenditure made and set forth in the reimbursement application.

The EU funds auditing services according to ISRE 4400 "Missions based on the agreed upon procedures regarding the financial information" are provided under a service contract that is included in the specifications of the grant's beneficiary. The auditor also may draw up a letter of assignment.

The mission letter represents a confirmation of the auditor's agreement with the beneficiary on the terms and objectives of the mission, as well as on the nature and limitations of the services that the auditor will provide and it must include the terms of reference for checking the expenditure of a grant contract financed by the European Community, as well as the agreed upon procedures to be carried out.

In order to apply the procedures that consist in investigations and analyses, recalculations, comparisons and other checking of the accuracy of the calculations, observations and inspections, the auditor should obtain from the beneficiary of the EU funding at least the following documents:

- ✓ Financing contract with its annexes including the project budget and the activities schedule;
- ✓ Financing application form;
- ✓ Application for pre-financing and notification of the Managing Authority for grant pre-financing;



- ✓ all notices with the Managing Authority including those relating to the budget changes, personnel changes, changes in the activity calendar, findings/financial corrections notes;
- ✓ notifying the Managing Authority on the acceptance for payment of the amounts related to the reimbursement application;
- ✓ written decisions of the beneficiary for the project implementation;
- ✓ payroll and related documents of payment (payment orders, bank statements, payment orders) for the beneficiary, salary centraliser, calculation method, collective timesheets, individual timesheets, activity reports – if applicable;
- ✓ reimbursement application or payment request – as appropriate;
- ✓ Proof of procurement procedures, as well as tender documents, tender offers and evaluation reports;
- ✓ Commissioning minutes;
- ✓ Delivery-reception minutes;
- ✓ Services/goods supply contracts;
- ✓ Accounting documents (invoices, accounting notes, bank register, cash register, journal register, general ledger, account sheets, trial balance, 112 statement);
- ✓ For salaries: copies of labour contracts, addenda, state payroll, timesheets, payroll summary, activity reports, payment orders, account statements;
- ✓ Proof of service delivery, as well as approved reports, transport tickets (including boarding passes), proof of seminars attendance, conferences and training courses (including relevant documentation and materials obtained, certificates), etc;
- ✓ For fuel expenditure: consumption roadmap for used vehicles, travel orders, receipts, invoices, summary list of the distances covered;
- ✓ The application for opening separate project accounts and book-keeping on separate analytical accounts;
- ✓ progress report/financial and technical report;
- ✓ expenses evidence (for POSDRU)

The expenditure presented by the beneficiary and requested to be settled according to the field and the axis (environment, human resources, etc.) is usually presented under the following items of expenditure: human resources, travel, market research and assessment, expenditure on health/consulting, audit expenses, equipment and supplies, furniture, audit expenses, consulting, IT equipment, administrative (indirect) costs, other expenses.

Planning the checking of the expenditure by a financial auditor must aim to ensuring that there is a clear understanding on the set procedures and the conditions of the mission, that the expenditure checking team members comply with the general principles of a mission concerning the agreed-upon procedures, that there has been a sufficient understanding of the terms and conditions of the financing agreement and its annexes by checking it and other relevant information and through which all issues were clarified through discussions and visits with the beneficiary, requesting additional information.

The audit team members must comply with the general principles of professional ethics, including the independence principle, which although it was not mandatory for the missions represented by ISRS 4400, represents a requirement of the managing authority.

In order to obtain sufficient appropriate evidence, the auditor performs procedures to check if:

- ✓ The expenses requested in the reimbursement application of the expenditures are in accordance with the terms of the financing agreement and therefore of the budget project as an annex to the grant agreement;

- ✓ The expenditure presented in the reimbursement application corresponds in terms of eligibility, accuracy and registration, to the reality, classification, etc.
- ✓ The information in the application for reimbursement of the expenses are reconciled with the accounting system and the Beneficiary's records;
- ✓ For the expenses shown in accounting, separate accounts for the Project are used;
- ✓ The expenses were recorded chronologically in the Beneficiary's accounting system;
- ✓ The accounting system used is in accordance with the national legislation in force;
- ✓ The expenditure made and set forth in the reimbursement application and which does not exceed the non refundable financing provided for in the financing contract.
- ✓ The expenditure categories are supported by appropriate supporting documents (services contract, invoice, report of handing over the good/service, report on commissioning and training) and which were properly entered in the accounts (according to the accounting notes, journal register, trial balance, account records).
- ✓ Compliance with the accounting rules and records retention: whether the accounting records drawn up by the beneficiary related to the project implementation are updated and presented accurately; whether the beneficiary has used the principle of double-entry accounting;
- ✓ Assessment of the efficiency and effectiveness of expenditure contained in the reimbursement application;
- ✓ The categories of expenditure in the reimbursement application correspond to the categories of expenditure in the budget;
- ✓ The expenses requested in the reimbursement application are in accordance with the national and EU legislation;
- ✓ The expenditure for a transaction or action has been performed under the contract and were assumed by the beneficiary;
- ✓ The employer's expenditure for achieving the project implementation was properly allocated to the action which is the subject of the financing contract and was passed correctly in the reimbursement application of the expenses;
- ✓ The cost for a transaction or selected action was performed by the beneficiary during the project implementation;
- ✓ The payee's records are in accordance with the rules stipulated in the financing contract and according to the applicable national regulations;
- ✓ The categories of expenditure claimed by the beneficiary in the applications for payment correspond to those in the project budget;
- ✓ The expenditure for a transaction or selected action was classified properly in the request for payment;
- ✓ All types of expenditure accounted reflects the accounting amount of the underlying transactions regardless of the type and nature of the transaction;
- ✓ The expenses required are necessary for making the project, and they are set out in the contract signed with the beneficiary and are consistent with the principles of a sound financial management;
- ✓ The documentation of the nonconformities and their discussion with the management team;
- ✓ The amount requested for reimbursement does not exceed the maximum amount of the financing and the compliance with the values stipulated for each category of expenditure;
- ✓ The beneficiary entered in his/her own accounting the expenditure requested based on the supporting documents, they are verifiable and can be proven by original documents and can be identified in the beneficiary's balance;

- ✓ The auditor checked the reality of the expenditure for the transactions or actions performed by examining the proof of the services rendered in connection with the project objectives during the payment request;
- ✓ The expenses were incurred and paid by the beneficiary until the date of filing of the final reimbursement application;
- ✓ The expenditure submitted by the beneficiary in the payment request in the interest of the project, real and accurate.

Regarding the public procurement, the auditor checks the compliance with the provisions of the national and European legislation in force, established by the Managing Authority concerning the granting of public procurement contracts if the granting of public procurement contracts necessary for the project implementation was achieved with the compliance of the principles: non-discrimination, equal treatment, mutual recognition, transparency, proportionality, efficient use of public funds, accountability. The auditor also checks how legislation was applied in the field of public procurement by transposing the stages in the activity of the beneficiary: public procurement program preparation, drafting the granting documentation, the call for competition, carrying out the granting procedure, granting the public procurement contract, conclusion of the public procurement file, carrying out of the contract, contract completion.

Thus, the auditor checks the public procurement file for each purchase made according to the procedure (bidding, direct assignment, etc.), the existence of the documents proving that the goods have been delivered, works performed/services provided (invoice, receipt, etc.), establishing the goods were received, registered in accounting (including the recording accounting note).

The auditor must mention in the report of factual findings whether there is any hint to make him/her believe that public procurement did not comply with the public procurement rules and shall determine whether such costs are eligible or not.

The auditor must also check the income generated from the project, whether it is properly submitted in the reimbursement applications of the expenses, whether it is properly recorded in the accounts of the project. Another chapter is the checking of the indirect costs and their fitting into the standard rates set out in the Financing Agreement.

The completion of the expenses checking mission must meet the quality assurance objectives:

- The existence of the procedures provided in the “Quality Audit Guide” applicable ISRS 4400;
- Each procedure must include worksheets detailing the evidence of the results obtained;
- Documentation on the issues of independence (independence declaration section B, the team of auditors list);
- Evidence on communication with the project management and drafting of letters (of mission, of representation);
- Compliance with the minimum number of hours according to CAFR Council Decision No. 52/12.12.2013 (time budget – section B);
- Existence of audit plan (worksheet – section B);
- Existence of conclusions issued by the auditor (worksheets);
- Documentation of consultation of the previous auditor (if applicable);
- Respecting the structure of the worksheets;
- Signing and dating all working documents;
- The mission is properly documented in a folder of the mission indexed and organised;

- The provisions were complied with ISRS 4400 standard and of the specific rules issued by the managing authorities or implementing bodies of the Structural Funds.

The final step of the auditor's mission is the preparation of the factual findings report. The report, addressed to the project manager, is prepared solely for the confidential use of the beneficiary and of the Managing Authority/Intermediary Body and exclusively for the purpose of transmission to the Managing Authority/Intermediary Body.

The report consists of the report itself, the report details with information on the financing contract and project, procedures performed and the effective findings and the annexes, respectively the terms of reference, the reimbursement application.

The auditor's report should include the minimum mandatory elements set forth by the ISRS 4400, such as: the recipient of the financial information on which the procedures agreed upon were applied, a statement of the fact that the procedures performed were those agreed upon with the customer, a statement that the engagement was performed in accordance with ISRS 4400 applicable to the engagements related to the agreed-upon procedures, a listing of the specific procedures performed, the sufficiently adequate detailing of the non-compliances, a statement that the procedures performed do not constitute either auditing or reviewing and therefore no insurance is expressed, as well as the limitation of that report, the fact that it is addressed strictly to those parties that have agreed on the procedures to be performed.

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# NEW REQUIREMENTS FOR INCREASING THE QUALITY OF FINANCIAL AUDIT MISSIONS

Niculina, Stănescu<sup>1</sup>

## Abstract:

*The financial auditors' activity for investors, creditors, employees, shareholders regarding the financial-accounting activity and the correct financial reporting is based on the public's trust. As a result, the quality of the audit missions is very important. The control of the audit missions' quality enhances the credibility of the published financial information and contributes to the improvement of the book-keeping bringing added value to the audited entity. The quality control is the main means the auditor has to ensure the public that all the activity performed was conducted in accordance with the International Standards on Auditing, Code of Ethics, rules and decisions issued by the Chamber of Financial Auditors of Romania.*

**Keywords:** *financial audit, quality, credibility, financial statements, control*

**JEL Classification:** M40, M42

## 1. Introduction

As a result of the important role they have in an economic entity, in the economy in general, the auditors' attitude and behaviour in providing audit services have a major impact on the welfare. Auditors can maintain this advantageous position only by continuing to provide the public professional services of a high quality. As a result, the quality control of the auditing activity is essential. The quality of the missions reinforces the credibility of the published financial reports and represents a guarantee of the reality and accuracy of the data for the shareholders, investors, creditors and other stakeholders.

The quality control contributes to improving and developing the missions carried out and at the same time they offer assurance to the audit reports consumer that the audit opinion, the procedures applied, the findings issued by the auditor, the worksheets drafted are based on the application and observance of the International Standards on Auditing.

## 2. The Need and the Role of Control in the Financial Audit

The audit missions are considered as qualitative when the auditor implements and complies with the international standards on auditing, including those referring to the quality control, ISQC1 and ISA 220, the requirements of the Code of Ethics, as well as the normative acts in force applied in auditing and the reports on the auditor's missions coincide with the circumstances.

The audit firms should have a quality control handbook which must be understood and respected by the auditors' team and which must include policies and procedures for the quality control (the statement on the audit firm's general policy, the general responsibilities of all partners and employees; the management's responsibility for the quality within the firm; the relevant provisions of ethics; the acceptance and continuance of the relationships with the clients; the human resources; achievement of the missions, monitoring, documentation).

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### Synthesis of the quality controls elements

Analysis feature	Summary of requirements	Procedures used (examples)
<b>Independence Integrity Objectivity</b>	The component elements of an auditing mission must remain independent in facts and attitudes, exercise all the professional responsibilities with integrity and maintain objectivity in carrying out the professional responsibilities.	Each auditor and assistant must answer once a year an independence questionnaire addressing issues such as ownership of shares and participation in customer management as member of the Board of Directors.
<b>Human Resources Management</b>	Policies and procedures must be defined to provide the company a reasonable assurance in the following areas: the new employees of the company have enough qualifications to perform the duties competently; the assignment of the tasks must be done according to individual training and skills; the participation of all employees in the programme of lifelong professional training and in professional training activities to enable them to perform the responsibilities they have been assigned.	Each specialist should be assessed during each mission through an assessment report specific to the mission, prepared by the firm.
<b>Acceptance and maintenance of missions and clients</b>	Policies and procedures should be defined on the decision to accept a new client or to maintain the relationship with an existing client. These should minimise the risk of association with a client whose management shows a lack of integrity. The company should get involved in missions that can be performed competently and professionally.	A customer evaluation form addressing topics such as previous auditors' comments and client's management assessment must be filled out for each new client before approving the collaboration with him/her.
<b>Enforcement of missions</b>	There must be procedures and policies to ensure that the work carried out by the personnel involved in an audit mission complies with the professional standards applicable, with the legal provisions and with the company's quality standards.	The Company's directory must be available for consultancy and approve all the missions before concluding the contracts.
<b>Supervision</b>	There must be procedures and policies to ensure that the four elements of quality control mentioned above are really applied.	The person responsible for the quality control must test the control procedures at least once a year to ensure that the firm complies with them.

Source: Popa I. (eds.) - General Audit Standards, Publishing House Mirton, Timisoara, 2011

The review of the financial audit missions' quality should include checking the content and the preparation of the audit files, complying with the application of the audit procedures requested in the Handbook on the audit quality, as well as the compliance with the structure of the worksheets, achieving the audit report in accordance with the International Standards on Auditing (ISA 700, ISA 705, ISA 706) and the elaboration of the audit opinion.

The auditor's working files must provide at least the following:

- The existence of the financial statements at the auditor (balance sheet, profit and loss account, cash flow statement, equity situation, notes) of the audited entity with signature, seal and registered at the Trade Register;
- The letter of mission or the service contract made according to ISA 210;
- Making the letter of representation – according to ISA 580;
- Letter of communication of the deficiencies retained in the functioning of the accounting and internal control systems (ISA 265);

- Explaining the sampling methods used and determining the size of the sample used in checking the customers, the suppliers, etc.;
- Internal control worksheets (*review of the development and implementation of internal controls – testing by the auditor, who performs internal control activities? The decision to appoint the committee responsible for monitoring, coordinating and methodological guiding for the implementation of internal control, was the risk assessment performed? Have the internal control processes been established? Is there a programme of internal control? An internal control handbook? An action plan?*);
- internal audit worksheets (*checking the performance of the internal audit according to the law, the existence of rules and procedures of internal audit, of the internal audit charter, of the internal audit reports, worksheets, internal audit files, people carrying out internal audit missions – studies, respecting the principle of independence*);
- Availability for the audit files of the Declaration of Independence of the auditor;
- Compliance with the minimum number of hours for the audit missions (240 hours) – according to the CAFR Decision 44/2005, as well as for a mission based on an agreed procedure (95 hours) – CAFR Decision 52/2013;
- Review of the audit mission – each worksheet must be signed by the person who wrote it, and then reviewed by another auditor than the one who conducted the audit mission; the review of the documents by the person responsible for the quality control is performed both before and after expressing the opinion;
- Review of the public interest entities, taking into account the limitations set forth in Ordinance 90/2008 on statutory audit, such as: personnel rota for the audit firm performing audits for public interest entities, compliance with the independence including the provisions on the auditor's impossibility to work for the audited client for at least 2 years after completion of the audit mission;
- Documentation of the quality control through reports, worksheets, signatures of the person responsible for the quality control;
- Independence of the person in charge with the quality control within the audit firm;
- Worksheets, leasing – leasing situation, period of time, value, reviewing of leases, etc.;
- Checking how the reassessment of tangible assets was achieved: decrease, increase of value (auditor's worksheet and existence of *reassessment reports*). Are there rentals of land, buildings, and seizures on them?;
- Checking how the inventory was done and valuing the inventory results by recording in the book-keeping and reflected in the balance sheet including the ongoing production, the receivables and liabilities towards third parties, own equity, availability in domestic and foreign currency. (*documents: Decision of inventory, inventory protocol, inventory lists of property, general ledger of accounting notes made after the completion of the inventory, manager statement, trial balance, procedure for organising and conducting the inventory, inventory record*). If the auditor has not participated in the inventory – worksheet with the alternative procedures applied by the auditor;
- The list of stocks in whose inventory we participated and the sample of the stocks verified;
- Filling out questionnaires on the inventory, internal audit, internal control;
- Information and worksheets on the related parties, transactions between the parties;

- Worksheets – audit of the group’s financial statements with details for the companies that have another auditor;
- Notes of the discussions with the management/CFO (preparation of the worksheets after each field visit);
- Accounting policies prepared according to the financial reporting framework;
- The assessment of the current production. The objectives of the testing should include: the proper record of the significant costs, the fair allocation of the overheads, the accurate reporting of the revenues and profits for the long-term production;
- Examination of cancellations of invoices/returns of income made after the sale or after the balance sheet date;
- documenting on the method of registration and payment of the VAT obligations, taxes and contributions to the public funds;
- checking the method of obligations registration and payment of income tax;
- checking and documenting the method of calculation and payment of the wages, salary income tax and security contributions;
- checking and documenting the adequacy of the provisions;
- documenting the audit evidence specific to the social capital taking into account: the reconciling of the equity with the provisions of the article of incorporation and the register of shareholders/partners, identifying the shares held by the management, identifying the equity issued during the financial year;
- documentation of the related parties;
- proper takeover of the opening balances;
- Checking the status of rents and rental income including whether the unearned amounts have been pursued, whether the late payments have been calculated, recorded and tracked according to the contract stipulations (*documents: contracts, invoices, account sheet*);
- Checking the method of recording the subsidies and donations (grants from the state budget, income from grants, checking the depreciation registration and calculation for modernisation works for which grants were received);
- Checking the inventories (*raw materials* under custody and the custody justification by minutes, *products available to third parties* – supporting documents and registration in accounting);
- Checking the recording method, revenue tracking and collection reflected in the “Clients” account balance – what measures have been taken, who are the clients within the group? Beyond the group? Whether penalties have been calculated and recorded in the accounts, if for the uncertain customers or in litigation, the company obtained favourable-unfavourable court rulings? Are there written procedures regarding the tracking and collection of revenue? Who is responsible according to the job description? Have these individuals fulfilled their tasks? Have permanent analyses been performed in order to collect them within the legal terms according to the OMPF no.946/2005 to avoid damage and recording adverse financial results (*documents: procedures, account statement*)
- Are there advances offered to the staff? Advances to the suppliers of materials? Were these advances followed? Have those materials been purchased? Was the reception performed? (*documents: procedures, account statement, minutes of the reception, invoices*);



- Checking the recording method of the penalties, costs and enforcement expenses from the economic agents in insolvency for which the company enrolled in the list of creditors but also from other economic agents bad payers;
- Filling out the A - V Section in the Quality Guide.

Subject to control by CAFR through inspectors, the audit firm must prove the transmission to CAFR of any addenda to the article of incorporation for updating the information according to the GEO 90/2008, the existence of the insurance policy for the year according to the CAFR Decision – 45/2005; to undergo verification of the fees declared by CAFR with those from the auditor's book-keeping – according to the CAFR Decision 237/2011; transmission of the Individual sheet of professional training to CAFR – according to CAFR Decision 6/2014; checking the auditor's participation in the annual compulsory training courses according to CAFR Decision 172/2010 and to additional training courses – CAFR Decision 49/2013; the existence of a quality assurance system which means preparing the Quality handbook – according to ISQC1 and ISA 220 and the implementation of policies and procedures in the audit firm; submission on the auditor's site of the Report on transparency – according to the GEO 90/2008.

Apart from their own internal control system on the quality of the missions, the financial auditors are checked to ensure the quality of the services performed and by the regulatory body, the competent authority – CAFR (Chamber of Financial Auditors of Romania) under the supervision of CSIPPC (Public Interest Oversight Board in the Profession accounting).

According to the CAFR rules and decisions, performing the audit missions may be achieved by the financial auditors who meet three conditions: they are CAFR members, they are active financial auditors and have visa for the current year (annual dues paid and have achieved the professional structured and unstructured training).

The inspection on the quality of the audit missions carried out by financial auditors CAFR members is performed every three years at maximum for the auditors who perform audits on public interest entities and every six years for the other auditors based on the quarterly inspection programme that also provides the teams that will carry it out.

Depending on the number of customers, the number of entities considered to be of public interest, the previous results of the quality assurance inspections, the violations of the ethical requirements, the deficiencies in the project or the compliance with the quality control system, or in the case of complaints substantiated with evidence, CAFR can have the quality control work carried out by the members of the House in periods of less than 3 years.

The inspection is performed wholly or at random in relation to the volume of activity of the Chamber members, as well as the frequency of the deviations previously detected and the findings are recorded in the Inspection letter signed bilaterally.

After the checking, the inspectors from the CAFR, depending on the objectives fulfilled/unfulfilled to which a percentage is assigned, establish the financial auditor who is reviewed with a qualifier: A, B, C or D, as follows:

- If he/she got up to 35% degree of fulfilment of objectives – D qualifier
- If he/she achieved between 36% -70% degree of fulfilment of objectives – C qualifier
- If he/she achieved between 71% -85% degree of fulfilment of objectives – B qualifier
- If he/she achieved between 86% -100% degree of fulfilment of objectives – A qualifier

The significance of the ratings is the following:

- For the “A” qualifier – no measures taken, it is considered that the auditor performs quality audit missions.
- For the “B” qualifier – the following measures are taken:
  - Participation in further professional training courses;
  - Sanctioning: written warning;

- For the “C” qualifier – measures:
  - Repeat the inspection after more than 1 year;
  - Participation in further professional training courses;
  - Disciplinary sanctions: written warning; reprimand.
- For the “D” qualifier – measures:
  - Participation in further professional training courses;
  - Repeat the inspection after more than 1 year;
  - Disciplinary sanctions: written warning; reprimand; suspension of the right to exercise financial audit activity over a period of 3-6 months; withdrawal of the CAFR membership.

Financial auditors participating in the audit missions as employees of an audit firm will not receive a qualifier.

Furthermore, the financial auditors who perform statutory audits will be ranked according to the risk of damage to the credibility of the financial reports by the inspectors of the Public Interest Oversight Board of the Accounting Profession. The criteria underlying the ranking of the statutory auditors and audit firms based on the risk of damage to the credibility of the financial reporting are the following: the degree to which the statutory audit reports are in accordance with the International Standards on Auditing (ISA), adopted by the Chamber of Financial Auditors from Romania (CFAR); the number of people (statutory auditors, statutory audit interns and experts) involved in the statutory audit mission; the results of the previous inspections; the existence of a system of quality control; the existence of a disciplinary sanction became final; the number of clients of the statutory auditors or of the audit firms that fall into the category of public interest entities; the fees set by contract by the statutory auditors or by the audit firms for the provision of statutory audit services to public-interest entities; the turnover of the statutory audit work related to the public interest entities; the amount of the non-audit contracts signed with the clients-public interest entities; the expiry of the collection of the fees stipulated in the contract; the existence of the report on transparency stipulated in the Government Emergency Ordinance no. 90/2008 on the statutory audit of the annual financial statements and of the annual consolidated financial statements.

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# NEW APPROACHES ON REVENUE RECOGNITION AND MEASUREMENT

Cristina-Aurora, Bunea-Bontas<sup>1</sup>

## Abstract:

*Revenue is an important indicator to users of financial statements in assessing an entity's financial performance and position. International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS 15) issued in May 2014 provides a robust framework for addressing revenue issues. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This article outlines the basic principles that an entity should must apply to measure and recognise revenue and the related cash flows.*

**Keywords:** IFRS 15, revenue, contract with customer, performance obligation, satisfaction of performance obligations, allocating the transaction price

**JEL Classification:** M41

## 1. Introduction

In May 2014, the International Accounting Standards Board (IASB) has published IFRS 15 *Revenue from Contracts with Customers*, the product of a major joint project between the IASB and FASB, the US Financial Accounting Standards Board. The previous requirements of IFRS and US GAAP on revenue recognition were not harmonized and often resulted in different accounting treatments for economically similar transactions (Grant Thornton, 2014, pp. 1). Therefore, IASB and FASB have developed new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP.

Currently, existing IFRS guidance on revenue recognition and measurement is set out in two standards (IAS 18 *Revenue* and IAS 11 *Construction Contracts*) which are accompanied by a number of Interpretations.

The objective of the new standard is to establish the principles that an entity will apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer (IFRS 15, par. 1). In order to meet this objective, IFRS 15:

- sets out a new control-based revenue recognition model,
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time,
- includes comprehensive application guidance and illustrative examples,
- provides new and more detailed guidance on specific topics,
- expands and improves disclosures about revenue.

The new standard will be applied to all the contracts with customers to provide goods or services, including construction contracts and licensing of intellectual property. It will not apply to certain contracts within the scope of other IFRSs such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to third-party customers.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with earlier application permitted and it supersedes: IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the*

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## **2. The five-step approach on revenue recognition and measurement under IFRS 15**

IFRS 15 establishes a single and comprehensive framework which sets out how much revenue is to be recognised, and when. The core principle of the standard is that the entities should recognise revenue to depict the transfer of promised goods or services to customers – and the amount of revenue should reflect the consideration to which they expect to be entitled in exchange for those goods or services (IFRS 15, par. 2).

Revenue will be recognised by a vendor when control over the goods or services is transferred to the customer. In contrast, IAS 18 bases revenue recognition around an analysis of the transfer of risks and rewards; now this is one of the criteria that are assessed in determining whether control has been transferred (BDO, 2014b, pp. 6).

The application of the core principle in IFRS 15 is carried out in five steps:

- Step 1: Identify the contract(s) with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

### **Step 1: Identify the contract(s) with a customer**

An entity will apply the revenue standard to each contract with a customer when all of the following criteria are met:

- the parties have approved the contract and intend to perform their respective obligations;
- each party's rights regarding the goods or services to be transferred can be identified;
- the payment terms can be identified;
- the contract has commercial substance: the risk, timing or amount of the entity's future cash flows are expected to change;
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for goods or services transferred. In evaluating whether collection is probable, the entity would consider only the customer's ability and intention to pay the consideration when due.

An entity will reassess whether the criteria are met each reporting period to determine if the criteria are subsequently met if they are not met at contract inception.

A contract is an agreement between two or more parties that creates enforceable rights and obligations. (IFRS 15 par. 10) Contracts may be written, verbal or implied by customary business practices, but must be enforceable and have commercial substance. The model applies to each contract with a customer once it is probable the entity will collect the consideration to which it will be entitled.

Current IFRS does not provide specific application guidance on oral contracts. However, entities are required to consider the underlying substance and economic reality of an arrangement and not merely its legal form. *The Conceptual Framework for Financial Reporting* states that representing a legal form that differs from the economic substance of the underlying economic phenomenon may not result in a faithful representation (Ernst & Young, 2014b, pp. 22).

For example, Company XYZ provides online technology support for customers remotely via the internet. For a flat fee, XYZ will scan the customer's personal computer for viruses, optimise the PC's performance and solve any connectivity problems. When the customer calls to obtain the scan services, the company describes the services it can provide and states the price for those services. When the customer agrees to the terms stated by the representative, payment is made over the telephone. The company then gives the customer the information it needs to obtain the scan services (e.g., an access code for

the website). It provides the services when the customer connects to the internet and logs onto the entity's website (which may be that day or a future date).

In this example, Company XYZ and its customer are entering into an oral agreement, which is legally enforceable in their jurisdiction, for XYZ to repair the customer's computer and for the customer to provide consideration by transmitting a valid credit card number and authorisation over the telephone. The required criteria for the contract with the customer are all met. This agreement would be within the scope of IFRS 15 at the time of the telephone conversation, even if the entity has not yet performed the scanning services (Ernst & Young, 2014b, pp. 20)

An entity may combine two or more contracts that are entered into at or near the same time with the same customer, and account for them as a single contract, provided they meet specified criteria. The standard provides detailed requirements for contract modifications. Depending on the specific facts and circumstances, a modification may be accounted for as a separate contract or a modification of the original contract.

### **Step 2: Identify the performance obligations in the contract**

Once the contract has been identified, an entity will evaluate the terms and customary business practices to identify which promised goods or services, or a bundle of promised goods or services, should be accounted for as separate performance obligations (Ernst & Young, 2014a, pp. 2)

The key determinant for identifying a separate performance obligation is whether a good or service, or a bundle of goods and services, is distinct. According to IFRS 15 (par. 27), a good or service is distinct if (a) the customer can benefit from the good or service on its own or together with other readily available resources, and (b) the promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Each distinct good or service will be a separate performance obligation.

Whilst a version of the first criterion is widely used today, the second criterion is a new concept that will require entities to think differently about promised goods and services. Compared to current practice, it may result in more goods and services being unbundled from others in a contract. Alternatively, an entity might bundle together promised goods and services that have stand-alone value to the customer today because they are highly inter-related with other promised goods and services in the contract (KPMG, 2014, pp. 9).

For example, Company XYZ has a contract to build a house, a process that requires a number of different goods and services. Generally, those goods and services would meet the first criterion because the customer could benefit from each individual brick or window in conjunction with other readily available resources. The second criterion is not met for each brick and window, because the company provides a service of integrating those goods into a combined output. Therefore the goods and services used to build the house are combined and accounted for as one performance obligation.

By contrast, Company ABC is a software developer and it enters into a contract with a customer to transfer a software licence, perform an installation service and provide unspecified software updates and technical support for a specified period. The company will identify four separate performance obligations of: (a) the software licence, (b) the installation service, (c) the software updates services, and (d) technical support (Tong, 2014, pp. 5).

### **Step 3: Determine the transaction price**

The transaction price is the amount of consideration to which an entity expects to be entitled. To determine this amount, an entity considers multiple factors:

- an estimate of any variable consideration (e.g., it may vary due to rebates or bonuses), using either a probability-weighted expected value or the most likely amount, whichever better predicts the amount of consideration to which the entity will be entitled;
- the effect of the time value of money, if there is a financing component that is significant to the contract;
- the fair value of any non-cash consideration;
- the effect of any consideration payable to the customer, such as vouchers and coupons.

Two of these are important factors to be considered for the purpose of determining the transaction price: variable consideration and the existence of a significant financing component.

#### *Variable consideration*

Items such discounts, price concessions, returns or performance bonuses/penalties may result in variable consideration. Depending on the facts and circumstances, entities estimate the amount of variable consideration using either the expected value or the most likely amount.

The expected value approach represents the sum of probability-weighted amounts for various possible outcomes. The most likely amount represents the most likely amount in a range of possible amounts. Management should use the approach that it expects will best predict the amount of consideration to which the entity will be entitled based on the terms of the contract and taking into account all reasonably available information. The approach used should also be applied consistently throughout the contract.

A constraining estimate of variable consideration included in the transaction price is that an entity should recognise revenue as performance obligations are satisfied only if it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This assessment will often require judgment (PWC, 2014, pp. 7).

According to IFRS 15, the following indicators suggest that including an estimate of variable consideration in the transaction price could result in a significant reversal of cumulative revenue:

- the amount of consideration is highly susceptible to factors outside the entity's influence;
- the uncertainty about the amount of consideration is not expected to be solved for a long period of time;
- the entity has limited experience with similar types of contracts;
- the entity has a practice of offering a broad range of price concessions or changing payment terms and conditions in similar circumstances for similar contracts;
- there is a large number and broad range of possible outcomes.

The assessment needs to be updated at each reporting date.

Estimating the amount of variable consideration may affect the timing of revenue recognition (KPMG, 2014, pp. 11). Currently, entities determine whether the amount of consideration can be measured reliably, or is fixed or determinable. By contrast, the new standard sets a ceiling, which limits rather than precludes revenue recognition. As a result, estimating variable consideration and applying the constraint may lead to earlier revenue recognition for some entities.

For example, Company XYZ has a contract to sell products through a distributor. According to the contract, the distributor has a right of return if it cannot sell the product. Currently, revenue is recognised by Company XYZ when the distributor resells the products to end users, based on IAS 18. Under IFRS 15, revenue may be recognised by the company earlier on the sale to the distributor, based on historical experience of the number of products for which it is highly probable that they will not be returned.

### *Significant financing component*

Management will need to evaluate arrangements with customers to determine whether they include a significant financing component. The guidance related to a significant financing component is different than current guidance related to applying the time value of money. In some cases it will be clear that a significant financing component exists due to the terms of the arrangement. In other cases it could be challenging to determine whether a significant financing component exists, especially in some long-term arrangements with multiple performance obligations if goods or services are delivered and cash payments received throughout the arrangement (PWC, 2014, pp. 10). The standard allows for some level of judgment by requiring entities to assess whether the substance of the payment arrangement is a financing.

In assessing whether a contract contains a significant financing component, an entity should consider various factors, including:

- the length of time between when the entity transfers the goods or services to the customer and when the customer pays for them;
- whether the amount of consideration would substantially differ if the customer paid cash when the goods or services were transferred;
- the interest rate in the contract and prevailing interest rates in the relevant market.

For example, Company XYZ is a software entity that agrees to provide two years of post-contract customer support for CU500, which the customer pays upfront and can renew for CU250 annually after the initial two-year period. The entity needs to consider whether there is a significant financing component because the customer paid CU500 in advance, but there is no discount for paying upfront as compared to the annual pricing (CU250 per year). If the advance payment is required for reasons other than obtaining financing, such as for business purposes to obtain a longer-term contract, then the entity would conclude that a significant financing obligation does not exist.

A practical expedient allows entities to disregard the time value of money if the period between transfer of the goods or services and payment is less than one year, even if the contract itself is for more than one year (IFRS 15, par. 63).

### **Step 4: Allocate the transaction price to the separate performance obligations**

An entity has to allocate the transaction price to each separate performance obligation on a relative stand-alone selling price basis, with limited exceptions. When determining the stand-alone selling prices, an entity should use observable information, if it is available. If stand-alone selling prices are not directly observable, an entity will need to use estimates based on reasonably available information. Examples of reasonably available information include an adjusted market assessment approach or an expected cost plus a margin approach. A residual approach can be used only when the stand-alone selling price of a good or service is highly variable or uncertain.

In most instances, an entity will be able to make estimates of stand-alone selling prices that represent management's best estimate considering observable inputs. However, it could be more difficult if goods or services are not sold independently by the entity or others. Current IFRS does not explicitly address the accounting for multiple-element arrangements, which has resulted in diversity in practice. IFRS 15 provides detailed requirements for transactions with multiple elements, but does not eliminate the need to exercise judgement to determine the appropriate performance obligations and allocate the consideration to those performance obligations.

For example, Company XYZ sells a good that includes free after-sale services for three years and the consideration receivable is CU5,000. The stand-alone selling price of the good is CU4,000 and the stand-alone service price per year is CU500. The relative stand-alone selling price ratio is 0.73 for the good and 0.27 for the after-sale services. The

entity allocates CU3,650 to the sale of the good component (that is CU5,000 x 0.73) and CU1,350 to the after-sale services component (that is CU5,000 x 0.27).

**Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation**

An entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur *over time* or *at a point in time*. A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case, it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Revenue is recognised in line with the pattern of transfer. Revenue that is allocated to performance obligations satisfied at a point in time will be recognised when control of the good or service underlying the performance obligation has transferred. If the performance obligation is satisfied over time, the revenue allocated to that performance obligation will be recognised over the period the performance obligation is satisfied, using a single method that best depicts the pattern of the transfer of control over time.

Recognising revenue upon a transfer of control is a different approach from the 'risks and rewards' model that currently exists in IFRS. IFRS 15 (par. 33) states that control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. Control also means the ability to prevent others from directing the use of, and receiving the benefit from, a good or service.

Under IFRS 15, the transfer of control to the customer represents the transfer of the rights with regard to the good or service. The customer's ability to receive the benefit from the good or service is represented by its right to substantially all of the cash inflows, or the reduction of the cash outflows, generated by the goods or services. Upon transfer of control, the customer has sole possession of the right to use the good or service for the remainder of its economic life or to consume the good or service in its own operations (Ernst & Young, 2014b, pp. 99).

For example, Company XYZ, a local digital cable TV operator, enters into a 12-month plan with a customer. The terms of plan are as follows: the customer's monthly fixed fee is CU450, and he receives a free receiver at the inception of the plan. Company XYZ sells the same receiver for CU1,000 and the same monthly prepayment plans without receiver for CU400 per month.

Under current rules of IAS 18, the company *does not recognise revenue from the sale of receiver*, because it gives it away for free. The cost of receiver is recognised to profit or loss, as a cost of acquiring a new customer. Revenue from monthly plan is recognised on a monthly basis and the journal entry every month is:

Accounts receivable (or cash) CU450  
Revenue CU450

Under new rules in IFRS 15, Company XYZ *identifies all performance obligations* from the contract with the customer, these being: (a) the obligation to deliver the receiver, and (b) the obligation to deliver cable TV services over 1 year. The *transaction price* is CU5,400, calculated as monthly fee of CU450 times 12 months.

The *allocation of the transaction price* of CU5,400 to individual performance obligations under the contract based on their relative stand-alone selling prices (or their estimates) is presented in table no. 1.



**Table no. 1. The allocation of the transaction price to individual performance obligations**

Performance obligation	Stand-alone selling price (CU)	% on total	Revenue (CU)
Receiver	1,000	17.24%	930.96**
Cable TV services	4,800*	82.76%	4,469.04**
<b>Total</b>	<b>5,800</b>	<b>100.00%</b>	<b>5,400.00</b>

\* CU4,800 = CU400 x 12 months

\*\* Revenue = CU5,400 x % on total

The revenue is recognised when Company XYZ *satisfies the performance obligations*. Therefore, it recognises the revenue of CU930.96 when it gives the receiver to the customer, and recognises the revenue of CU372.42 per month, when it provides cable TV services (the total revenue is CU4,469.04, that is CU372.42 times 12 months).

The journal entries are the following:

a. Sale of the receiver:

Unbilled revenue CU930.96

Revenue from sale of goods CU930.96

When receiver is given to the customer

b. Cable TV services:

Accounts receivable CU450.00

Revenue from cable services CU372.42

Unbilled revenue (=CU930.96/12) CU77.58

When cable TV services are provided, on a monthly basis according to the contract with the customer

A major impact of the new standard is that the companies will report profits in a different way and profit reporting patterns will change. In the example presented above, the company reports loss at the beginning of the contract and then steady profits under IAS 18, because it recognises the revenue in line with the invoicing to the customer. Under IFRS 15, the reported profits are the same in total, but their pattern over time is different, as it can be seen in table no. 2.

**Table no. 2. The revenue measurement under IAS 18 and IFRS 15**

Performance obligation	Under IAS 18 (CU)	Under IFRS 15 (CU)
Sale of receiver	0.00	930.96
Cable TV services	5,400.00	4,469.04
<b>Total</b>	<b>5,400.00</b>	<b>5,400.00</b>

### 3. Conclusions

The new provisions of IFRS 15 will impact all entities in all industries, but the extent of the impact can vary significantly. For some entities whose customer arrangements consist of relatively straightforward contracts for the delivery of a single product or service, the timing and amount of revenue recognised may not change (Grant Thornton, 2014, pp. 1). Other entities may find the impacts to be more pervasive depending on the precise nature and complexity of their contractual arrangements with customers.

The application of the prescriptive and detailed implementation guidance contained within the new standard may result in a change in the timing and/or the amount of revenue recognition, primarily arising from:

- the number of goods or services in a contractual arrangement over which revenue needs to be allocated;
- the manner in which revenue is allocated to these goods and services; and

- the timing when an entity provides the goods or services to the customer (i.e. at a point in time or over a period of time).

Some of the areas that are likely to require more judgment in the application of the additional guidance and possibly result in accounting changes are: contract costs (expense vs. capitalisation), time value of money, contract modifications, warranties, licensing, option for additional goods or services at a discount (Deloitte, 2014b, pp. 2).

However, all entities should be prepared to reassess their revenue recognition policies and consider whether revisions are needed, as well as to look carefully at the new disclosure requirements which have been significantly expanded.

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# PROCESSES USED IN RISK MANAGEMENT

Corina-Maria, Ducu<sup>1</sup>

## Abstract:

*In today's world, entities must pay a particular attention to the risks they have to face, risks that affect the developed activities. This requires the development of some processes of risk management, internal control and corporate governance, whose main purpose is to reduce them to a significant level.*

**Keywords:** risks, risk management, internal control, corporate governance.

**JEL Classification:** G32, G34

## 1. Introduction

Since ancient times, the risk has been identified with the danger incurred by any person when engaging in an activity. Risks represented a concern for humanity because of their ubiquity in all fields and their quantification due to the produced damage.

Considering the types of activities, the approach of risk is achieved in a different way. All economic activities are carried out in conditions of risk - more or less serious, more or less known, easier or more difficult to avoid.

In this respect, it is necessary to identify and assess risks that may arise in order to reduce them as much as possible, accepting only those risks that affect only a small extent in an activity.

Withholding adequate attention to risk, incorrect assessment of the lack of practices aimed at minimizing them as much as possible, will directly affect the final objective proposed by the entity.

Therefore, we are aware that most decisions are made under risk, consequently, detailing the risk mitigation processes that entities must face is an important topic further debated.

## 2. Risk management

Risk management at the entity level (ERM - Enterprise Risk Management) is considered a continuous process that enables managing the threats that affect the goals (F.C. Dima, 2013, pp. 105).

It represents a process aimed at the systematic application of management policies, procedures, and practices, techniques for identifying, analyzing, evaluating, treating, monitoring and communicating risk.

According to the methodology of implementation of internal control standard "risk management", it is a process conducted by the management of an entity, and consists of the following steps:

- defining the strategy to be applied in the field of risks;
- identification of risks;
- risk assessment;
- control of risks;
- monitoring, review and reporting of risks.

a) Defining the strategy to be applied to risks

Entities, from the desire to limit the risks they face, develop a range of policies in this field, and then, based on the applied policies to identify the risk management strategy.

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Risk policy is a document that provides information related to an entity's insight into risk management. Based on this, the entity's risk strategy will be detailed and will develop an appropriate course on risk reduction.

b) Identifying the risks

This activity is aimed at detecting and recording all risks depending on the activities of the entity, once you have identified the persons designated to manage and continuously monitor those risks.

Risk identification can be made:

- either by self risk method involves preparing questionnaires or creation of workshops on different types of activities or persons from specialized compartments;
- by risk analysis implemented by a particular compartment of a particular entity or by an external team.

c) Assessment of risks

It consists of identifying and analyzing the internal and external factors that positively or negatively influence the entity's objectives.

This activity is essential for the entity's management as it should be carried steadily. At the moment of the risk assessment we should consider the following issues: the possibility to materialize risk and its impact; and classification of risks: high, medium or small risks.

Among the specific techniques of measuring risks, we should remember (M. Ghiță, S. Briciu, 2009, pp. 259):

- the probability technique that involves the following steps: measuring risk in relation to all major risks; assessment of probable losses based on statistical tools and a historical approach; direct evaluation of annual losses; findings and extrapolations with corrections if necessary;
- the technique of risk factors that is identified in advance, based on a categorization of risks;
- the technical assessment matrices, based on the risk assessment criteria and influences on;
- the financial impact, the probability of occurrence, the internal control;
- the technique of relative classification using a scale of values determined in advance;
- the technique of matrix classification based on various possible combinations.

Risk assessment should be an ongoing process because they are in constant change according to:

- the extreme changes in environment;
- the pursuit of new goals;
- the appearance of new people in the establishment.

d) Risk control

It implies the initiation of controls and other activities in response to the identified risks. Among the specific measures of risk control we include:

- risk tolerance

Risks can be accepted if they are insignificant or if you cannot work due to the cost measures.

- treating risks

In practice the following categories are used as control tools: tools of preventive control - used when the desired result is the limitation or the non-materialization of the negative effects due to the occurrence of risks; corrective control tools - used as a means of recouping losses following the occurrence of damage from a risk; direct control tools - are designed to targeting threats to another direction tolerable; detective control tools - aim to identify undesirable results due to the onset of a risk.

- transferring risks

It consists of directing certain risks to another entity specialized in the management of those risks or reducing the exposure to risk. In these circumstances it is considered to be

necessary to analyze both the internal environment and the external environment and developing the risk management strategy.

- closure of the activities

There are times when keeping risks within reasonable limits or elimination can only be achieved by ceasing certain activities or reduce them.

- opportunities generated as a result of the risk control

Risk control is to maintain the risk tolerability and activities in optimal conditions to obtain a value.

#### e) Analysis and reporting of risks

It aims at: hazard identification of the audited entity; prevent, eliminate or minimize them; evaluation of internal control activity of the audited entity; and management reporting.

The main tools and techniques used in the analysis and reporting risk are:

- self-assessment of risks;
- communication related to the risk administration in charge of all activities carried risks in the field of risk;
- constituting teams specialized in servicing and insurance on the risk management process;
- formation of risk committees.

### **3. Internal control**

It is an activity designed, implemented and maintained by management and staff of the entity in order to provide reasonable assurance regarding:

- increasing efficiency and effectiveness of the operations;
- achieving goals;
- credibility of the financial statements;
- providing an accurate image.

To achieve a more detailed exposure of the internal control process, it is necessary to present the elements of internal control, namely:

- the existence of the control environment;
- the risk assessment process;
- the effective conduct of the internal control activity;
- a system of information and communication;
- the existence of an appropriate process of supervision and monitoring.

The control environment includes all actions, policies and procedures developed by the responsible entity (directors, supervisory board, members of the directorate) on the need to conduct internal control and awareness of the importance of the entity's objectives. The responsibility for risk assessment lies with both those charged with governance (directors, directorate members) and executive management in the field of business (accounting, marketing, etc).

In order to develop an adequate assessment, it is necessary to start with the analysis of the organization and performance of internal control, strategies, procedures and accounting policies and then to continue with the assessment of other risks arising from a number of internal or external to the entity comes into contact. As today more attention is paid to risks, their assessment is the responsibility of both internal and external auditors during the audit missions.

To ensure a reasonable level of internal control, the following types of verifications are performed:

- preventive controls;
- detection controls;
- directive controls;
- administrative controls;
- accounting controls.

The internal control activities generally regard the entity's policies and procedures with reference to:

a) the separation of responsibilities in order to prevent fraud and errors.

This separation is intended to ensure separation of the asset management responsibilities on accounting; separation of the approval process (approval) of an operation from the asset management associated to them; separation of the entity's operational activities (exploitation) from their accounting tasks; separation of the main functions related to the information technology from the functions of the departments which are the key users of these technologies (in correlation with the size of the entity);

b) the approval of the entity's operations and activities.

At the level of each entity it is required to have clear rules on general and specific approvals for its operations;

c) the preparation and use of accounting documents comply with legal requirements.

d) the protection of storage assets through entities, managing and securing appropriate and adequate physical controls.

e) the verification made by people who apply the verification procedures that ensure the independence of those responsible from outside the entities.

The information and communication system refers to: receiving, recording, processing and analysis of all information regarding the entity. These systems contribute to the achievement of various reports containing operational, financial and compliance.

The implementation of policies and procedures for the proper functioning of the entity is based on relevant, pertinent and credible information.

The process of supervision and monitorization requires permanent assessment and regular monitoring by the representatives, the correct application of the internal control mechanisms in order to determine their consistency and to intervene with necessary changes, wherever necessary. This process requires that:

- every responsible person must organize himself to run the business more efficiently;
- to establish and be assigned specific and correct tasks to the entity's staff;
- to develop and implement various methods and working procedures;
- to devise a coherent information system on the coordinated activities;
- to realize the supervision of the staff activity within the scope of responsibility of each responsible person.

Every responsible person shall be obliged to constitute a system of internal control. Redirecting this task to another person leads to a failure of the entity's control measures. But managers can turn to specialists to advise and support them in the design, development and improvement of the internal control mechanism specific to the coordinated field.

#### **4. Corporate governance**

"The concept of corporate governance has a very broad meaning, including elements such as: management regarding the accuracy of the information that financial situations comprise; managing very tight deadlines for sending the financial reports; communication and complete transparency with respect to financial results; transparency of the internal audit, of processes and of external audit " (C. I Voiculescu, 2012, pp. 278).

"Governance is a combination of processes and structures implemented by the board of directors to inform, lead, direct and monitor activities of the organization in order to achieve the objectives set" (IIA - The Institute of Internal Auditors).

The Institute of Internal Auditors considers that the main pillars underpinning corporate governance are: the audit committee of the board, executive management, internal auditors and external auditors. The effectiveness of corporate governance consists in the interaction of the four pillars.

Due to the unethical behavior of top managers, their inability to lead an entity, the incompetence of the board of directors to direct the entity to a suitable way, the lack of mechanisms to highlight the significant issues facing the entity, rather performance low, are just a few factors that led to the appearance of improper and fraudulent statements in the entity.

In these circumstances there were some reports that have shown the causes deficiencies faced by entities and the major cause that contributed to their bankruptcy was a weak internal control system.

As a result of these reports there were developed a series of principles and codes that were the basis for the implementation of corporate governance in the entities.

Corporate governance principles formulated by the OECD - Organization for Economic Co-operation and Development refer to six aspects (V. Avram, 2003, pp. 57), namely:

- ensuring the foundation of the overall framework of corporate governance by promoting the principles of transparency and efficiency of markets, harmonized legal regulations and principles by the clear separation of responsibilities between supervisors, authorities of normalization and implementation;
- guaranteeing the shareholders' rights and the key functions of ownership;
- ensuring fair and correct treatment for all shareholders (including foreign and/or minority), reiterating the need to ensure compensation to all those whose rights have been violated;
- recognition of the shareholders' legal rights, i.e. cooperation between shareholders and companies in the field of generating added value and jobs;
- provide an accurate picture of performance, capital, financial position and governance entity through a fair and transparent reporting system;
- clearly define the responsibilities of the board to ensure effective strategic coordination entities and effective oversight of executive management.

The concept of corporate governance has a very broad meaning, including elements such as: management regarding the accuracy of the information that financial situations comprise; managing very tight deadlines for sending the financial reports; communication and complete transparency with respect to financial results; transparency of the internal audit, of processes and of external audit (C. I Voiculescu, 2012, pp. 278).

Therefore, the objective of the financial statements is to provide information about the financial position, financial performance and changes in the financial position and financial performance of the entity, information that is useful to all users (F.C. Dima, 2009, pp.57).

Moreover, presenting a faithful image is generated as a result of the correctness of the carried activities, of a performance management and minimization of risks due to the implementation of corporate governance.

## **5. Conclusions:**

Romanian accounting, should be examined closely with national historical context, on the one hand, and with developments in international accounting in Europe, on the other hand (M. Ioneci, N. Marcu, 2007, pp.159). Learn from others experience is desirable, in the current period, full of unforeseeable events.

The existence of a wide range of risks with actual or potential impact on the business entities represent a certainty, as well as their influence on the company results (most often negative).

In this context, the increase of the economic performance and the efficient conduct of activities are strictly related to implementing a risk management system, allowing defining the principal risks of the entity, identifying and assessing the risks it faces, and develop the effective strategies of managing them. Only in this way risks can be accepted, avoided or transferred (partially or totally).

Therefore, it requires a proactive approach to risk, which is based on identifying ways to prevent and mitigate the negative effects. Respecting the corporate governance, implementing the risk management processes and the internal control are some aspects that contribute to building a reputation for integrity and operation of the entity. Managing risks as a result of the activities of the entity leads to:

- reducing threats;
- streamlining the activities;
- reaching the goals;
- increasing the entity's performance.

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Section III

**EUROPEAN LAW AND PUBLIC POLICIES**

**REFLECTIONS ON THE EVOLUTION OF MINOR'S RIGHTS IN  
CONFLICT WITH THE LAW IN THE EUROPEAN UNION: FROM  
THE NATIONAL REGULATIONS TO THE COMMUNITY  
REGULATIONS**

**Gheorghe, Bonciu<sup>1</sup>**

**Abstract:**

*The study proposes an examination of the development rights of juveniles in conflict with the law in terms of legal regulations adopted by the Council of Europe, the European Union and its Member States. Approaching the settlement of all matters relating to human rights, including the rights of the child, it searched the extent to provide a mechanism in respect of children's rights and how its rights are reflected both of the European Convention on Human Rights and Fundamental Freedoms and Community and of national regulations of the Member States of the European Union. Declarative character of the Community provisions do not provide sufficient protection and uniformity toward juvenile rights in this matter, being treated differently in different countries depending on national and regional legal regime. Analysis of international treaties, customary, and national case law emphasized the need for prevention of juvenile delinquency and juvenile protection by merging rules at Community level in order to ensure a common, reasonable and sufficient protection for the juvenile in general and those found in conflict with law in particular.*

**Keywords:** minor, protection of minors, criminal responsibility of minors, international treaties, acts of the European Union, national provisions.

**1. Introductory remarks**

The child is still in the focus of society as a being in need of protection to ensure a successful future. Although the European space is common in geographical terms, legal regime is different and often varied according to national and regional specificities determined by certain treaties and conventions. Ensuring adequate protection of juvenile rights at European level requires unification under common interests and values of this area, dominated by the dimensions of human rights, including the rights of children, in which they are applying rules of international law, the Council of Europe, the European Union and its Member States (F. Sudre, 1997). This feature does not provide multiple protection, but creates a confrontation which often provides different interpretations field and different applications.

Viability of ensuring a functional mechanism to ensure children's rights is reflected through the European Convention on Human Rights and Fundamental Freedoms and regulations of the Member States. Declarative nature of Community provisions do not provide sufficient and unified protection in this matter of juvenile rights, being treated differently in different countries depending on the national legal system and, as such, it requires analysis of both the provisions of international treaties, customary, jurisprudential and national to unify the Community provisions in order to ensure a common protection, reasonable and sufficient of the juvenile in general and the juvenile in conflict with law in particular.

International Convention on the Rights of the Child of 20 December 1990 in art. 1 defines child "as every human being below the age of 18 years unless under the law applicable to the child, adulthood age is attained uner that age" (Ortansa Brezeanu, 1998, p.73).

Setting an age for the acquisition of rights and loss of some privileges is a problem that requires a comprehensive approach in the sense that some of its regulations the

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Convention enshrines postulates concerning minimum age for which prohibits capital punishment (18), rejection of participation in armed conflict to those who have not attained the age of 18, and in others requires states parties to set minimum limits of criminal liability (article. 40), which is based on the principles of non-discrimination, the best interests of the child care and the inherent right to life and maximum development.

According to the UN Standard Minimum Rules on the Administration of Juvenile Justice, a juvenile is a child or young person who, in relation to the legal system considered, able to respond to an offense in a manner different from those applied in the case of an adult. Juvenile delinquency is considered a child or young person who is accused or convicted of having committed an offense (Maria Coca-Cozma, Cristina-Mihaela Crăciunescu, Lavinia-Valeria Lefterache - eds., 2003 p.90-92).

In international law it is considered that the minor is a person under the age of 18, although criminal adulthood may occur earlier than this age, and can benefit from guarantees a process adapted to the requirements of his physical immaturity, emotional, intellectual and Recommendation of the Ministers Committee of Council of Europe concerning new ways of dealing with juvenile delinquency and the role of juvenile justice considers minor the person who has reached the age of criminal responsibility, but not adulthood (L. Dubois, C. Gueydan, 2005, p. 67).

Most states define child as "person who has not attained the age of 18 years", although criminal adulthood occurs earlier, on average at 13 or 14 years old for those who were competent or committed serious offenses, according to legal system of states, and unconditional adulthood at 15 or 16 years old.

## **2. Principles of juvenile rights protection in conflict with the law**

Universality of juvenile rights in general and the juvenile in conflict with law in particular has led the establishment of principles inherent in the development of a legal framework and its corresponding requirements such as non-discrimination principles, special protection, such as timeliness and facility regulated by law and other means for physical, mental, moral, spiritual and social development in healthy, normal ways and in conditions of freedom and dignity, the right to identity, right to receive protection and social security, adequate food, housing and medical services, right of the child in need of treatment, the need for love and understanding, the right to education, protection from all forms of neglect, cruelty and exploitation, protection against racial discrimination practices, religious or of other nature (F. Sudre, 1997, p.109 ff.).

Reflecting the general principles of the protection and promotion of children's rights, according to their importance, concerns three directions (Emese Florian, 2007 p.7-8): respecting and promoting children's rights are subordinated to the overriding interest of the child; child care as one of the fundamental rights of the child; prevalence of best child interests principle in all actions concerning children, whether undertaken by public authorities and in cases decided by the courts.

In order to identify the rights of minors in conflict with the law, it was considered necessary to develop guiding principles of criminal justice for minors, such as:

- The priority principle of educational measures and the subsidiary character of the punishment, which is meant to apply educational measures on juvenile offenders and then if they have not met or are not able to brainwash the child will resort to punishment;
- Principle of mitigating criminal liability according to the age involves improving the situation of children in relation to their age and to improve the situation of the smallest considering the physical, intellectual and affective immaturity, not having sufficient opportunity to understand the danger of the facts they commit;

- The principle of exceptional character of custodial sentences, meaning that imprisonment is the heaviest and the use of it needs to be justified to the extent that no other penalties are meant to correct and educate the child;
- The principle of specialization of proceedings appropriate to minors requirements resulting from their immaturity and danger of judicial process rigors that can become stressful and improper to the understanding of the minor;
- The principle of knowledge need of minor personality if mandatory training principle has not been respected, minor personality must be assessed in sufficient depth and taken into account in any decision;
- The principle of the need for a response, any crime committed by a minor must provide a response that there is alternative to judicial prosecution, less the special circumstances of committing facts and minor personality that justify in his interest classification in the following procedure;
- Coherence principle of criminal liability, liability for an act of delinquency, must be adapted to the seriousness of the facts and minor personality;
- The principle of permanent involvement of parents and legal guardians of minors in juvenile cases shows respect for procedural guarantees specific to minors that aim to be appropriate for his family members also;
- The principle of mandatory assistance by a attorney and a single defender of minor. The attorney follows the minor throughout the procedure;
- The principle of restricted publicity to protect the confidentiality of the process, since its disclosure would be detrimental to him and his development.

It is therefore necessary to create both a unified system of rules and the existence of specialized institutions to compete in the protection of minors, so depending on the internal mechanisms that cause antisocial behaviour and according to their educational needs, be possible rehabilitation.

### **3. Rights of juveniles in conflict with law under international treaties**

International legal regime of the rights of the child in conflict with the law is the priority of international treaties on human rights in general, child's rights and especially on the rights of minors in conflict with the law.

#### ***3.1. Rights of juveniles in conflict with law under international treaties on human rights***

Universal Declaration of Human Rights established the legality of criminal offenses, the presumption of innocence and milder criminal law enforcement in national criminal laws of the Member States and the International Covenant on Civil and Political Rights has established a set of principles and legal guarantees of public power. First Optional Protocol to the International Covenant on Civil and Political Rights recognizes the competence of the Human Rights Committee to receive and consider communications from individuals who were violated their rights under the Covenant. In turn, The Second International Protocol on Civil and Political Rights abolishes the death penalty (Ortansa Brezeanu, 1998, p.15; C. Butiuc, 2002, p. 22-23 D. Alix, 1997).

UN Convention against Torture and Other Cruel treatment or punishment, inhuman or degrading provides that states shall take legislative, administrative, judicial or other measures to prevent acts of torture and systematic supervision will be exercised on the rules of arrest, detention or imprisonment in the territory under its jurisdiction, including the minors (F. Sudre, 1997, p. 167).

Thus, the Optional Protocol to the UN Convention against Torture and Other Cruel treatment or punishment, inhuman or degrading provides that each State establishes one or several visiting bodies to prevent torture and other forms of Cruel, Inhuman or Degrading treatment or punishment, that will submit recommendations to the authorities in order to improve the behaviour of inmates and prison conditions and prevent torture and other forms of Cruel, Inhuman or Degrading treatment or punishment, make proposals and observations with reference to national law (G. Cohen -Jonathan, 1996, p. 46 et seq.). The prohibition of torture is one of the fundamental precepts of international standards of human rights, including children's rights, and torture does not define the nature of the act itself, but the impact on the victim's age and health.

### ***3.2. Rights of juveniles in conflict with law under international treaties on children's rights***

All conventions have the same goal, all the rules they contain are developed according to the same criterion, all rights of the child recognized in society and family are oriented in the same direction: the best interests of the child.

Interests of the child is the essence of international conventions: appears in the preamble of the Hague Convention of 25 October 1980, at the Luxembourg Convention of 25 October 1980, in New York Convention of 20 November 1989, the Hague Convention of 29 May 1993 concerning the adoption, New York Convention of 20 November 1989, the European Convention concerning the rights of the child (Jean-Francois Renucci, 2002).

Essential reason is that society, domestically or internationally actually became aware that children are most threatened by the harshness of time, it was agreed to be regulated internationally by the International Convention on the Rights of the Child, as well as national regulations to respect international treaties standards of human rights in general and child rights in particular.

According to art.37 of the International Convention on the Rights of the Child, for offenses committed by a person under the age of 18 years will not be given any capital punishment, nor life imprisonment without possibility of release. Arrest or detention of a child shall be made by law and will be used only as extreme measures and for a period as short as possible with due respect to human dignity (J. Robert, 1996, p. 74).

Art.40 of the International Convention on the Rights of the Child provides that States Parties shall recognize for every suspect child, accused of or recognized as having infringed the criminal law to be treated in a manner conducive to his sense of dignity and worth and maintains positive goals oriented to rehabilitation of the juvenile justice system in the context of the interests of the child. In this sense, it reveals the importance of excluding at least small children among those who are criminally responsible, avoiding judicial procedures and developing provisions on alternatives to institutional care (Doina Balahur, 2002), with priority the educational goal that develops the respect for human rights and preparation of the child for responsible life in a free and democratic society (C. Arcu, 2001).

The Convention also requires applying a system adjusted to children and recognizes the child as a subject of rights and fundamental freedoms and the need for all actions involving children to consider the best interests of them.

### ***3.3. Rights of juveniles in conflict with law under international treaties in Juvenile Justice***

Beijing Rules is the first attempt to regulate the criminal system focused on the peculiarities of juvenile delinquents, on their needs for socialization and community reintegration. It states that juvenile offenders needs to be treated for an offense differently to the treatment of adult and recommends states to adopt laws, special rules for juvenile offenders, and

the establishment of institutions and bodies specialized in the administration of juvenile justice. These institutions must meet the needs of juvenile offenders and the community.

It also recommends to regulate the age of criminal liability, taking into account the specificities of emotional, mental and intellectual maturity of minors and juvenile justice system to pursue juvenile welfare by establishing a bivalent system of justice both restorative and protective, and establishing punishment proportionate to the seriousness of offenses and offender characteristics.

The rules provide procedural rights and procedural guarantees of juvenile offenders, such as the presumption of innocence, the right to be informed of the charges, the right to remain silent, the right to defense, the right to the presence of a close relative, the right to trial by two levels (J. Robert, 1996, p. 101). They provide for the regulation of a wider and flexible range of sanctions for minors so that institutionalization should be a last resort solution.

Determining community sanctions and measures was performed by the rules and minimum standards for non-custodial measures (the Tokyo Rules) governing the rights, values, rules and procedures aimed at keeping a person at liberty whenever possible in all phases of research, monitoring and trial and respect for his dignity.

UN Rules for the Prevention of Juvenile Delinquency 1990 directs the reconstruction of criminal systems in the spirit of restorative justice values, of the social actors involved in the development and socialization of children, involving all factors that ensure effective counter crime in society (D. Alix, 1997, p. 96). This is to establish minimum standards accepted by the UN to protect young people deprived of freedom in any way with the rights and fundamental freedoms of young people aiming to counteract the harmful effects of detention and care for their integration. Imprisonment of young people will be a measure of last resort and for the minimum necessary period and the duration of the sanction will be determined by the judicial authority, without precluding release. In addition, given their vulnerability, juveniles deprived of liberty require special attention and protection, and their rights and welfare will be secured during and after the period when they are deprived of their liberty (F. Sudre, 1997, p. 198).

Also, law enforcement authorities must ensure the right of every child to be treated in a manner consistent with their own sense of dignity and worth. Children who are suspected of committing a crime shall have the same rights as adults, including the right to presumption of innocence, right to privacy, the right not to be compelled to provide information and the right not to be interrogated only in the presence of counsel.

Law enforcement bodies may resort to the use of force when it is strictly necessary and to the extent that this is necessary in the performance of their duties without using firearms against persons except in self-defence or defence of others from the imminent threat of death or serious injury (S. Grataloup, 1998, p. 136).

#### **4. Rights of juveniles in conflict under law in the Council of Europe**

Although minors are not named in the Convention on Human Rights and fundamental freedoms, yet they occur in the context of protection of the right to family life, right to education, guaranteeing the right to liberty and security, right to a fair trial and the legality of the sentence and the right to an effective remedy, protection against discrimination and abuse. Convention is largely silent on child rights and makes occasional references on child rights about advertising procedures in courts for juvenile offenders (S. Grataloup, 1998, p. 89), without having to substantiate the rights of the child in specific childhood as was developed by the International Convention of Children's Rights (Doina Balahur, 2002 p.115-116).

Art. 2 of the Additional Protocol to the Convention establishes the right to education, which covers also the minors in conflict with the law. Protocol no. 6 on the abolition of death penalty and Protocol no. 13 concerning the abolition of the death penalty in all

circumstances provide that no one shall be condemned to such penalty (V. Berger, 2005, p. 767, 774-776). European Convention on Extradition provides in Article 11 that if extradition will be refused in case the death penalty is stipulated by the law of the requesting Party, and if the penalty is not provided for by the legislation of the requested Party or is not normally carried out, it can be granted only if the requesting Party gives assurances deemed sufficient by the requested Party that the death penalty will not run (O. Brezeanu, 1998, p. 95).

Protocol no. 7 of the Convention guarantees the right to a double level of jurisdiction in criminal matters and the right not to be tried twice. Protocol no. 12 of the Convention prohibits discrimination based on national or social origin, association with a national minority, property, birth or other status (V. Berger, 2005, p. 772-774).

ECHR has issued several decisions on criminal liability and procedures applied to minors based on “in concreto” reasoning depending on the circumstances in the case, without recognizing the minor a right of criminal irresponsibility and without setting age at which this right is recognized to minor delinquent (Jean-Francois Renucci, 2002, p. 167-171).

In court proceedings, the minor must have the same procedural safeguards as adult as provided by art. 6 of the Convention. ECHR held that it is important that juvenile accused to be treated in a manner taking into account the age, maturity and intellectual and emotional capacities (Jean-Francois Renucci, 2002, p. 256-261 V. Berger, 2005, p. 87).

In many legal systems solving these problems on the juvenile and adolescent criminal treatment was achieved by creating courts equipped with specific procedures to impose sanctions or protective measures aimed more at rehabilitation than punishment of minor for acts he is not entirely responsible (Jean Francois Renucci, 2002, p. 283-284).

In some states, minors are not judged by the same courts as adults. In this case, we must not forget that ritual and ordinary courts can be misunderstood by the minor. According to art. 6 §1 of the Convention defendant in a criminal trial must understand any matter relating to law and every detail of proof, and art. 6 §3 emphasizes the need of minor to be represented in court for it to understand the real nature of the trial and of any punishment imposed on him (Jean-Francois Renucci, 2002, p. 298; V. Breger, 2005, p. 89-90). As a result, juveniles should be in all cases represented by attorneys competent and experienced in the field of juvenile justice, the failure of this requirement is a violation of art. 6 §1 of the Convention.

If the accused minor is characterized by intellectual retardation he should be judged by a court for adults. In the case of *S.C. v. Royaume-Uni*, the accused was an 11 year old boy with a mental age of 8 years, in this case the Court considered that to hear the case of a child who may not participate in the proceedings by his age is essential to use a jurisdiction close to disability suffered, thus adapting the procedure (Jean-Francois Renucci, 2002, p. 317; V. Berger, 2005, p. 212-213).

Proceedings of ordinary courts are intimidating for minors, and the Court stated that specific measures should be taken to change the normal procedures for reducing for minors of courts rigors for adults. For example, judges do not have to wear a wig and robe and the accused must sit with representative and social worker (Jean-Francois Renucci, 2002, p. 411). The Court also ordered that access to the audience hall may be prohibited to the press and public in whole or part of the process if the minor's interests require it (Jean-Francois Renucci, 2002, p. 432-433; V. Berger, 2005, p. 433).

Imprisonment under art. 5 §1 of the Convention provides several conditions of detention before and after the process, and in the case of juvenile offenders, prison should only be a measure of last resort in all stages of the proceedings, preliminary investigation and execution of punishment.

On punishment of foreign minors, ECHR estimated that it must be taken into account not only the nature and seriousness of the offense, but also social, cultural and family relations that

the offender has with host state (Jean-Francois Renucci, 2002 , p.467). To the extent that Member States may exclude juvenile detention, except for serious crimes committed by older minors. Provisional detention should be shorter for juveniles than for adults.

Recommendation on new ways of treatment of juvenile delinquency and the role of juvenile justice, specifies that it is necessary a reasonable duration of pre-trial detention for juveniles. Suspects minors should not be detained for more than six months before trial, the period can be extended only if a judge participated in the examination of the case and obtained the certainty that any delays in proceedings are justified by exceptional circumstances (Jean-Francois Renucci, 2002, p.578; V. Berger, 2005, p. 258-259).

The fact of keeping a juvenile in detention for six months, without taking into account the young age of the accused, may constitute a violation of art.5 §3 (Jean-Francois Renucci, 2002, p. 582; V. Berger, 2005, p.88). Thus, the Court held that 48 days of detention imposed on the applicant, aged 17, is a violation of art.5 §3, even if he had a criminal record and was accused of a serious crime (Jean-Francois Renucci, 2002, p. 597).

Art. 5 (1) d) allow states to decide on the detention of a minor for the purposes of “educational supervision” or “legal action”. In Case Boumar v. Belgian court ruled that Belgian authorities could not invoke the clause “educational supervision” to justify the detention cell of a child in a prison (V. Berger, 2005, p. 87-88). In the case of Nielsen v. Denmark a Danish young man whose parents were separated when he was a child, preferred to live with his father, which actually did for a few years, against judgments by which he had been entrusted with his mother for growth and education. Finally, the mother asked the boy's hospitalization in public psychiatric hospital. Recognizing the applicability of art.5 of the Convention to “any person” and specifically noting that art.5 (1) d) protects minors, the Court held that this provision is not put into practice because “hospitalization of petitioner is not a deprivation of liberty within the meaning of Art.5 of the Convention, but it was a responsible exercise of parental rights of the mother” (V. Berger, 2005, p. 570; Lidia Barac, 2001, p. 45).

Offenses committed by juveniles should only involve surveillance, education measures and not criminal sanctions. A minor should not be punished as an adult by his immaturity, conviction is a high degree of culpability or intervention measures likely to have positive effects. Recommendation of the Committee of Ministers on the European Prison Rules provide that persons who are less than 18 years should not be detained in the same prison with adults, but in special institutions for them. ECHR reveals in this regard, that admission of a minor in a house arrest does not violate art.5 §1 (d) of the Convention, but is not likely to pursue education supervised of person concerned. Thus, Bouamar business v. Belgian a minor suspected of certain offenses was placed in a detention house in virtual solitary confinement without the assistance of qualified personnel, the Court held according to conditions of detention that they can not be considered to pursue an educational purpose and placements in different institutions in the short term lasting up to 15 days are not compatible with art.5 § 1 (d) (Jean-Francois Renucci, 2002, p. 601; V. Berger, 2005, p. 87-88). The Court in that case shows that if a state chooses supervised education system to implement its policy in the field of juvenile delinquency, it has the task to equip themselves with suitable infrastructure to security imperatives and pedagogical objectives (Jean-Francois Renucci, 2002, p . 628)

However, according to art.5 §4, any person deprived of liberty by arrest or detention shall be entitled to bring an appeal in court for the legality of detention and to order release if the detention is not lawful. Obligation derived from art.5 §4 varies according to circumstances and the kind of deprivation of liberty. Thus, the minor does not need to be heard in person, but in the presence of an attorney, legal representative and social worker to provide the necessary safeguards (Jean-Francois Renucci, 2002, p. 617). Review Term



of appeals should be short in time as the invested tribunal to rule on custody of minors (Jean-Francois Renucci, 2002, p. 618).

Thus, under the European Convention on Human Rights and its Protocols do not insert special provisions regarding the rights of minors, in particular those relating to juveniles in conflict with law and ECHR case law refers only to their limits, taking into account the needs of the minor, a stronger side in this regard lies with the Council of Europe, Recommendation of Committee of Ministers.

The recommendations of the Committee of Ministers of European Council concerning new ways of dealing with juvenile delinquency and the role of juvenile justice determines that the aim of Juvenile Justice is to prevent offending and committing criminal acts, to re-socialize and reintegrate juveniles. Charges should reflect the age and maturity of the individual offender and criminal measures to be applied upward, but in step with the increasing level of responsibility of the individual. According to it, juveniles should not be held in police custody for more than 48 hours and pre-trial detention may not exceed six months before trial. Also, whenever possible, on juvenile suspects detention alternative will apply. Deprivation of liberty should never apply as an impending punishment, as a form of intimidation or serve as a substitute for child protection or mental health measures (L. Dubois, C. Gueydan, 2005).

Recommendation REC (2000) 22 of the Committee of Ministers of European Council to member states on the implementation of European Regulation stimulation on community sanctions and measures inserted guiding principles for more effective use of community sanctions and measures including estimated implementation of alternatives to detention, probation, suspended sentence of imprisonment, community service, compensation, victim-offender mediation, treatment for offenders who abuse alcohol and drugs, intensive supervision of certain categories of offenders, restrictions on freedom of movement, prison parole followed by post-release supervision (D. Alix, 1997, p. 145).

### **5. Rights of minors in conflict with the law in the European Union**

The protection of children's rights in the European Union is focused on four areas: participation of the EU states in the international system of human rights protection; membership of the European Union member states in the Council of Europe; European Union instruments; internal rules of each Member State on human rights, as an expression of the principle of subsidiarity.

Pursuant to art.6 of the Treaty of European Union, the European Union is founded on the principles of democracy, respect of human rights and fundamental freedoms, resulting in the International Convention for the Protection of Human Rights and Fundamental Freedoms and the constitutional traditions common to the Member States (L. Dubois, C. Gueydan, 2005 p.3). Pursuant to art.29 of the Treaty of European Union provides that states shall cooperate in criminal matters for the prevention of organized crime, including trafficking in human beings, crimes against children, drug trafficking, weapons.

Approximation of the laws, regulations and administrative provisions of the Member States in criminal matters is essential for the application of European Union policy and may be established minimum rules concerning the definition of criminal offenses and sanctions in the area concerned (V. Păvăleanu, 2009, p. 30).

European Parliament and the Council may establish measures to encourage the prevention of crime, excluding any harmonization of the laws of the Member States. In this context, the establishment of common rules on the prevention of juvenile delinquency, the protection of minors in conflict with the law, the adoption of Community acts is required.

These regulations will help to harmonize the provisions of the Member States, and ensure better protection of children's rights at EU level and effectiveness under the principles of supremacy of Community law and direct effect. Thus, according to the principle of

supremacy of Community law, the Directive takes precedence over national norm, even though the latter would be adopted after the entry into force of the Community act.

Under the principle of direct effect, the Treaties and other Community legislation can be invoked by individuals before national courts and are likely to create rights and obligations for legal entities.

Also, setting penalties will take account of the principle of legality of penalties which Community law is imposed not to worsen criminal liability independently of national law (George V. Ivan, 2009 p.31-32).

According to art.II-84 of the Treaty establishing a Constitution for Europe, children are entitled to protection and care as is necessary for their well-being. They may express their views freely on issues that concern them, according to the age and degree of maturity. In all actions relating to children, whether taken by public authorities or private institutions, the child's best interests must be a primary concern. Every child has the right to have regular, personal relations and direct contact with both parents unless it is contrary to his interest<sup>1</sup>.

In this regard, Article 23 of the Charter of Fundamental Rights of the European Union provides that children are entitled to protection and care necessary for their well-being. In all actions concerning children undertaken either by public authorities or private institutions should take priority over the interests of children (L. Dubois, C. Gueydan, 2005, p.268).

These provisions are declarative and do not ensure functionality because Community acts have not been developed and the necessary mechanisms needed for implementation created. European Parliament and the Council may determine under Art.69B of the Lisbon Treaty minimum rules concerning the definition of criminal offenses and sanctions in the areas of particularly serious crime with a cross-border dimension resulting from the nature and impact of such offenses or from a special need from a common base, such as crime of terrorism, human trafficking and sexual exploitation of women and children, illicit drugs, weapons, money laundering, corruption, counterfeiting of means of payment, organized crime. Depending on developments in crime, the Council may take decisions that indicate other areas of organized crime. European Parliament resolution of 21 June 2007 provides that States may adopt minimum standards and guiding principles in juvenile justice common to all Member States in the field of juvenile justice, which focuses on three basic pillars, firstly, the prevention, secondly, the judicial and extrajudicial measures and thirdly, rehabilitation, social integration and rehabilitation based on internationally agreed principles by the Beijing Rules and Riyadh principles, the UN Convention on the rights of the Child as well as other international conventions in this field (L. Dubois, C. Gueydan, 2005, p. 298).

European civil society considers children a distinct category of persons who have special needs different from those of adults, who lack the ability to protect themselves and have fewer opportunities to protect and advocate for themselves. Many of the programs and projects initiated by the European Union on the protection of law and improving the situation of children are open to strategic partnership with public organizations and candidate countries to accession or are in the process of negotiating accession.

Despite an active cooperation of civil society at community level and the development of rules and implementation of joint actions in the field of children's rights and those in conflict with the law in particular, there has been a homogenization of legal rules at the European space and their power arises from the existence of their historical traditions, cultural backgrounds and the absence of Community measures.

## **6. Conclusions**

Rights of the child in conflict with the law remain to be the concern of international organizations, regional and national ones respectively. Ensuring adequate and appropriate

protection of these categories of minors requires the involvement on international and regional levels to ensure uniform protection.

Regulations of relevant international treaties in this area provide enough discretion to states to establish a system of protection of juveniles in conflict with law and reflecting the diversity in legal systems reveals that the legal regime is different and often diverse.

Council of Europe provides an indirect protection of children's rights through its instruments, of which the most functional one remains the European Court of Human Rights, but its decisions are only relevant on the current causes and do not provide sufficient evidence for the evolution of principles, but only to portray facts and offer concrete solutions. In addition, the recommendations of the Council of Europe by virtue of optional, does not grant the relevant obligation to follow for states.

Deficiency governing the protection of minors' rights can be covered by the European Union by offering reasonable safeguards of operation and mandatory to the Member States under the principles of precedence of Community law and its direct effect. Jurisdiction of the European Union through the European Parliament and the Council to establish standards regarding the protection of minors in conflict with the law is derived from art.69 D of the Treaty of Lisbon.

Therefore, it is necessary to be adopted to establish procedural safeguards regulations and directives issued by the prevention of juvenile delinquency to be implemented by Member States. Community acts should focus on fixing the age limit for criminal liability, by linking it to the average established by European states as well as the procedural requirements in the context of the right to a fair trial and the need to educate children in the prevention of juvenile delinquency.

They also must provide for the establishment of tribunals with staff and equipment tailored to minor's requirements, establishing the presence of the social worker, psychologist, educator known by the minor and able to meet its requirements. Similarly, it requires legal assistance by an attorney specialized in cases involving minors, excluding formalities and the procedure rigors, such as avoiding wig and gown of magistrates and lawyers.

Similarly, educative measures need to be established and how to apply them, their priority in relation to criminal sanctions. Application of deprivation as a last resort, only if the educational measures can not re-educate the child.

The adoption of a suitable framework for minor protection at Community level will ensure its protection in a common space, trustworthiness and create am European future oriented to prevent juvenile delinquency and indirectly to crime reduction.

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# SALE OF GOODS AND ASSOCIATED GUARANTEES IN THE ROMANIAN AND EUROPEAN LEGISLATION

Nicolae, Grădinaru<sup>1</sup>

## Abstract:

*In a market economy there are needed certain rules for products, services and commercial practices in order to satisfy consumer's requirements, while ensuring the free movement of goods and services as well as fair competition.*

*The seller is obliged to deliver to the consumer only products which are in accordance with the contract of sale.*

*In case of non-conformity, the consumer is entitled to have the goods brought into conformity free of charge by repair or replacement, or an appropriate price reduction or rescission of the contract for those goods.*

*Consumer policy in the European Union enables European citizens to shop safely in all Member States.*

*Because the internal market must guarantee the free movement of goods, persons, services and capital, there was a need for a common set of minimum rules of consumer protection valid regardless of where the purchase of goods is made in the Community.*

*When a customer has purchased a product, the Community legislation requires that the product he receives corresponds to what he, the buyer, expressly or implicitly agreed to buy, that is to what is provided in the contract between seller and consumer. Obviously, the product must be used in a normal way.*

**Keywords:** *compliance, replacement, price reduction, repair, resolution, setback.*

**JEL Classification:** K0, K19

## General Considerations

In a market economy there are needed some rules for products, services and commercial practices capable of meeting consumer demands while ensuring the free movement of goods and services as well as fair competition.

In the process of harmonization of the national legislation with that of the Community, was adopted the Law No. 449/2003<sup>2</sup> which transposes into the Romanian legislation the Directive no.1999 / 44 / EC on certain aspects of the sale of consumption goods and associated guarantees.

The European Union's Directive no.1999/44/EC regarding certain aspects of the sale of goods and their associated guarantees, establishes principles in the field so these can be adopted in various legal systems of the Member States and which can be applicable in case in the contract between the seller and buyer there were not provided minimum protection terms for the consumer<sup>3</sup>.

The purpose of the Directive is to bring closer the provisions with legal power, and the administrative provisions of the member states regarding certain aspects of the sale of consumption goods and associated guarantees, for ensuring a minimum and even level of the consumer's protection in the internal market's context.

The Directive defines in art. 1, consumer goods which, means any tangible movable item, except:

- goods sold by forced execution or in another way, by the authority of the law;
- the water and gas, when they are not offered for sale in a limited volume or set quantity;
- the electricity.

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<sup>2</sup> Law 449/2003 on the sale of goods and associated guarantees, republished M.Of.nr.347 / 06.05.2008 as amended by Ordinance 174/2008 published in M.Of.nr.795 / 27.11.2008.

<sup>3</sup> European Union Directive nr.1999 / 44 / EC on certain aspects of the sale of consumer goods and associated guarantees. Official Journal L 171, 07/07/1999 P. 0012-0016.

Considering the European approach of the issue, based on the experience of the advanced market economy, in which the responsibility which derive from guarantees are established, the new regulation contributes to a more efficient organization of the economic environment in Romania.

The economic agents will show a concrete and long-term concern for product quality, increasing their chances to meet internal and external competition.

Given that consumers will feel more protected from unpleasant situations that may arise during the usability of products, including those used, their trust in the products, manufacturers and retailers will increase, developing this way a relationship with beneficial effects on market development.

### **The conformity of products**

According to Article 2 of Directive nr.1999 / 44 / EC conformity with the contract means that:

- The seller must deliver goods to the consumer in accordance with the sales contract<sup>1</sup>.
- Consumer goods are presumed to be in accordance with the contract if:
  - a) they comply with the description given by the seller and possess the qualities of the goods which the seller has presented to the consumer as a sample or model;
  - b) are appropriate for any particular purpose for which the consumer requires them and which he made known to the seller at the conclusion of the contract and which the seller has accepted;
  - c) are fit for the purposes for which goods of the same type are normally used;
  - d) they show the quality and performance which are normal in goods of the same type and which the consumer can reasonably expect, given the nature of the goods and taking into account any public statements on the specific characteristics of the goods made by the seller, the manufacturer or its representative, particularly in advertising or on labelling.

It is not considered to be nonconformity if, at the conclusion of the contract, the consumer was aware or could not reasonably have been aware of non-compliance or where non-compliance has its origin in materials supplied by the consumer.

The seller shall not be bound by public statements, in accordance with the provisions of subparagraph d), where:

- he shows that he was or could not have reasonably been, aware of the statement in question;
- demonstrates that the statement had been corrected before concluding the contract or
- Demonstrates that the decision to buy the consumer goods could not have been influenced by the statement.

Any lack of conformity resulting from the incorrect installation of the consumer goods shall be considered as a lack of conformity of the goods if installation forms part of the sales contract and the goods were installed by the seller or under his responsibility. This provision applies also where the product intended to be installed by the consumer, is installed by the consumer and the incorrect installation is due to a shortcoming in the installation instructions.

According to article 5 of Law No. 449/2003, the seller is obliged to deliver goods to the consumer which are in conformity with the contract of sale.

It is considered that the products are in accordance with sales contract if:

- a) they correspond to the description given by the seller and have the same quality as the products that the seller has presented to the consumer as a sample or model;

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<sup>1</sup> Seller - natural or legal person authorized, in its work, to sell products under a consumer contract.

b) they correspond to any specific purpose requested by the consumer, purpose made known to the seller and accepted by him, in the conclusion of the sale;

c) they correspond to the purposes for which they are normally used in products of the same type;

d) by being of the same type, show quality parameters and normal performances in which the consumer can reasonably expect, given the nature and public statements on the specific characteristics thereof, made by the seller, the producer or his representative, particularly in advertising or inclusion in label.

The seller is obliged to deliver to the consumer only products which are in accordance with the contract of sale.

If at the time of conclusion of the contract of sale the consumer knew or could not have reasonably been aware of this lack of compliance, or if the lack of conformity has its origin in materials supplied by the consumer, it is not considered to be a lack of compliance.

Seller is not liable for public statements referred to in letter d) in any of the following, if he proves that:

a) he did not know and could not have reasonably to know the statements in question;

b) the statement was corrected at the time of conclusion of the contract of sale;

c) the decision to buy the product cannot be influenced by the public statements in question.

Any lack of conformity resulting from incorrect installation of the goods shall be deemed equivalent to a lack of conformity of goods if installation forms part of the contract of sale of goods and the products were installed by the seller or under his responsibility.

It is considered lack of compliance also where the product is intended to be installed by the buyer and the incorrect installation of the product is due to a shortcoming in the installation instructions.

### **Consumer rights**

According to Article 3 of Directive nr.1999 / 44 / EC, the seller is responsible to the consumer for any lack of conformity upon delivery.

In case of non-conformity, the consumer is entitled to have the goods brought into conformity free of charge by repair or replacement, or an appropriate price reduction or rescission of the contract for those goods.

First, the consumer may require the seller to repair the goods or he may require the seller to replace them, in either case free of charge unless it is impossible or disproportionate.

A remedy shall be deemed to be disproportionate if it imposes costs on the seller which, in comparison with the alternative remedy, are unreasonable, taking into account:

- The value of goods, where there would be no non-compliance;

- the significance of non-compliance and

- Whether the alternative remedy could be completed without significant inconvenience for the consumer.

Any repair or replacement shall be completed within a reasonable time and without significant inconvenience to the consumer, taking into account the nature of the goods and the purpose for which the consumer required the goods.

The consumer may require an appropriate reduction of the price or rescission of the contract:

- If the consumer is not entitled to repair or replacement or

- If the seller has not completed the remedy within a reasonable time or

- If the seller has not completed the remedy without significant inconvenience to the consumer.

The consumer is not entitled to have the contract rescinded if the lack of conformity is minor.

According to Article 9 of Law No. 449/2003, the seller is responsible to the consumer for any lack of conformity existing at the time the goods were delivered.

A consumer is any individual or group of individuals constituted in associations, that buy, acquires, uses or consumes products outside of his business or trade.

The product is a good mobile material whose final destination is individual or collective consumption or use.

By Law No. 449/2004 there are covered issues concerning the sale of products, including custom-made products to be purchased under a contract for the sale of products to be manufactured or processed and their guarantees to ensure consumer protection.

Not subject to Law No. 449/2004 is real estate, goods which are sold after being seized goods subject to enforcement proceedings or on any other document issued by judicial authorities, water and gas that are not packaged into only a limited amount or a fixed amount, and electricity.

There are also not subject to these provisions used goods that are sold through public tender procedure, at which the consumer has the opportunity to participate personally.

I. The seller is responsible to the consumer for any lack of conformity existing at the time the goods were delivered.

According to article 10 of Law 449/2003, in the absence of compliance, the consumer has the right to require the seller to bring the product into conformity free of charge by repair or replacement, or to receive a corresponding reduction in price or terminate the contract for this product.

Repair means to bring the product into conformity with the contract of sale.

In case of lack of conformity, the consumer has the right to ask the seller first of all to repair or has the right to request exchange, in each case without charge, unless the measure is impossible or disproportionate.

A remedy shall be considered disproportionate if it imposes costs on the seller which are unreasonable compared to the other reparatory measure, taking into account:

a) the value that the products would have had if there was no lack of conformity of;

b) the importance of the lack of conformity;

c) whether the other reparatory measure could be achieved without significant inconvenience to the consumer.

A reparatory measure shall be considered impossible if the seller can not provide the identical product for replacement or repair parts, including due to lack of equipment or related technology.

Any repair or replacement of products will be made within a reasonable period of time mutually agreed in writing between the seller and the consumer, and without any significant inconvenience to the consumer, taking into account the nature of the goods and the purpose for which he requested the products. The time period shall not exceed 15 calendar days after the buyer has informed the seller of the lack of conformity of the product.

For product repair, in it will be installed only in new parts.

The term free of charge refers to all costs necessary to bring the goods into conformity, including postage costs, transportation, handling, diagnostics, expertise, removal, installation, labour, materials used and packaging.

II. To have a corresponding reduction in price or rescission of the contract for these products.

The consumer may require an appropriate reduction of the price or terminate the contract in any of the following cases:

a. unless he does not benefit any repair or replacement of the product.

b. whether the seller has not taken the reparatory measure in a reasonable period of time;



c. whether the seller has not taken the reparatory within a reasonable time limit agreed between the seller and the consumer, without significant inconvenience for the consumer.

The consumer may terminate the contract if no request product conformity is minor.

Establishing non-compliance and the degree of severity is consistent with the national standards and other normative acts.

Consumer Rights under Law No. 449/2003 shall be exercised without prejudice to any other rights which the consumer may invoke under other legal provisions governing contractual or non-contractual responsibility.

If the contracting parties choose as law applicable to the contract, the law of a State which is not part of the European Union and the contract has a close connection with Romania or other European Union member states where the law no. 449/2003 has provisions more favourable to the consumer there shall be applied the latter.

### **Guarantees**

According to Article 6 of Directive nr. 1999 / 44 / EC, a guarantee must give rise to legal obligations to the offeror on the terms set by the guarantee statement and associated advertising.

The guarantee:

- mentions that under national legislation governing the sale of consumer goods, the consumer has legal rights and states that those rights are not affected by the guarantee;
- Showcases in a plain, intelligible language the contents of the guarantee and essential information needed for making claims under the guarantee, notably the duration and territorial scope of the guarantee and the name and address of the guarantor.

To consumer demand, it shall be available in writing or feature in another durable medium available and accessible to him.

Under the rules of the Treaty, the Member State where there are sold consumer goods may provide that its territory guarantee be drafted in one or more languages, of his choice of the official languages of the Community.

Should a guarantee infringe the requirements mentioned, the validity of this guarantee shall not be affected in any way, and the consumer can rely further on the guarantee and require that it be honoured.

If security parameters that define the product are forced, certainly by precise rules, supervised by the authorities with specific tasks by fields of activity other parameters that define quality and those declared by the label affixed to the product, advertising or other such means are covered by guarantees.

The warranty is basically a way in which sellers and manufacturers implicitly commit to sell products that must maintain the parameters that determine the value of the initial use, so which must comply with the contract of sale and other liabilities of the seller, without requesting from the consumer additional costs given that he uses it according to the instructions for use.

Trough this law it is introduced a new system providing guarantees to consumers, being for the first time in introduced Romanian legislation a commercial guarantee, replacing the legal guarantee.

The warranty is any commitment by the seller or manufacturer to the consumer, without requiring additional costs, refund of the price paid by the consumer, repair or replacement of the product purchased, if it does not meet the conditions set forth in the statements warranty or advertising related.

From a legal perspective, the guarantee is binding on the offerer under the conditions specified in the warranty statements and related advertising.

The guarantee must:

a. include references to the legal rights of the consumer and stating clearly that these rights are not affected by the warranty; b. to specify identification elements of the product , warranty period, the average duration of use, how to ensure guarantee - maintenance, repair, replacement and deadline for achieving them, including the name and address of the seller and the specialized unit of service; c. guarantee must be written in simple and easy to understand terms.

If the warranty does not comply with these provisions, the validity would not be affected because the buyer has the right to ask the seller, to fulfil the conditions contained in the declarations warranty.

At the request of the consumer guarantee shall be provided in writing or in any durable medium available and accessible. Not doing so is a contravention.

Are null and void, contract terms or arrangements between the seller and the consumer before the lack of conformity to be known by the consumer and notified to the seller, that limit or eliminate, directly or indirectly, consumer rights.

In case of products used, the consumer and the seller may agree to shorten the deadline of two years, but not less than one year after delivering the product.

#### **The liability of to the seller**

The seller is the authorized natural or legal person who, in its work, sells products under a consumer contract Law No. 449/2004 defines two types of liability:

- Responsibility for consumer product complies with the specifications of the contract of sale;
- Responsibility for consumer product complies with the obligations under the guarantee and related advertising.

The seller is responsible to the consumer for any lack of conformity existing at the time the goods were delivered.

According to article 16 of Law 449/2003, the seller's responsibility is engaged if the lack of conformity occurs within 2 years, calculated from the delivery of the product.

After the expiry of two years, consumers can claim remedy or replace products that can be used for the purpose they were made as a result of hidden defects occurring in the average duration of use.

Latent defect is a defect of the quality of the product delivered or service rendered that was not known and could not be known by the consumer through the usual means of verification.

For products whose average period of use is less than two years, the period of two years shall reduce to this period.

The average use is the time span, established in normative technical documents or declared by the manufacturer or agreed between the parties, in which durable use products must maintain the functional characteristics, whether the conditions of transport, handling, storage and operation.

In case of used products, the consumer and the seller may agree to reduce the period but not less than one year from the date of delivering the product.

The consumer must inform the seller of the lack of conformity within two months from the date on which it established.

Lack of conformity becomes apparent within six months from the delivery of the product is presumed to have existed at the time of delivery unless the presumption is incompatible with the nature of the product or lack of compliance.

#### **Action in regression**

According to Article 4 of Directive nr.1999 / 44 / EC, if the final seller is liable to the consumer for non-compliance resulting from an act or omission by the producer, a

previous seller in the same chain of contracts or any other intermediary , the final seller shall be entitled to pursue remedies against the person or persons liable in the contractual chain. The person or persons liable against whom the final seller may pursue remedies, together with the relevant actions and conditions of exercise, shall be determined by law.

If the seller is liable to the consumer for lack of conformity resulting from an act or omission of the manufacturer or a trader in the same chain of contracts, the seller has the right to pursue remedies against the charge of non-compliance, with action in regression.

According to Article 15 of Law No. 449/2003, if the seller is liable to the consumer for lack of conformity resulting from an act or an omission of a manufacturer or trader of the same chain of contracts, the seller has the right to head against the charge of non-compliance.

Finding of contraventions and applying sanctions for violation of Law No. 449/2003 shall be made by authorized representatives of the National Authority for Consumer Protection. Contraventions are applicable provisions of Ordinance No. 2/2001 on the legal regime of contraventions<sup>1</sup>

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# SUSPENSION OF THE PRIOR DISCIPLINARY INVESTIGATION ACCORDING TO LABOR LAW

Nicolae, Grădinaru<sup>1</sup>

## **Abstract:**

*In order to conduct the prior disciplinary investigation, the employee shall be convoked in writing by the person authorized by the employer to carry out the research, specifying the subject, date, time and place of the meeting. For this purpose the employer shall appoint a committee charged with conducting the prior disciplinary investigation.*

*Prior disciplinary research cannot be done without the possibility of the accused person to defend himself. It would be an abuse of the employer to violate these provisions.*

*Since the employee is entitled to formulate and sustain defence in proving innocence or lesser degree of guilt than imputed, it needs between the moment were disclosed to the employee and the one of performing the prior disciplinary investigation to be a reasonable term for the employee to be able to prepare a defence in this regard.*

*The employee's failure to present at the convocation, without an objective reason entitles the employer to dispose the sanctioning without making the prior disciplinary investigation.*

*The objective reason which makes the employee, that is subject to prior disciplinary investigation, unable to present to the preliminary disciplinary investigation, should be at the time of the investigation in question.*

**Keywords:** *guilt; sanction; research; disciplinary; suspension; objective reason.*

## **1. Considerations on prior disciplinary research**

The entire labour legislation is based on general and fundamental<sup>2</sup> principles, which are intended to provide legal employment relationships in a legal, reasonable and fair framework, defending both, the legitimate interests of both the employers and the employees. Legal regulations based on these principles should ensure free access of persons to an economic activity, free enterprise, and their exercise under the law guaranteed by art. 45 of the Constitution and unrestricted exercise of the right to employment and social protection of employees devoted to art. 41 of the Constitution.

Within these legal regulations are of particular importance those relating to the conclusion, execution and termination of individual employment contracts. To prevent any abusive behaviour by employers, which would harm the legitimate rights and interests of employees, the Labour Code expressly governing the substantive conditions and the procedural in which employer may decide, on its own initiative, to dismiss the employee with effect of termination individual labour contract.<sup>3</sup>

The Labour Code provides in Article 39 paragraph 2 letter b and c the obligation to respect work discipline and the obligation to comply with the internal regulations, the collective labour agreement applicable as well as in the individual labour contract.

Disciplinary responsibility has the following features:

- it is a contractual liability. Concluding a individual contract of employment, the employee is obliged to comply with all rules regarding labour discipline.
- it is a personal responsibility. Individual employment contract has a *intuitu personae* character<sup>4</sup>.

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<sup>2</sup> The Labour Code. Law No. 53/2003, republished in M.Of.nr.345 / 18.05.2011. Fundamental principles .art.3 - Article 9.

<sup>3</sup> Decision no.506 / 2005 of the Constitutional Court, published in M.Of.nr.982 / 04.11.2005.

<sup>4</sup> "INTUITU personae" in consideration of a specific person, the Latin expression that defines the legal documents at the end of which, the determining factor were represented by the skills, qualities or training of a person, eg employment contract, maintenance contract, contract of mandate representation publishing

- it is implemented by a physical constraint, namely a disciplinary sanction.
- has a penalty and a preventive and educational function, restoring order in the unit where labour discipline was violated.

According to art. 251 of the Labour Code, under penalty of nullity, no action, except as referred to in art. 248 para. (1) a) namely the written warning cannot be ordered before making a prior disciplinary research.

This provision has a role in protecting the employee against unfair sanctions. The courts have consistently held that failure of prior disciplinary research draws absolute nullity of the sanctioning decision<sup>1</sup>.

In order to carry, the prior disciplinary investigation, the employee shall be convened in writing by the person authorized by the employer to carry out the research, indicating the object, date, time and place of the meeting. For this purpose the employer shall appoint a disciplinary committee charged with conducting the prior research.

As we can see, the law provides only that it is mandatory the convening in writing of the employee, without specifying also the manner in which it is convened.

We consider that such an employee convocation can be made by any means of communication to ensure the transmission and confirmation of receipt. Thus, we consider that it can be done by handing the employee under signature at workplace and in the absence of the employee at work the dispatch in writing of the convocation can be done by mail as letter with acknowledgment of receipt at the employee's home. The reason for which the legislator in art. 251 of the Labour Code, inserted the requirement of written notification, specifying the object, date, time and place of the meeting was to enable the employee to prepare defences and evidence, knowingly of the act imputed and which he must be notified of this requirement stipulated by art. 251 para. 2 of the Labour Code is respected only when in the convening which was communicated to the employee, are mentioned all the facts constituting the object of prior disciplinary research, not being sufficient to indicate only one of the misbehaviours for which is to be issued the disciplinary measure, because the purpose of the convocation is to ensure the exercise of the right of defence of employee that is under disciplinary investigation.

The law does not stipulate a certain period between the date when the convening is made, and the date of the prior disciplinary research<sup>2</sup>.

Prior disciplinary research cannot be done without the possibility of the accused person to defend himself. It would be an abuse of the employer to violate these provisions.

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contract, the contract for the execution of a painting, a sculpture, etc. Due to this feature, the obligations assumed by the person can not be met by a representative and are not transferable.

1 Civil Decision nr.3258 / 2011 of the Court of Appeal - Civil Division VII cases and labor disputes and social security. Civil Decision nr.4729 / 2008 of the Court of Appeal - Civil Division VII cases and labor disputes and social security. Civil Decision no. 251/2011, dr. C.P. Timisoara Court of Appeal, Division labor disputes and social security.

2 In the collective labor contract at national level for 2007-2010, published in M.Of.nr.5cc / 29.01.2007 Part V, this term was stipulated. According to art. 75 para. (3) of the collective labor agreement "the Commission shall be convened in writing by the employee investigated, at least 5 days prior. The summons shall indicate at least the reason, date, time and place of meeting. "

This term is not expressly provided for in Article 251 of the Labor Code, it was considered that this term is a term of recommendation and therefore, his failure does not void disciplinary decision.

Currently CAOS unique national legislation no longer provided as Law No. 130/1996 republished in M.Of.nr.184/ 19.05.1998 the collective labor agreement was repealed by Law No. 62 / 2011 published in M.Of.nr.322 / 10.05.2011. Law No. 62/2011 and the Labour Code governing collective agreements thus under Article 128 paragraph 1 of Law No. 62/2011, "collective agreements can be negotiated level units, groups of units and sectors activity. "and Article 129, paragraph 1 states' collective agreements can be negotiated level units, groups of units and sectors." C. Gîlcă - Nature deadline for convening the disciplinary investigation. Review of Labour and Social Security no. 7/2008.

Given that the employee is entitled to formulate and support defence in proving its innocence or lesser degree of guilt than imputed it is necessary that from time of, disclosure to the employee and the conduct of the preliminary disciplinary research to be a reasonable time for the the employee to be able to prepare a defence in this regard.

Such a term must exist namely, between the date of the convocation, and the effective date of the prior disciplinary research requires a reasonable time for the employee to have the opportunity to prepare a defence. "The right to defence is guaranteed" under Article 24, paragraph 1 of the Constitution and is a condition for the validity of the decision of sanctioning infringement of this right of the employee, attracts the nullity of the decision<sup>1</sup>.

The Constitutional Court stated, in its case, that legal relations of work should be conducted in a legal framework to protect rights and duties as well as the legitimate interests of both parties. In this framework, prior disciplinary research sanctions contribute greatly to preventing abusive measures, illegal or ungrounded, arranged by the employer, taking advantage of its dominant position.

Conditioning the application of disciplinary sanctions through conducting the prior research does not diminish the disciplinary responsibility of the employees and does not create any privilege. In case the labour dispute triggered by the sanction is subject to settlement by the court, the parties benefit from the principle of equality of arms, each having access to the same tools and procedural safeguards that condition full exercise of the right to defence and the right to a fair trial<sup>2</sup>.

Corroborating the provisions of Article 251 paragraph 1 and 2 of the Labour Code, it appears that the legislature intended to subject to the absolute nullity exclusively those cases where the measure of sanctioning was done improperly violating in this regard the fundamental right of the employee to defence. Thus, art. 251 of the Labour Code requires,

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<sup>1</sup>The principles underlying disciplinary involvement are:

- Presumption of innocence, according to which a person is presumed innocent until proven guilty. The purpose of the presumption of innocence is to protect the individual against unfair measures by guaranteeing individual liberty by promoting the search for truth by state authorities. It is assumed that the employee disciplinary investigation is innocent so long as his guilt has not been proven and the penalty was not applied;

- Guaranteeing the right to defense, recognizing that the right employee disciplinary investigation, to conduct preliminary disciplinary research, to be convened in writing by the person authorized by the employer to carry out research, indicating the subject, date, time and place of the meeting.

During research prior disciplinary employee is entitled to formulate and support all defenses in his favor and give the person empowered to conduct research all the evidence and reasons it deems necessary, and the right to be assisted in the application by a whose union representative is a member;

- Rapidity of the procedure, which requires the employer to have the sanction issued a decision in writing within 30 calendar days from the date of knowledge about disciplinary irregularity, according to the Labour Code Art.252 and Art .286 provides that applications for settlement of labor disputes shall be heard urgently;

- Contradictory, which involves ensuring the possibility of persons at different positions to express their opinions and defenses related to a disciplinary offense;

- Proportionality, according to which must be a relationship between severity of disciplinary offense, the circumstances of its perpetration and disciplinary sanction imposed. According to Art.250 of the Labour Code, the employer establishes disciplinary sanction applicable to the seriousness of the disciplinary offense committed by the employee, taking into account:

- a) the circumstances in which the act was committed;

- b) the degree of fault of the employee;

- c) the consequences of misbehavior;

- d) the general conduct of the employee;

- e) any disciplinary action previously incurred by it;

- Legality of the sanction under which disciplinary sanctions may be applied only provided by art.248 of the Labour Code;

- the uniqueness of the sanction under which the a disciplinary offense can not apply but one disciplinary sanction as provided for 249 paragraph 2 of the Labour Code "for the same misconduct can apply only one penalty."

<sup>2</sup> Decision nr.607 / 2007 of the Constitutional Court, published in M.Of.nr.577 / 22.08.2007.

under penalty of nullity, to carry out a prior disciplinary research, without which no employee can be placed under sanction and regulates the conduct of this research procedure (Ștefănescu, 2012).

The research provided by the text of law is designed to ensure correct determination of the disciplinary offense, the circumstances in which it was committed, its severity and guilt in relation to which it can also appreciate the applicable penalty, but at the same time also of the exercise of the right to defence of the employee in this procedure.

The essential element of conducting, the prior disciplinary research is the employee's hearing.

During the prior disciplinary research, the employee is entitled to formulate and support all defences in his favour and give the person empowered to conduct research all the evidence and reasons it deems necessary as well as the right to be assisted in the application by a representative of the union whose member he is (Țiclea, 2012).

The discussions held between representatives of employers appointed to conduct the preliminary investigation and the employee shall be recorded in a report which is to play the circumstances and conditions under which the offense was committed as well as the offender's statements.

Listening to the employee is completed by the "Explanatory Note" that he will give. Hearing shall be recorded in a separate proceeding, which contains questions from the committee members and employee responses.

## **2. Suspension of the conducting of the prior disciplinary research.**

According to paragraph 3 of Article 251 of the Labour Code, employee's failure to present at the convene made without an objective reason entitles the employer to have punishment without making the prior disciplinary research.

Therefore, the employer may sanction the employee, without making prior disciplinary investigation, if not present at the convocation. Therefore, the employee may be sanctioned without the need for disciplinary investigation, for it can no longer be done without the employee.

To to be able to make a disciplinary sanction, the employee, the employer must prove that he refused to receive the convocation, to the disciplinary investigation and not just his absence to the prior research or that he did not receive the first convocation by being out of town. Thus, we believe that an essential condition for the employer to be able to make a disciplinary sanction for the employee, it is necessary to exist evidence of his express refusal to receive the convening or has received notice and refuses to attend the preliminary investigation.

We appreciate that it is essential that the employer can prove his good faith, by the evidence that he tried repeatedly by several ways to call for the employee to the disciplinary investigation, and he refused to receive convocation.

The objective reason, which puts the employee, that is subject to the prior disciplinary research, in the incapacity to be able to present to the prior disciplinary investigation must exist at the time of research in question. The employee for objective reasons (sick leave, annual leave, etc., protected periods by art. 60 of the Labour Code) may not be present at the time and place to conduct, the prior disciplinary research<sup>1</sup>.

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<sup>1</sup> According to Article 60 of the Labour Code Dismissal of employees may be ordered:

- a) the duration of temporary disability, as determined by a medical certificate in accordance with law;
- b) suspension of activity during the imposition of quarantine;
- c) during the employed woman is pregnant, to the extent that the employer is aware of this fact prior to issuing the dismissal decision;
- d) the length of maternity leave;

A question arises, however, if the employee is on sick leave he is entitled to be absent from the convocation, made for the prior disciplinary research and in such cases the research is stopped by being impossible to achieve?

In this situation, the employee has an objective reason by being sick, meaning temporary incapacity to work and may miss the convening made by the employer and the search procedure cannot be performed.

According to article 50 b of the Labour Code, the employment contract is suspended by law, in a situation where the employee is on leave for temporary incapacity to work.

In such circumstances the Labour Code in Article 49 paragraph 6 states that if an individual employment contract is under suspension, there will be suspended all deadlines related to the conclusion, amendment, execution or termination of the individual employment contract, unless the individual employment contract legally ceases<sup>1</sup>.

According to article 60 paragraph 1 letter a) of the Labour Code, for the duration of temporary disability, determined by a medical certificate, dismissal of employees cannot be ordered.

The same situation is if the employee is hospitalized as accompanying a sick child aged up to 7 years or for disabled children up to the age of 18. The GEO 158/2005, article 26 stipulates that policyholders are entitled to vacation and sick child care allowance under the age of 7 years and a disabled child, for intercurrent diseases, up to the age of 18, and the Order MS / CNAS no. 60/32/2006 approving the Methodological Norms for the application of Ordinance 158/2005 on leave and health<sup>2</sup> insurance benefits provided for in art. 49: "Policyholders are entitled to vacation and sick child care allowance under the age of 7 years and in case of a disabled child, for intercurrent diseases, up to the age of 18.". Also, art. 50 states: "The certificate of sick leave to care for a sick child aged up to 7 years and caring for a disabled child aged up to 18 years for intercurrent diseases are issued by the attending physician, under the conditions and to the maximum duration provided by law."

The employer knows that the employee is on sick leave because, according to Article 81 of Decree No. 60/32/2006, policyholders are required to notify payers of health insurance benefits (employer) on the occurrence of the temporary incapacity of work and regarding identification data, shall include the name of the prescribing physician and facility in which operates it within 24 hours from the date of granting sick leave. If the occurrence of the temporary incapacity to work intervened, in declared non-working days, policyholders are required to notify payers of health insurance benefits on the first working day.

The text of those rules establish policyholder's obligation, to notify the payer of the indemnity (employer) within 24 hours and not to present a certificate of medical leave in this period<sup>3</sup>.

The implementing rules of the provisions of O.U.G. No. 158/2005 on leave and social health insurance does not establish a penalty for failure to comply the period of 24 hours of the employee.

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- e) the duration of parental leave under the age of 2 years or when the disabled child until the age of three years;
  - f) leave to care for a sick child up to 7 years or, in the case of children with disabilities, affections, until the age of 18 years;
  - g) during exercise of eligible positions in the trade union body, unless the dismissal is ready for serious a disciplinary offense or repeated misconduct committed by that person;
  - h) during the leave.

The provisions of para. (1) does not apply for dismissals that occur as a result of judicial reorganization, dissolution or bankruptcy of the employer, under the law.

<sup>1</sup>Termination of the individual employment contract is governed by Article 56 of the Labour Code.

<sup>2</sup>Order MS / CNAS no. 60/32/2006 approving the Methodological Norms for the application of Ordinance 158/2005 on leave and health insurance allowances published in M.Of.nr.147 / 16.02.2006.

<sup>3</sup> According to Article 36 paragraph 2 of EO No. 158/2005, sick leave certificate presented to the payer (employer) no later than the 5th of the month following the month for which leave was granted.



## **Conclusions**

In conclusion during temporary incapacity to work leave, the employment contract is suspended by law, and also the prior disciplinary investigation is stopped during this period. So the employer's right to conduct the disciplinary notice is suspended while the employee is temporarily unable to work because of his individual employment contract being suspended by law.

The prior disciplinary investigation procedure can be continued after the period of annual leave or sick leave, the employee being told about another convening in compliance with the reasonable time to prepare his defense, specifying the object, date, time and place of the meeting.

According to Art.252 of the Labour Code, the employer, orders application of the disciplinary sanction issued by a decision in writing within 30 calendar days from the date of acknowledgment about disciplinary irregularity, but no later than six months from the date of the deed.

The period of 30 days being a limitation period that can be interrupted or suspended. If the employee is on leave for temporary incapacity to work, the period of 30 calendar days within which the employer orders the sanction by a decision issued in writing is a limitation period and this period of sick leave is suspended and will begin to run after its expiry when the employee will return to work and resume the procedure of prior disciplinary research where he remained as by being an objective fact that the employee was on sick leave for temporary incapacity to work, and the employer may have under the sanction of absolute nullity, disciplinary action before carrying out the prior disciplinary research.

The Labour Code regulates the two limitation periods which is an application of the principle of protecting the interests of both sides of the employment relationship and equality of arms, namely:

- a minimum period of 30 days for the employer to verify that the issues identified in the preliminary investigation proceedings constitute misconduct if it requires the application of disciplinary sanctions for this offense and to justify the action taken;
- as well as a maximum of six months - which is included within the 30 days - to avoid any abuse of the employer resulting from its dominant position in the employment relationship.

The period of six months, flows from an objective point: date of the deed. After reaching it, the employee cannot be disciplined. All procedural stages, regarding the application of the sanction should be consumed entirely, within the period of six months.

If the text of law specifies that disciplinary violation may be sanctioned in up to six months from the time of the offense by the employee, the reasons for the extension of this period up to 6 months may be targets of the kind mentioned the prior disciplinary investigation being able to be performed anytime in this period taking into account that the employee is not in a state of impossibility of being sanctioned and thus investigated.

In the interpretation and application of art. 252 para. (1) of the Labour Code, the employer disposes imposing the disciplinary sanction issued by a decision in writing within 30 calendar days the date of acknowledgment about the disciplinary irregularity, but no later than six months from the date of committing the deed, the time from which time starts to run of 30 days, for imposing the disciplinary sanction is the date of registration of the final report of the prior disciplinary investigation to the registration unit.

The employer or his representative, able to enforce disciplinary sanction must issue a decision within 30 days from the time it received the final report of prior disciplinary research, stating that it was committed with guilt, a disciplinary offense by the employee in question, on the ground that "art. 252 para. (1) of the Code refers to when finding the disciplinary offense

committed for the term the 30 days, while for the period of six months, the time of reference is different, namely, that of the time of the offense "(Ștefănescu, 2012).

Alexandru Ticlea has the same opinion, saying that "indeed, the 30-day period begins on the date on which the employer's legal representative authorized to impose disciplinary sanctions or individual employer became aware of the irregularity, and not the date the deed" (Ticlea, 2011).

In the interpretation and application of art. 252 para. (1) of the Labour Code, "the employer disposes imposing the disciplinary sanction issued by a decision in writing within 30 calendar days from the date of acknowledgment about the disciplinary irregularity, but no later than six months from the date committing the crime, "the High Court of Cassation and Justice ordered that the moment from which time starts to run the 30 days for imposing the disciplinary sanction is the date of registration of the final report of the prior disciplinary investigation to the registration unit<sup>1</sup>.

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<sup>1</sup> High Court of Cassation and Justice. Appeal on points of law. Decision. 16/2012 in case no. 15/2012 was published in the Official Gazette No. 817/5 December 2012.

# THE AGENCY FOR FUNDAMENTAL RIGHTS AND ITS ROLE WITHIN THE FRAMEWORK OF THE EUROPEAN UNION

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## Abstract:

*The European Union's agency for Fundamental Rights represents one of the Union's decentralized agencies, established to provide expert advice to the European institutions and essentially aims to ensure that the fundamental rights of the people living in the European Union are protected. Thus fundamental rights are established through minimum standards to ensure that every citizen is treated with dignity. Starting with the right to be free, the right not to be discriminated on grounds of age, disability or ethnic origin, the right to protection of personal data or the right to free access to justice and many other rights should be promoted and protected.*

**Keywords:** *European Union, human rights, European institutions.*

The idea that man has, by nature, a number of rights, just due to the fact that he was born a human being, comes from ancient times. For example, Plato said that "all who are here present I consider you all to be parents, relatives, people by nature, if not by law (nomos physis). By nature, the fellow, is the parent of the fellow, but the law tyrannical of the people opposed his contrast to nature " <sup>3</sup> , seeming to distinguish between acquired rights by the law and those acquired as a result of the fact that we are born human beings.

"Human rights and fundamental freedoms are a prime concern of the communities of all time. They should be understood as subjective rights of citizens, essential to life, liberty and their dignity, essential to the free development of human personality, rights established and guaranteed by the constitutions of the states and the national legislation "(Muraru, Tănăsescu, 2009). On the notion of freedom, Mircea Djuvara believed that "a man's freedom extends to the limits of the freedom of the other."

Respecting human rights and fundamental freedoms is a principle that led to the founding of European Union and which, along with all the ensemble of freedoms arising from democracy and the rule of law, form the central axis around which revolve the core values that promote and protects the Union.

Therefore human rights, democracy and rule of law are core values for the European Union and which , introduced even in its founding treaties, they were reinforced by the adoption of a set of documents, which facilitated completion of the institutional stages. Thus the history of the European Union can be sighted through the development of human rights, which decisively influenced the shape and functions of the current organization. Also with every step by which new regulations were established, which led to the development of the Union, were granted new guarantees on human rights (Moroianu Zlatescu, 2008).

One of the main objectives of the European Union today is the promotion and protection of human rights, not only regionally but also worldwide.

Fulfilling this obligation in the context of developments in many fields involve better information and knowledge of the realities and the complex issue of human rights, including the establishment of effective institutions for protection and promotion. To meet such a requirement for the provision of information and data, the European Council decided on 13 December 2003 to create a community agency by developing European

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<sup>3</sup> Quote from „Protagoras” (words are attributed to Hippias).

Observatory on Racism and Xenophobia and expanding the scope of its mandate (Moroianu Zlatescu, 2008).

Thus, "under the coordination the European Commission is the European Union Agency for Fundamental Rights. This Agency (FRA) was founded in Vienna by Regulation (EC) no. 168/2007 of the Council of the 15th of February 2007 (OJ L 53/2 22.2.2007). The objective of the Agency is to provide to the competent authorities and institutions of the European Community and its Member States, with assistance and expertise in terms of fundamental rights when implementing the Community law and to support them in taking action and formulate directions for the appropriate action "(EU FRA-<http://europa.eu/about>).

The Agency has the following tasks, through which is making a important contribution to the promotion and protection of human rights:

- To collect, analyze and disseminate, objective, reliable and comparable information on the situation of fundamental rights in the EU;
- To improve the comparability and reliability of data through new methods and standards;
- To establish and / or promote research and studies in the field of fundamental human rights;
- to formulate and publish conclusions and opinions on specific issues on its own initiative or at the request of the European Parliament, the Council or the Commission;
- to encourage the dialogue with the civil society in order to raise public awareness of fundamental rights. However, the The Agency does NOT have the authority to examine individual complaints or take decisions of a regulatory nature (FRA EU-<http://europa.eu/about>).

The activity object of the Agency is considering issues relating to fundamental rights in the European Union and the Member States to implement European legislation.

Also, either at the request of the European Parliament, of the council or of the Committee, or out of its own initiative, may formulate and publish conclusions and opinions on specific thematic topics, available to the EU institutions and Member States in their implementation of the European law to publish an annual report on human rights issues, while highlighting examples of good practice, thematic reports having as base its analysis, researches and surveys an annual activity report to develop a communication strategy and promote the dialogue with the civil society in order to sensitize the public on fundamental rights and to inform in an active way on its work (Moroianu Zlatescu, 2008).

The Fundamental Rights Agency of the European Union is one of the Union's decentralized agencies established to provide expert advice to the EU institutions and is essentially designed to ensure that the fundamental rights of people living in the EU are protected. Thus fundamental rights are set by the minimum standards to ensure that every citizen is treated with dignity. From right to be free, the right not to be discriminated on grounds of age, disability or ethnic origin, the right to protection of personal data or the right to free access to justice and many other rights should be promoted and protected.

According to Article 6 of founding Regulation, in order to ensure the provision of objective, reliable and comparable information, using the expertise of various organizations and bodies in each Member State, taking into account the need to involve national authorities in the collection of data, the Agency:

- a) develops and coordinates information networks and uses the existing networks;
- b) organizes meetings of the external experts;
- c) where necessary, establishes ad hoc working groups.

In carrying out its activities in order to achieve complementarity and ensure optimal use of resources, the agency must take into account the information gathered and activities

conducted by the institutions, bodies, offices and agencies of the Union and the Member States; agency may enter into contractual relations, in particular of subcontracting with other European bodies for the latter to carry out the tasks they have been assigned.

According to Article 10 of the Regulation "the Agency cooperates closely with NGOs and civil society institutions working in the field of fundamental rights, including combating racism and xenophobia at national, European and international level. For this purpose, the Agency established a cooperation network (Fundamental Rights Platform), composed of non-governmental organizations working on human rights, trade unions and employers' social and professional organizations concerned, churches, religious organizations, philosophical and non-confessional, universities and other qualified experts of European and international bodies and organizations (Source: <http://eur-lex.europa.eu/>).

By collecting and analyzing data in the EU, FRA, helps EU institutions and Member States in understanding and addressing the challenges of protecting the fundamental rights of all citizens of the Union. Working in partnership with EU institutions, Member States and other international organizations, European and national, FRA plays an important role in his endeavor to make fundamental rights a reality for all who live in the European Union.

The basis of operation of the European body lie the principles of independence, and the overall interest of transparency and access to documents, data protection and the fight against fraud, after which must be guided in carrying out its duties. In its work, the Agency shall be guided by the context of the multiannual framework program of the EU Charter of Fundamental Rights and anti-discrimination Directives (Moroianu Zlatescu, 2008).

The framework theme of the Fundamental Rights Agency of the European Union shall include, as shown, subject areas such as access to justice, asylum, migration and border data protection and privacy, non-discrimination, protection of persons with disabilities, racism, child rights, etc. . This thematic framework can be exceeded even at the request of the European Parliament, the Council or the Commission, within the human and financial resources of the Agency.

At the same time, FRA cooperates closely with Member States, designating each national binding agents, and government organizations and public bodies in the Member States of the Union, including national institutions with competence in human rights and civil society, constituting for this purpose "platform rights" cooperation network for the exchange of information and knowledge. However from its Board of Directors are part, along with one independent person appointed by the Council of Europe and the other two by the Commission, independent personalities with experience in managing public and private organizations and knowledge of fundamental rights designated by each Member State of the Union (Moroianu Zlatescu, 2008).

FRA maintains close ties especially with the European Commission, European Parliament and Council of the European Union and other international organizations such as the Council of Europe, the United Nations (UN) and the Organisation for Security and Cooperation in Europe (OSCE), governments, civil society organizations, academic institutions, bodies promoting equality and national human rights institutions (NHRIs).

The Agency's work is focused on research projects with cooperation of stakeholders, analysis, advice and opinions made by departments support to promote equality and the rights of citizens to free access to justice. Communication with other institutions and bodies and their awareness and cooperation with agency partners are carried out by specialized departments of the agency.

According to data published on the Agency website, 2013 scored some achievements in the field of fundamental rights as reflected in the work of the Agency. The research conducted by this agency stressed the need for EU legislation to implement border, migration and asylum in full compliance with the legal documents governing the

fundamental rights. This year, the agency also released a handbook on European law on asylum, borders and migration, conducted jointly with the European Court of Human Rights. The Guide that has so far proven to be extremely popular with lawyers, judges, prosecutors, border guards, immigration officials and others, and has been downloaded more than 13,000 times. An updated version of the manual will be published in early 2014 (Agency for Fundamental Rights <http://fra.europa.eu/en/news/2013/year>).

The economic crisis affecting most of Europe has led to increased unemployment and austerity measures taken by the Government seriously offended fundamental rights and has major implications for the legitimacy of the rule of law. Fundamental Rights Agency of the European Union highlighted the impact that budget cuts have on free access to justice, right to education, health care, social services, to a decent living.

The world's most comprehensive study on violence against women was developed by the agency this year. In the acts of violence against women are included crimes such as sexual assault, rape, domestic violence and the perpetration of such acts shall be considered not only a violation of women's rights to dignity and equality, and that in this way can be indirectly affected family members, friends, etc.

In this study, the agency found that one of 20 women has been raped from the age of 15 years, about 18% of women were followed to be harassed from the age of 15, and 5% of women were pursued to be harassed during the 12 months preceding the survey. These dates show that a number of 9 million women in the 28 European Union countries were followed to be harassed in the past 12 months (Source: <http://fra.europa.eu/sites>).

The Union's policy on education, health, employment, non-discrimination, should consider the impact that violence against women has in these areas and highlight in each Member State policies, actions and efforts of each in order to reduce the phenomenon.

Therefore, measures are needed to combat and prevent violence against women, not only at EU level but also at national level.

"The FRA investigation at EU level responds to requests for data on violence against women in the European Parliament, reiterated by the Council of the European Union, the conclusions on the eradication of violence against women in the EU. The results of the investigation interviews can be interpreted in the light of existing data and lack of knowledge on violence against women at EU level and the Member States, and can be used in policy and action on the ground to combat this violation of rights man." (Source: <http://fra.europa.eu/sites>).

A form of concrete support that the Agency grants to young graduates are reflected in practice paid internships for a period of between 3-12 months, thus offering trainees the opportunity to gain practical experience in the field of fundamental rights in Europe, they thus having a view of the activities and objectives of the Agency and to put into practice the theoretical concepts they hold.

These paid internships are designed to provide opportunities for trainees to stimulate the accumulation of practical experience on the work done in the departments and services of the Agency and not least to enable graduates to contribute to the objectives of the FRA.

Those who can benefit from this project are either citizens of EU Member States candidate countries or potential candidates who hold a university degree or the equivalent for at most 18 months. They should know very well English, but another language of the European Union and not to have received any kind of training in the EU institutions and bodies or have been employed by them.

In conclusion, we can say that although recently established, this body meets the current requirements of economic and social development of Romania, including human

rights and continues to develop in order to support our country's approach to fulfill the requirements set by the Union.

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# CONSIDERATIONS ON THE IMPORTANCE OF OBSERVING HUMAN RIGHTS WITHIN EUROPEAN STATES

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## **Abstract:**

*The detailed analysis of the institution of human rights and fundamental freedoms is necessary to know its role. The promotion of the human condition in the world leads to the innovative interpretation of this institution. The existence of so many international legal instruments aims towards a better protection of the human rights in contemporary society.*

*The issue of human rights has occupied an important role within the states, human rights violations being a common concern, especially in the former communist states.*

*The issue of human rights in Romania has emerged and developed very early. The changes made in Romania by the revolution of 22 December 1989 caused an intense process of amending the legislation in order to be correlated with the international standards.*

*Within European states human rights observance has acquired great importance, a matter which will be emphasised in the future as well. The European Court of Human Rights ensures the guarantee of respecting human rights in Europe, having as legal instrument the European Convention on Human Rights.*

**Keywords:** Human Rights, the European Convention on Human Rights.

**JEL Classification:** K13, K39.

The concept of human rights includes a highly diverse range of rights, being debated both in doctrines and in the specialised practice. However, it currently represents a reinterpreted concept.

In the modern world it is important for a person to know his/her rights. It is sad that currently there are extremely many people who do not know which those rights are. Perhaps this is also the reason why human rights have generally begun to be promoted lately. It is absolutely necessary to be united with our rights.

The emphasis on human rights and their development existed at the end of World War II, when the atrocities of the Holocaust were revealed, where it is estimated that over 10 million people died. This fact in humankind history led to the creation of international standards of human rights protection and of systems that guarantee their observance.

The creation in 1945 of the United Nations is a landmark in the evolution of human rights observance.

Subsequently, the UN Charter (the UN Charter was signed in San Francisco on 26 June 1945, at the end of the United Nations Conference on International Organisation, and came into force on 24 October 1945. Romania ratified this Charter in 1955) – based on which the Human Rights Commission was established – and the Universal Declaration of human Rights (the Universal Declaration of human Rights was adopted and proclaimed by the UN General Assembly by resolution 217 A(III) of 10 December 1948. Romania signed the Declaration on 14 December 1955 when the R 955 (X) of the UN General Assembly was admitted among the Member States) have made a significant contribution in the development of the universal system of human rights observance.

Systems of human rights protection, similar to the European one, have created on all continents.

The European system finds its source in the European Convention on Human Rights (the European Convention on Human Rights was signed in Rome on 4 November

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1950, a Convention also ratified by Romania on June 20, 1994 by Law no. 30 of 18 May 1994 published in the Official Gazette no. 135 of May 31, 1994.

According to article 4 paragraph 1 of Law no. 30/1990, Romania has the following reserve:

Article 5 of the Convention shall prevent the application by Romania of the stipulations in article 1 of Decree no. 976 of 23 October 1968 regulating the military disciplinary system, provided that the term of imprisonment does not exceed the limits set by law in force.

Article 1 of Decree no. 976 of 23 October 1968 states: "For the deviations from the military discipline, stipulated by the military regulations, the military commanders or chiefs may apply the disciplinary sanction with imprisonment to servicemen up to 15 days."), which is the most important and best developed treaty in this area.

On other continents, human rights protection systems have not been as successful. On the American continent states have adopted an Inter-American Convention on Human Rights and a judiciary system that guarantees their observance, which however did not have the same success as the European one. In Africa, countries have adopted the European model, which although in recent years has made some progress, still remains without use.

The issue of human rights has occupied and continues to occupy an important place within the states, as well as within international bodies and meetings, becoming nowadays a widely spread topic, the compulsory reference of any modern speech (Sudre, 2006). Since it is so vividly debated in the contemporary world, it seems to be very familiar to many people, but it really it is a great enigma because it involves two fundamental questions about these: ignorance of the issue and its real non-application.

The self-limiting of the legal science to the analytical approach has led the law theory to neglecting its fundamental task, which is seeking for the essence of law and justice. Philosophers have tried to fill this gap and proposed an impressive number of speculations on the nature of law and justice. (...) An investigation into the functions performed by law and justice within the different types of social groups would therefore lead to a better understanding of their intrinsic nature (Schwarzenberger, 2010).

This topic about the protection of human rights is dealt with by the science of public international law in a separate chapter, but also in many of the internal law branches, such as: the international protection of human rights, constitutional law, civil law, labour law, family law etc.

Public international law deals with this subject in terms of the way in which the international bodies and organisations are involved in this issue.

The international human rights proclamation is more recent and comes from written sources, respectively several legal texts adopted at national and international level after the Second World War (Corlăţean, 2012).

In time, the human rights and fundamental freedoms have found their legal establishment in a number of international treaties and conventions. We mention some of them as examples: the Final Act of the Congress of Vienna (1815), which guaranteed the religious freedom and some civil and political rights for certain communities; the Treaties of Paris (1856) and Berlin (1878) on the protection of the Christian religion; bilateral and multilateral international agreements on the limitation and prohibition of slave trade.

Human rights protection is better stated in the conclusion of the peace treaties following the First World War.

"The international law of human rights" appeared in the second half of the twentieth century. This branch of law "differs considerably from the traditional international law, in that people are considered to have internationally guaranteed rights, but as individuals, not as citizens of a particular state. This concept led to the adoption of

some international legal instruments for the protection of individual rights and to the creation of certain international institutions whose competence includes the protection of individuals against violations of their rights by the states (Selejean-Guțan, 2004).

Violation of human rights during the Second World War was “a deliberate instrument of domestic policy and even a precondition” of the rise of the fascist systems (Robertson, Merrills, 1994).

The issue of human rights in Romania emerged and developed very early. Under the influence of the Renaissance in Transylvania, as well as in Moldova and in Țara Românească humanistic ideas were developed contained in the works of Neagoe Basarab, Petru Cercel, Despot-Vodă, Nicolaus Olahus, Johannes Honterus etc.

In the eighteenth century the first acts of political organisation of the Romanian Countries appear, which include references to the human rights, among which we mention as examples: “Pravilniceasca Condică” printed in 1780 by Alexandru Ipsilanti; *Suplex Libellus Valachorum* written in 1791 at the initiative of Romanian bishops in Transylvania; the Civil Code of Scarlat Callimachi – 1817; *Legiuirea Caragea* – enacted in 1818, which was the first code of laws in Țara Românească; the memoir of “cărvunarilor” – 1822, which was the first political and legal document of the Romanians that regulated a system of the rights and freedoms of man and citizen (Iorgovan, 1994); the Organic Regulations adopted in 1831 in Wallachia and in 1832 in Moldova, the Proclamation of Izlaz adopted in 1848 by the revolutionary movement in Țara Românească, etc.

During the Revolution of 1848, the issue of human rights has begun to acquire a modern character, being underlined in the following years by our country’s first modern constitution, the Constitution of 1866 and the Constitution of 1923.

During the reign of Alexandru Ioan Cuza other legislative stipulations were adopted as well, such as the Civil Code – 1865, the Criminal Code – promulgated on October 30, 1864 and implemented in 1865, the Code of Criminal Procedure, in which some principles were included, such as: the principle of punishment legality; the principle of the right to defence; the principle of equality before the law, etc.

The vast majority of treaties, conventions and international agreements on human rights were ratified during 1944-1989, although in many cases the internal normative act was not in line with the international provisions (Romania ratified the International Covenant on economic, social and cultural rights and the International Covenant on civil and political rights by Decree no. 212/1974, which was published in the Official Gazette no. 146/20.11.1974).

The changes made in Romania by the revolution of 22 December 1989 caused an intense process of amending the legislation in order to be brought up to the international standards. This process is still ongoing, targeting the criminal code and the code of criminal procedure, and also a number of special laws containing criminal provisions, such as the laws on human trafficking, trafficking and consumption of illicit drugs, money laundering, electronic commerce, corruption etc.

The protection of fundamental rights in Romania has several difficulties. In comparison with the European Convention and the Strasbourg Court, it is necessary that the state overcomes the threshold of a minimum obligation of enforcing the judgments delivered against it and of assuming the role of primary guarantor of the fundamental rights’ effectiveness, which is an obligation ensuing from their objective character (Bercea, 2009).

Romania is a party both of the treaties specialising in human rights and of other international treaties related to human rights.

Our country is a party of all international treaties with universal and general value, such as: the International Covenant on Civil and Political Rights, the Covenant on Economic, Social and Cultural Rights, the Second Optional Protocol to the International

Covenant on civil and political rights, aiming at abolishing the death penalty, the Optional Protocol on the international Covenant on Civil and Political Rights; specialized universal international treaties, such as: the Slavery Convention, the Convention on the Prevention and Punishment of the Genocide Crime, the Convention on Women's Political Rights, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatments; specialized regional international treaties, such as: the European Convention for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment, the Framework Convention for the Protection of National Minorities, etc; international treaties related to human rights to which Romania is a party: the United Nations Charter and the Statute of the International Court of Justice, the Constitution of the International Labour Organisation, the United Nations Convention on Education, Science and Culture, the Statute of the Council of Europe; specialised international treaties on human rights that Romania signed, but not ratified: the European Social Charter, the European Charter for Regional or Minority Languages, the Convention for the Protection of Individuals with regard to the automatic processing of personal data, etc.

According to article 11 paragraph 2 of Romania's Constitution, international treaties ratified by the Parliament, according to the law belong to the internal law. The constitutional provision does not refer exclusively to international treaties on human rights, but takes into account all international treaties ratified by the Parliament.

According to Romanian internal law, even at constitutional level, the direct applicable character is expressly established, within the domestic law, of the international treaties on human rights, ratified by the Parliament, which, being part of internal law, are acts of internal law (Bercea, 2009).

According to paragraph 1 of article 20 of the Constitution, the interpretation and application of constitutional provisions on human rights are established in the light of the international treaties in this field. Reference is made to the Universal Declaration of Human Rights and the two International Covenants, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

Article 20 paragraph 2 of the Constitution states that if there is conflict between the covenants and the treaties on fundamental human rights of which Romania is a party, and the internal laws, the international regulations shall take precedence.

There are two situations (Bercea, 2009): the situation in which the international norms are more favourable and the situation in which the international standards are more restrictive in relation to the internal legislation. Thus, thanks to the principle of subsidiarity of human rights international protection, in the event of conflict between the international and domestic regulations, the international ones will prevail to the extent to which they are more favourable. The internal rules, more favourable, which provide greater protection of human rights at internal level, will not be removed from the application of more stringent international norms that ensure a minimum level of protection.

In the event of a possible conflict between an internal standard of human rights protection and one stipulated in the Convention or between two international norms, domestically, the judge will appreciate the more favourable provision cited by the interested party. In the case of the international conflict, this may occur between the provisions of the Convention and those of the UN International Covenant of 1966 regarding civil and political rights, to the extent to which it would concern the rights and freedoms guaranteed by both treaties, the State in question being part of both, although the conflict is apparent: the Court can only apply the Convention provisions (Bîrsan, 2006).

The European Convention on Human Rights has primacy, not only because of the principle of the primacy of international law itself, but also because it is enshrined in a constitutional provision (article 11 paragraph 2 and article 20 of the Constitution). This

ensures effective and concrete guarantees for implementing the Convention norms in domestic law, both in terms of quality of the national law and in its interpretation and application, the jurisprudence of the European Court of Human Rights having an important directive role (Voicu, 2001).

The European Convention on Human Rights, considered as the most complex and advanced international legal instrument on the protection of fundamental rights and freedoms, also has the role of standard in interpreting constitutional provisions on human rights, a role that the Constitutional Court has increasingly stated in many of its decisions (Tudorică, 2003).

The situation of the European Convention on Human Rights in the states' domestic law involves a great diversity. Thus, in countries such as Ireland, these rules are not part of the domestic law because the international standards are considered to have legal value only in terms of interstate relations (Sudre, 2006).

In other Member States of the Council of Europe (Malta, Finland, Sweden, Norway, Denmark, the UK) the application of the Convention stipulations was made indirectly, following the transposition into domestic order by a special law. Furthermore, in countries such as Germany, Bulgaria, Spain, France, the Netherlands, Portugal and Belgium, the European Convention is incorporated directly into the national legal order by the effect of the national constitutional provisions (Sudre, 2006).

With regard to the status of the European Convention in relation to the Romanian legislation, it results from the combination of the provisions from article 11 and article 20 with those of article 1 paragraph (5) of Romania's Constitution, the latter enshrining the supremacy of the fundamental law over all other laws. Therefore, in terms of the legal force, the stipulations of the European Convention cannot be positioned above the provisions of the Constitution of Romania; it would have the nature of a law which is positioned immediately after the fundamental law and before the other categories of normative acts (Muraru, 2007).

The reasons for the dynamic of the process of incorporating into the domestic law the fundamental rights and freedoms has been slow, especially at the level of ordinary courts of law, they are of a different nature. Firstly, the difficulty of applying the Convention has occurred because of the lack of any official information system on the Court's jurisprudence, the judges thus limiting themselves to stating sometimes the compliance of the internal law acts with the provisions of the Convention. Secondly, there was a strong reluctance of the judges towards a certain court and supranational legal text. This phenomenon is not unique, occurring in different intensity levels in other Member States of the Council of Europe as well (Chiriță, 2008).

The European Convention had and still has a great influence on the Criminal Code, the Criminal Procedure Code, and the special laws with criminal content, as well as the content of organic and ordinary laws.

The Universal Declaration of Human Rights becomes legally binding in the Romanian internal law based on article 20 paragraph 1 of the Constitution and it is integrated to the constitutional block, having the same legal force as the human rights international treaties of which Romania is a party.

The human rights remain a matter of national competence of each state, increasingly becoming also object of international cooperation (Diaconu, 2001).

We emphasise the fact that the development of the concept of human rights was actually the synthesis of the ideas from different countries, written by prestigious lawyers who left behind valuable research and study works.

The regulation of the human rights issues is achieved today in the world on two levels:

- internationally, through international legal instruments;
- internally, through internal law regulations of the world's countries.

Referring to the political dimension of the protection of human rights, we can say that it is simply the result of the reception at state and international level of the human aspirations, which tend to be protected by all means available to the human society. Therefore, it can be easily concluded that first of all the issue of human rights is a social one.

Despite these aspects, we still have to admit that for certain groups of the population this issue remains an unknown, abstract, theoretical or partially noticed topic, the significance of these rights not being sufficiently perceived for the state's development, as well as for the citizens' lives.

The concept of "human rights" is relatively imprecise (Renucci, 2009). This ambiguity comes from the fact that the science of human rights is a discipline specific to the humanities, whose object is to study the relationships between people based on human dignity, causing the appearance of rights and freedoms that are necessary for the development of human personality (Mathieu, 1995).

The interest that this precious legal institution has lies in the fact that without those rights a democratic society cannot be achieved, a prerequisite for each individual's assertion both internally and externally.

An important aspect is that of placing the human rights issues domestically or internationally.

The human rights compliance can be a matter of international law, since this field is regulated by international agreements, it ceases to be an issue related to the domestic jurisdiction of states.

Geographically speaking, the international protection of human rights is applicable both universally and regionally (Dinh, Daillier, Pellet, 1987).

The existence of the principles that belong both to the domestic law and to the international legal order can place this field both in the field of law and in that of international law.

Based on the sovereignty they have, the states may sign, in any field, including the one of human rights protection, international conventions through which they start relationships with other states. Those conventions create for the signatory states the obligation to respect and protect human rights, but also for the international community to ensure the compliance of these rights and freedoms.

The issue of the real protection and defence of the human rights was translated into reality by the creation of specialised political or judicial courts, including the establishment of an International Criminal Court for the most serious prejudice to the human rights (Oberdorff, 2010).

The fact that the international regulations are prevalent does not mean that human rights are taken out of states' national jurisdiction. The citizens can benefit from the rights contained in the Convention only if those rights are accepted by states to which they belong, by their inclusion in the national legislation or by the ratification of these conventions. The people's rights and freedoms arise from the transposition of the international stipulations into the domestic law. Having a universal nature, the human rights must be respected by every citizen. In case of violation of these rights by a state body or by a private person, the state has the duty to intervene to protect the victim and his/her harmed interests, which leads to the need of applying the national law, to defend the equality of rights of all citizens.

Concerning the ways that can guarantee the compliance of human rights internally, in the Constitution, article 20 provides that: "(1) Constitutional stipulations with regard to the citizens' rights and liberties shall be interpreted and enforced in accordance with the Universal Declaration of Human Rights, with the covenants and other treaties that Romania is part of.

(2) In case there are any inconsistencies between the covenants and treaties on the fundamental human rights of which Romania is part, and the internal laws, the international regulations shall take precedence unless the Constitution or internal laws include more favourable provisions,” and article 11 paragraph 2 states that: “The treaties ratified by the Parliament, according to the law, belong to the internal law.”

The text of the Constitution emphasises the “pacta sunt servanda” principle (the compliance in good faith of all international treaties), as well as the fundamental constitutional principle in the legal guarantee of the human rights in our country.

The protection of the human rights is “a special branch of the social sciences that studies the relationship between people based on human dignity, establishing the rights and faculties whose totality is required for the flourishing of every human being’s personality” (Cassin, 2005).

We consider that the issue of human rights compliance will be a highly debated topic in Europe of the 2020s because there will always be attempts to violate human rights or violations of human rights.

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# CONTESTATION FOR ANNULMENT COMMON IN THE REGULATION OF THE NEW CODE OF CIVIL PROCEDURE

Licuța, Petria<sup>1</sup>

## **Abstract:**

*Contestation for annulment whatever its form, is an extraordinary means of appeal that is exercised according to art.503-508 of the new code of civil procedure, only for the reasons and under the conditions laid down by the legislator.*

*Contestation for annulment allows the party that is interested to challenge a final judgment given in violation of procedural rules. The paper addresses theoretical issues, of the common appeal for annulment, being analyzed aspects aimed at the parties, the object, the exercise period and settlement procedure, of this remedy available to the interested party.*

**Keywords:** *appeal, annulment, remedy, court, judgment*

**JEL classification:** K00, K10

## **1. Prior notions**

In order to remedy any errors that may be found in a judgment, the Romanian legislator has regulated the institution of appeals through which one can get a judgment's annulment or alteration. Currently, the civil Procedure Code that entered into force on 15 February 2013, covers the following remedy methods: appeal (art.466-482), recourse (art.483-502), the appeal for annulment (art.503-508) and review (art.509-513). To be specified is that the appeal in the interest of the law is also regulated by the new code, but is no longer included in the category of appeals as in the old code, but is provided separately in Section III, Provisions for ensuring an uniform judicial practice, art.514 -518.

Initially the Civil Procedure Code of the 1865 does not regulate the appeal for annulment as remedy, this legal institution being introduced into the Code by Law No. 18 of 2 February 1948.

This extraordinary means of appeal is regulated by the New Civil Procedure Code (hereinafter NCPC) in art.503-508<sup>2</sup>. As outlined in the provisions which regulate it, the appeal for annulment is an extraordinary means of appeal, of withdrawal, non-suspensive of enforcement, exercised against the final decisions of the courts on the grounds expressly and limitedly prescribed by law by which is required from the court which gave the judgment that is under appeal, to cancel the its own judgment and to proceed to a fresh determination the case.

C.P.C. just like the old code, regulates two types of annulment appeal: the ordinary or common law appeal for annulment [art.503 par. (1)], and contestation in special cancellation [art.503 par. (2)].

In the following, we will address the theoretical issues, of the ordinary appeal for annulment.

## **2. The Parties, the reasons and conditions for the admissibility of the ordinary appeal for annulment**

The appeal for annulment whatever its form, may be exercised by any of the parties which participated in the settlement of the dispute which was judged, are satisfied legal requirements. Therefore, the appeal for annulment may be brought, as appropriate, by the

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<sup>2</sup> Law no.134/2010 on the Civil Procedure Code was republished in the Official Gazette of Romania, Part I, no.545 of August 3, 2012;



plaintiff or defendant, recurrent or respondent The appeal for annulment may be introduced by the prosecutor as provided in Article 92. (4) din N.C.P.C.

As pointed out, the common law appeal for annulment, is governed by art.503 par. (1) which provides only one reason under which this remedy may be exercised.

Thus, the mentioned article provides that a final judgment can be challenged by appeal for annulment when the appellant was not legally summoned, nor was present at the time when the trial took place<sup>1</sup>.

From the actual drafting of the text of law, it appears that the legislator set two conditions for the admissibility of the appeal, which are cumulative. In this regard, it is necessary that both the summoning procedure has not been fulfilled with the party exercising the appeal as well as that the party has not been present at the time when the trial took place.

It can be seen that the legislature refers to the day the trial took place, without further clarification.

We appreciate that the legislator has considered only the irregularity of the citation procedure for the day when the case is settled, since irregularities targeting previous periods of trial, are covered if not invoked as provided by law (Boroi, Rădulescu, 1996).

The conditions provided by art.503 par. (1) are cumulative. Therefore, if the party was not legally summoned, but was present at the time when the trial took place in person or through a representative, the condition imposed by the article enunciated, is not satisfied and consequently, the appeal is not admissible.

Regarding the irregularity of the citation procedure, of the provisions of Article 160 of the NCPC it appears that it concerns infringements of the provisions regarding the preparation, handing of the citation, its receipt in a shorter period than that provided by Article 159 and not receiving the citation ( Leș, 2001).

The reason, based on which can be exercised ordinary contestation for annulment may be used only in cases where the law provides that the settlement of the dispute is made only by summoning the parties, this issue shown in the wording of art.503 par. (1).

Therefore, when by law it is stipulated that the matter shall be solved without summoning the parties, or citation is optional the analyzed reason can not be invoked<sup>2</sup>.

For the admissibility of the appeal for annulment the legislator establishes some essential particular conditions. A first condition is provided by art.503 par. (1) and aimed at the final decisions (The old provisions referred to the final decisions ).

According to art.634 of N.C.P.C. are final judgment:

- a) decisions which are not subject to appeal or recourse;
- b) judgments given in the first instance, without appeal right, not challenged with recourse;
- c) judgments given in the first instance which have not been subject to appeal;
- d) judgments given on appeal, without the right to appeal as well as those with recourse that are not challenged;
- e) judgments given on recourse, even if, by this, it has been resolved the background of the case;
- f) any other decision which, by law, can not be appealed;

According to the provisions of para. (2) art.634, the mentioned decisions, become final at the date of expiry of the legal period for exercising the call or appeal or where appropriate, from the date of delivery of the decision. From the actual drafting of the text provided by art.503 par. (1) it appears that it may be object of the appeal for annulment regardless of its form, only final judgments. If this requirement is not met, the attack method of the appeal for annulment shall be rejected as inadmissible.

<sup>1</sup> Art.317 in par. (1) of the old Code of Civil Procedure governed situation where the party summoning procedure for the day of the trial of the cause was not performed according to the requirements of the law;

<sup>2</sup> According to Article 998 para. (2) NCPC, the presidential ordinance, may be given without summoning the parties;

Another condition is stipulated by Art.504 para. (1) of NCPC imposing the requirement that the reason provided by art.503 par. (1) can not be invoked appeal or recourse route. This means that the party can not resort to the attack method of the appeal for annulment, if it has access to appeal or, if necessary, on recourse. Thus, in the event that criticism regarding unlawful citation could have been invoked with appeal method or recourse and the party did not, the appeal for annulment is not admissible since it does not meet the criteria imposed by the legislator.

In the doctrine it is shown that "it does not matter if the party actually exercised the ordinary method of or recourse, but is necessary to be noted that they could have been exercised" (Tabacu, 2013).

The solution is logical and clear from the provisions of Art.504 para. (1) and can thus be met two conditions: a) the party exercised the appeal or recourse, but has not raised the lack of citation; b) the party, was entitled to exercise the appeal or recourse, but has not used this right. In any of these cases the appeal for annulment is not admissible.

But Article 504 para. (2) creates an exception to the rule. The appeal may be accepted in the event that the reason was raised by the notice of appeal, but the court rejected it because he needed checks actually incompatible to the recourse or if the recourse through no fault of the party, was dismissed without being investigated. It can be seen that the text mentioned refers only to the recourse and not the appeal (Spinei, 2013).

Regarding the first situation, it must be noted that the provisions of Art.504 para. (2) are applicable only to the extent that there are necessary checks to be made that are actually incompatible with the recourse (Ciobanu, 1997, Stoienescu, Zilberstein, 1981). Therefore, as emphasized in the literature, if it is possible to check the facts based on the documents in the file, or of new documents that can be used in an appeal under art.492, the interested party must assert the irregularity regarding the citation, by the path of recourse, the appeal for annulment not being admissible.

A second hypothesis finds its application where the appeal was rejected without being in fact investigated and are not thereby caused by the fault of the party.

To note is that the new regulation refers to the situation where the appeal was rejected without being in fact investigated, but it is established the condition that the rejection is not to be due to the fault of the party, since otherwise, the method of the appeal for annulment is inadmissible.

By introducing the condition that the dismissal of the appeal is not to be determined by the party's fault, it has narrowed the scope of application of the appeal for annulment. The old regulations provided the possibility for the exercise of the remedy of appeal for annulment, even if failure to process the merits of recourse was due to the fault of the party. The new rules on the matter of appeal for annulment of common law even if more restrictive, are likely to reinforce the vigilance of the parties to respect the rules of procedural law, as otherwise, they bear the negative consequences resulting from an improper procedural activity.

It is not allowable nor appeal brought against the decision of the recourse if the recourse has been exercised under the convention of the parties. The solution emerges from the provisions of art.459 par. (2) of NCPC final part which states that in this situation the path of appeal it can invoke only infringement or misapplication of rules of substantive law.

It should be mentioned that a decision against which the appeal for annulment was exercised, can not be challenged on the same side with a new challenge even if the second application is invoked for other reasons (art.504 alin.(3)). This provision is applicable only to the special appeal for annulment.

### **3. The competent court**

As a remedy for withdrawal the appeal for annulment whatever its form, is introduced to the court whose decision is appealed, matter contained in art.505 par. (1) of NCPC

Compared to the previous applicable regulations, N.C.P.C. make a substantive change in the matter of incompatibility of the judge, stating in art. 41alin. (1) that the judge who issued an interlocutory order or decision by which to solve the case, can not judge the same reason in the appeal for annulment.

We consider that the solution adopted by the legislator is welcome and serves to eliminate subjectivism in the outcome of the appeal.

### **4. The term for exercising**

The period for exercising the appeal for annulment whatever its form, is governed by art.506 of NCPC Unlike the previous regulation provided by art.319 par. (2), which set different terms as the contested judgment was enforceable or not, the new provisions do not make this distinction, and provide that the appeal may be brought within 15 days from the notification of the decision, but not later than one year after the judgment has become final.

It should be noted that the legislator has established two terms of which one of 15 days, calculated on the free days from the date of judgment, and a deadline of one year, which shall run from the date the judgment became final. It follows that the interested party must exercise method of appeal for annulment within the period of 15 days, calculated from the date of judgment.

The one-year deadline is a deadline by which the party concerned may bring the appeal for annulment.

Therefore, even if the time the applicant was familiar with the decision is after the expiry of one year the appeal for annulment can not be exercised, the interested parties should make every effort to pursue the method within that period. If the period of 15 days of the decision was reached, the appeal for annulment shall be rejected as late introduced, even if made in a period of one year from the date on which the judgment became final. Appeal for annulment must be justified according to art.506 paragraph 2 of the NCPC within the period of 15 days provided for its formulation, under penalty of nullity.

### **5. Suspension of the judgment under appeal**

The way by which it can be obtained the suspension of enforcement of the decision attacked by appeal for annulment, is provided by 507 of N.C.P.C. which takes the provision under the art.319 (1) of the old Code, according to which the court may order the suspension of the decision whose cancellation is required, on condition of deposit of bail.

The provisions of art.484 N.C.P.C. regarding the suspension of enforcement of the decisions subject to appeal are applicable, also on matters of appeal for annulment. The amount of bail to be paid shall be determined according to Art. 718 para. (2) and (3) of N.C.P.C. and proof of payment of bail is attached to the application for suspension of execution of judgment, made by the interested party.

From the provisions of art.718 par. (2) N.C.P.C. it is shown that the bail deposit is a condition for the admissibility of the application for suspension, leading to the conclusion that its failure to submit the amount determined by the court draws rejection.

### **6. The settlement procedure**

The settlement procedure, of the appeal for annulment of common law, is governed by art.508 of NCPC the legislator provides that the settlement of the contestation is made urgently and with priority, being applicable its own procedural provisions of the trial ended with the judgment under appeal.

The law establishes the obligation of deposit of the statement of defense at least 5 days before the first hearing so that the opposing party can become familiar, on its content and proceed accordingly.

Since the meeting is not communicated, the appellant can take note of it in the case file. It should be noted that the provisions of art.508 par. (2) are in correlation with the provisions of paragraph 206. (2) of NCPC which stipulates that the meeting shall be communicated to the applicant only in the event that the law does not provide otherwise.

Therefore, the appellant can study the meeting after its submission to the case, and in order to be aware of its content, he will have to check whether or not the opposing party filed the meeting to the complaint filed and to take measures it deems appropriate.

We believe that the appellant may request a copy of the meeting, since the legislator does not forbid it, but states only that this is not communicated. Moreover, the provisions of Article 29 para. (5) OUGnr.80 / 2013, it appears that the parties may request documents from the documents in the file <sup>1</sup>.

In the case the reason for the annulment appeal is well founded, the legislator governs in par. (3) of art.508 the possibility that a court has to cancel the judgment under appeal and to hear the case at the same hearing, being provided for two situations:

a) if possible, the court will issue a single decision that will set aside the judgment under appeal and will hear the case;

b) when the resolution of the case at the same time is not possible, the court will decide aside the judgment, and will determine a deadline in order to resolve the case through a new decision, in which the annulling judgment can not be appealed separately, but only with the decision to hear the case;

According to of art.508 in par. (4) N.C.P.C. the judgment given in the appeal for annulment is subject to the same remedies as the judgment under appeal.

## **7. Conclusions**

The appeal for annulment is an extraordinary remedy and is a remedy for the correction of any errors contained in a judgment which can be exercised only in cases and under the conditions provided by law.

This legal remedy was maintained also by the New Code of Civil Procedure which introduced some new rules and has clarified certain aspects of the exercise conditions.

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# CONSIDERATIONS ON THE PROCEDURE OF REDUCED VALUE APPLICATION IN THE REGULATION OF THE NEW CODE OF CIVIL PROCEDURE

Licuța, Petria<sup>1</sup>

## Abstract:

*The reduced value application procedure is regulated by the New Code of Civil Procedure, in art. 1025-1032, and it purposes to settle the litigations presented for judgment with expediency. The procedure is enforced in the case of applications having a maximum value of 10,000 lei at the date of court notification, and this amount does not include interests, court expenses and other accessory revenues. In the enforcement of the procedure, both the value of the application, and its object shall be taken into account, as the legislator expressly provided in art. 1025 para. (2) and (3) the situations to which this procedure does not apply. The work approaches the aspects related to the reduced value application procedure, from the point of view of the provisions of art. 1025-1032 from the Code of civil procedure in force, and the aspects referring to the area of application, the competent law court, opening and settlement of the procedure.*

**Keywords:** application, reduced value, procedure, litigation.

**JEL classification:** K00, K10

## 1. Preliminaries

The Civil Procedure Code<sup>2</sup> that entered into force on the 1st of February 2013<sup>3</sup>, establishes in addition to other special procedures of law also the procedure on low value claims governed by art.1025-1032.

The procedure regarding the reduced value claims, had as source (foundation) the Regulation (EC No. 861/2007 of 11.06.2007) establishing an European procedure on applications of reduced value and which aimed to simplify and accelerate litigations on the cross-border reduced value applications<sup>4</sup>.

Through the opening of the proceedings of the reduced value request, the Romanian legislator has sought not only prompt settlement of claims of this type, but the simplification of solving, the applicant leaving the choice between this procedure and the procedure of the common law. This procedure applies only if the applicant expressly requests it and the requirements for admissibility are fulfilled, of art.1025-1032, Civil Procedure Code.

In what follows, we will address some issues relating to the scope, nature, onset and course of the procedure, settlement of claims and appeals.

## 2. Scope of Application

As outlined in the provisions of the Civil Procedure Code art.1025 procedure regarding the reduced value claims apply only to civil disputes valued in money or claims up to RON 10,000 at the time the court is seized, in this amount the interest, court costs and other income accessories, are not included.

From the actual drafting of the provisions of paragraph art.1025. (1) it appears that what the court needs to check within the control, aiming at the admissibility procedure, it is only the value of the main flow at the date at which the court was notified.

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<sup>3</sup> According to GEO No. 44/2012 published in the Official Gazette of Romania, Part I, No 606 / 23.08.2012

<sup>4</sup> Published in J.O.U.E. 199 of 31.07.2007, pag.1-22 entered into force January 1, 2009 in all Member States except Denmark

Therefore, as emphasized in the doctrine (Boroi, 2013) the settlement procedure, of the reduced value application “does not prevent the increase of the claim , the process started in these conditions will continue to be conducted even if the amount added to the main flow volume makes it to exceed the limit of the value - threshold ”.

The solution is logical and results right from the provisions of the analyzed text, for the threshold value of the litigation subjected to trial, shall be estimated on the date of notification of the court the legislator, not restricting the increase of the claim during settlement proceedings over this limit. In addition to the main flow volume the applicant may also request interests, penalties etc. which must be provided separately in the application, the value of which is not limited as they are not considered in determining the threshold for initiating proceedings.

In addition to the criterion "of the main flow value" another criterion for the admissibility of the request with reduced value, is the one targeting the nature of the legal relationship subject to judgment, the legislator establishing in art.1025 paragraph (2) of the Civil Procedure Code, a number of situations, during which the procedure is not admissible, namely: to revenue, customs or administrative matters nor in concerning liability of the village for acts or omissions in the exercise of public authority.

Excluding these matters is not intended to favor the state. We believe that at the establishment of this exception has been taken into account the complexity of the litigations aiming at the fields of activity listed, requiring the taking of evidence and expertise that leads to increasing the period of settlement of the case, otherwise the purpose of the procedure would not be achieved.

The procedure does not apply to claims relating to: the status or capacity of natural persons, property rights arising from family relations, inheritance, insolvency, the preventive concordat and the procedures for liquidation of insolvent companies or other legal persons or other similar procedures, social security, employment, renting of property except actions on claims concerning payment of money, arbitration, interference with privacy rights or other rights relating to personality.

Specifying specific situations where with reduced value request procedure shall not apply to eliminate any erroneous interpretation and application of the provisions of paragraph art.1025. (1).

### **3. The character of the procedure**

As shown in art. 1026 Code of Civil Procedure, the proceedings on the application of reduced value is not mandatory for the applicant, he may choose between this procedure and the procedure of the common law.

Therefore, if the applicant understands to opt for the reduced value request procedure, will complete the form for the reduced value request<sup>1</sup> and send it to the competent court according art.1028 Civil Procedure Code.

If the applicant has completed the application form and notified the court with a written request under Art.194, it will be resolved according to the ordinary the procedure.

The legislature provided, however, that in this situation the applicant may request expressly no later than first hearing special procedure to be applied. Therefore not using the form for reduced value does not preclude the applicant's right to request under the law the application of this procedure.

The doctrine has rightly pointed out that this procedure "coexists with the special procedure for payment (Gheorghe, 2013) of the order so that the applicant is the one who chooses how to capitalize claims.

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<sup>1</sup> The application form was approved by Order 359 / C / 2013 of the Ministry of Justice

#### **4. Competent court**

The court with competence for the reduced value request procedure is expressly provided for art.1027 Civil Procedure Code which shows that in the first instance material competence belongs to the court, and in terms of territorial jurisdiction, the provisions of article 107 are applicable and the following of the Code of Civil Procedure.

To note is that the court will set the first procedure chosen by the applicant, and if choosing the procedure of the reduced value request he will first check the competence and then the conditions for admissibility.

#### **5. Triggering and the conduct of proceedings**

For initiation of the procedure the legislator in art.1023 sets clear rules that the applicant must comply with. Therefore court notification is made by completing the application form approved by Order of the Ministry of Justice 359 / C / 2013, comprising headings concerning identification of the parties, the value of the claim and accessories, indicating evidence, necessary elements of the case, and an indication of whether the applicant wishes or not to have an oral hearing. As highlighted the request instituting the proceedings may be written according to Art.194 Code of Civil Procedure the applicant being able to seek in terms of art. 1026 paragraph (2) to apply the procedure. The application form is submitted by the applicant or his representative, or sent by post or by any other means that ensures the form and send confirmation of receipt, in the number of copies provided by art.149 paragraph (1), together with copies of the documents the applicant understands to use in the issue and proof of payment of stamp duty<sup>1</sup>.

If the information provided by the applicant are not clear enough, or inadequate, or the form is not completed correctly, the court will send the applicant an application form in the form prescribed in Annex 2 to the Minister of Justice no .359 / C / 2013 which requires him to complete or rectify the form or to provide additional information or documents.

If the application form is not completed or corrected within the time specified by the court, the request will be canceled. It can be seen that cancellation penalty applies only to the situation mentioned, and the solution is logical since in the absence of essential elements, the application can not be solved. Moreover, in art.1026 paragraph (3) the legislature expressly stated that if the request can not be resolved according art.1025-1032 the court shall inform the complainant of this, and if it does not withdraw the request, it will be judged according to the law.

According to art.1029 of the Civil Procedure Code the judgment proceedings of reduced value requests is conducted as a whole in the council chamber. Paragraph (2) art.1029 contains provisions regarding the appearance of the parties from which it appears that the initiative to require the parties to appear at trial, belongs to the court, but also the parties may request the taking of such measures.

The court may refuse the application if it considers oral hearing to be unnecessary. The refusal shall be justified in writing and can not be attacked separately. If the court orders the parties' in person appearance they will be cited for the period prescribed for that purpose (art. 153-173 Civil procedure code). After the court receives the properly completed form it will be sent as soon as possible to the defendant the feedback form accompanied by a copy of the application form and copies of the documents attached to it.

Within 30 days of receiving the aforementioned procedures, the defendant must notify the court, with the complete response form. We believe that the defendant may not use the response form, having the opportunity to respond by any suitable means, for

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<sup>1</sup> According to Article 6 of Ordinance No. 80/2013 published in the Official Gazette of Romania, Part I, nr.392 / 06.29.2013, small claims are stamped RON 50 if the value of the demand does not exceed RON 2,000 and the RON 150 for applications where the value exceeds RON 2,000

instance by the defense, but it is much easier to complete the feedback form. The answer of the defendant at the request of the applicant is required.

The defendant may, also counterclaim, which must fulfill the requirements of Art.209, paragraph (1) of the Civil Procedure Code and the conditions of admissibility laid down by art.1025 without which it will be draw backed and judged according to common law [art.1029 paragraph (7)].

The counterclaim, the defendant's response and the justifying documents annexed shall be notified immediately by the court to the plaintiff, so that he could make his defense. The court may request other evidence outside the pleadings filed by the parties that it deems necessary to solve the case, but not accepted, those samples in management which are necessary expenses disproportionate to the lawsuit, the demand value, or both, or the demand counterclaim (art. 255 Civil Procedure Code). It follows that the court may admit evidence which it considers necessary and appropriate to the resolution of the case, documentary evidence taking priority because it is much easier to manage.

Paragraph (10) of art.1029 sets and an obligation for the court. Thus the legislature states that "whenever the court sets a deadline to meet a pleading , it shall notify the person concerned of the consequences of its failure."

Express mention of this requirement is to prevent parties of the negative effects of procedural failure resulting from their duties and cause them to act accordingly.

#### **6. Settlement of the request of reduced value**

From the wording of paragraph art.1030. (1) of the Civil Procedure Code, it appears that the rendered and written decision shall be made within 30 days of receipt of all information necessary to solve the case or, where appropriate, oral debate.

Unlike common law where after deliberation it shall proceed to preparing minutes (Boroi, 2013) and following the writing within 30 days from delivery (art. 401 and 426 alin.5 of Civil Procedure Code) if the request procedure of reduced value, the court will decide and draw judgment at the same time flowing the receipt of the information or where appropriate, oral debate.

Therefore, the court has a fixed term of 30 days in which you have to decide and to draw decision. We believe that the wording of the judgment should not be made in same day with the delivery, but must only within the period of 30 days to make both delivery and writing.

Paragraph (2) of art.1030 stipulates that without the answer or information required under art.1029 the court will rule on the principal claim or counterclaim based on documents in the file. It can be noted that the rule of par. (2) is non-punitive art.1029 the court proceeding to settle the claim solely on the basis of evidence on record.

We consider that the rule mentioned, is designed to mobilize the parties and make them respect the procedural discipline, for a good capitalization corresponding to their rights (art.633 Civil Procedure Code ). The court will decide by sentence that unlike common law is enforceable by law. Enforcement is but temporary, from the judgment and until a definitive them.

The interested party may request the suspension of the decision to the court of appeal, which may approve, but only by paying a bail of 10% of the value that is disputed (art.449 și art.418 alin (2) Civil Procedure Code). The court will rule on request, also on costs arising from the case. Thus the unsuccessful party will be ordered to pay the costs, consisting of stamp duty administration charges of evidence, legal fees etc. (art.1031).

The legislature, however, establishes an exception to this rule stipulating that there will not be "granted those expenses that were not necessary or that their value was disproportionate to the value of the demand" (art.449 și art.418 alin (2) Civil Procedure Code).



## **7. Legal remedies**

The judgment given, by the court may be appealed under Code of Civil Procedure art.1032 only with the appeal to the court, within 30 days from notice. The appeal shall be settled under the procedure provided for by the Civil Procedure Code art.466-482 being removed character paperwork. For good reasons the appellate court may order as mentioned suspending the contested judgment but only with the bail of 10% of the disputed amount.

The decision of the first instance is final if no appeal has been exercised within the legal term and enjoys res judicata as well as the judgment in appeal.

## **8. Conclusions**

Unlike common law procedure, the request procedure, of reduced value is characterized by being accessible, since it uses the form to not raise issues for completing, detailing the problems that the applicant must address, it is a relatively simple procedure, usually being written, and involves the appearance of the parties only if the court considers it absolutely necessary.

Another feature of the procedure is the speed, the stages of the procedure being established expressly in art.1029 parties setting out the tasks and sanctions procedural non-compliance.

An advantage of the procedure is represented also by the stamp duty, which is low compared to the common law so that those interested in opt for this procedure because it is cheaper.

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# CONSIDERATIONS REGARDING EUROJUST'S CONTRIBUTION IN FIGHTING CROSS-BORDER CRIME IN EUROPE

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## **Abstract:**

*One of the objectives of the European Union enshrined in 67 alin.(1) (ex-art. 61 TCE and ex-art. 29 TUE) of the consolidated version of the Treaty on European Union is to create a common European space of security and justice without internal frontiers, in which to ensure the free movement of people, corralated with appropriate measures on external border controls , asylum , immigration, and crime prevention and combating. This is a long term goal that requires active cooperation of Member States and multiple efforts by EU institutions.*

*The institutional functioning practice has shown that the classic forms of judicial cooperation do not have the ability to complete this objective and that is necessary to create specialized structures .*

*In this context the First European institutional structure was established in 2002, a specialized agency of the European Union, named Eurojust, with the main objective to promote and improve coordination and cooperation between the judicial authorities of the Member States in the fight against serious cross-border crime affecting the European Union.*

*Tasks of Eurojust and relations with other European bodies, particularly the Council and Commission are established by Decision 2002/187 / JHA amended by Decision 2009/426 / JHA Council of 16 December 2008 It is exercised by College Eurojust or through its national members .*

**Keywords:** *common European space of security and justice; European crime; points of contact; forms of intervention; Cooperation meetings , joint investigation*

## **1. Building an area of freedom, security and justice – prerequisite for establishing EUROJUST**

One of the objectives of the European Union set by Article 67 para. (1) (ex Article 61 TEC and ex Article 29 TEU) seeks the establishment of an area of freedom, security and justice with respect for fundamental rights and the different legal systems and traditions of the Member States<sup>1</sup>.

Within this objective three-dimensional space of freedom requires the free movement of persons across internal borders of the Member States and the freedom for citizens to live in an environment of respect for law<sup>1</sup>; security space necessary to improve the institutional framework for joint action in the field of police and judicial cooperation to prevent and combat organized crime and terrorism, and the area of justice, providing an environment of legal certainty by ensuring the independence of the judiciary, magistrates professionalism of each Member State that inspire a high level of confidence, leading to recognition of a judgment and its execution in any of these countries, but also to ensure that the procedure gives the same sense of justice for all citizens of the Member States..

Conceived in this matrix, the single security and justice are, as, incidentally remarked a senior European official, a long-term goal that requires strong commitment and support of European states.

Progress in building this goal<sup>1</sup> were not spared the "crisis of European construction", that have unveiled a Europe of diversities, but also national pride. In this process, not only the idea of a Single European space mattered, but also the common responsibility for security and stability in the intensification and diversification of forms of crime and the acquisition by the of a transnational nature, which jeopardizes the legal order of each Member State and the Union's values. A very important point in creating an area of

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freedom, security and justice was the Tampere European Council (October 15 to 16, 1999). The document adopted at Tampere states and develops a number of ideas on promoting a common European asylum and migration, combating cross-border crime, the requirement for better access to justice in Europe, greater convergence in civil and criminal.<sup>1</sup>

It creates the premises initiating new forms of cooperation and joint action of States and the European institutions to deal with these issues and the need for partnerships with third countries and international organizations in the fields of justice and home affairs.

Moreover, prior to the Tampere European Council, these issues were the focus of the European Judicial Network<sup>1</sup>, established by the joint action 98/428/JAI of the JAI Council<sup>1</sup>, but its powers more than define the core group coordinator for rapid exchange of information<sup>1</sup>, which does not create premises for collaboration in joint investigations and complex cross-border implications.

To improve the quality of cooperation and coordination between the investigating authorities and the prosecution of EU Member States in terms of serious cross-border crime, was established Eurojust, European body with legal personality composed of representatives of Member States, assisting national investigative bodies having expertise and role at the judicial center for activities effectively combat various forms of the cross-border crime.

## **2. Structure, skills, and relationships of Eurojust with states and European institutions**

Eurojust – European Unit for judicial Cooperation was established by Decision 2002/187 / JAI. In the European institutions it has the status of an independent agency.

2.A. The structure is composed of Eurojust national members<sup>1</sup>, with the status of prosecutors, judges and police officers sent by the Member States at the institution in The Hague. They must be senior representative with equivalent competence and rich experience. The national members are supported in their work by deputies and assistants.

Member States may designate besides national representatives, one or more correspondents (experts) especially in the field of domestic terrorism, but they have their head in the respective states.

Relations between national representative Eurojust national correspondent do not exclude direct relationship between the national representatives and the competent authorities of the Member State<sup>1</sup>.

As a particular embodiment, it should be noted that Eurojust, European Union body though, some duties and exercising its national members representing Member States and non EU officials or agents. National members are even remunerated by the states they represent.

*2.B. Operation. Decisions are taken on by the College of Eurojust's activities that constitute the management body. The College is composed of national members who are entitled to vote<sup>1</sup>. College elects a president and two vice presidents, to be validated by the Council.*

Eurojust administrative staff are managed by the Staff Regulations of the European Communities laid down in Regulation 259 / 6S.

Eurojust is a unit and not just a gathering of representatives of the Member States<sup>1</sup>.

Areas in which Eurojust may decide are set out in Article 4 paragraph 1 of Decision 2002/187 / JHA and they refer to:

- types of crime: cyber crime, fraud and corruption, as well as all crimes affecting the financial interests of the European Union laundering from crime, crime affecting the environment, participation in a criminal organization within the meaning of Joint Action 98/733 / JHA December 21 of the Council relating to participation in a criminal organization in the Member States of the European Union; other offenses committed in connection with the types of crime listed above.

- types of crimes: terrorism, illicit drug trafficking, human trafficking, illegal immigration pathways, illicit trafficking of radioactive and nuclear materials, illicit vehicle, euro counterfeiting, money laundering activities related to international criminal;

*2.C Eurojust Relations Commission are established by the Treaty of Lisbon<sup>1</sup> and by article 11 of Decision 2002/287/JAI of 28 February 2002 According to the mentioned European Commission is fully associated with the work of Eurojust, setting with practical arrangements needed to strengthen their cooperation.*

Eurojust and Europol cooperation is particularly important, especially in terms of the latter's role in providing information to Eurojust in accordance with Article 85 TFEU. Relations with Europol is focused on cooperation needed to accomplish tasks and objectives assigned Eurojust. Key issues of cooperation established by an agreement approved by the Council, after consulting the Joint Supervisory Body.

Eurojust shall establish a close cooperation with the European Anti-Fraud Office (OLAF), the national members of Eurojust as recognized by Member States competent authorities in connection with investigations conducted by OLAF.

Eurojust cooperate with third countries. Where Eurojust has concluded a cooperation agreement with a third State, that State may seconded to Eurojust liaison magistrate. According to the latest European rules and Eurojust may send liaison magistrates in third countries.

Eurojust also may develop contacts and exchanges with international non-operational nature in order to achieve its objectives.

Obviously, the most significant are the relationships we have Eurojust European Judicial Network. They are relations based on consultation and complementarity and include the following:

- Eurojust has access to information obtained centrally by the European Judicial Network and telecommunications network;

- national members of Eurojust may attend meetings of the European Judicial Network and the people who form the contact points of the network may be invited to meetings of Eurojust.

Moreover, Eurojust hosts the secretariat of the European Judicial Network, benefiting from its logistical. In addition to the administrative and secretarial functions of Eurojust European Network of contact points on the persons responsible for genocide, crimes against humanity and war crimes, and the secretariat of the Network for Joint Investigation Teams.

### **3. Operation of Eurojust**

Eurojust's activities are conducted with the Commission and under the control of the Council and the European Parliament.

Article 85 TFEU provides that Eurojust structure, operation, field of action and tasks shall be established by regulations adopted under the ordinary legislative procedure. Article also provides that these regulations to determine arrangements for involving the European Parliament and national Parliaments in the evaluation of Eurojust's activities.

Under the provisions of the Treaty of the European Union College Council for approval proposed internal rules of operation of Eurojust.

The functioning of Eurojust must be distinguished as they exercise powers as a body, the national representatives and management tasks.

As a College, Eurojust is competent:

a) ask the competent authorities of the Member States, in the types of crime and offenses referred to in article 4, paragraph 1 of the decision to take the following measures:

- to conduct an investigation or prosecution acts on a precise action;
- to accept that if a competent authority of a Member State is better placed to conduct this investigation and prosecution documents on a precise action;
- to coordinate between the competent authorities of the Member States concerned;
- to form a joint investigation team<sup>1</sup>.
- ensuring mutual information by the competent authorities of the Member States on investigations and prosecutions which it has knowledge and which affect the European Union or which might be interested Member States other than those directly concerned;
- assist the competent authorities of Member States, at their request, in order to better coordinate investigations and prosecutions;
- works to improve cooperation between the competent authorities of the Member States, especially based on the analysis made by EUROPOL;
- cooperate and consults the European Judicial Network, including using documentary database and contributing to its improvement;
- can provide logistics support (translation, arrange for coordination meetings).

*As ways of working Eurojust meetings uses direct intervention and cooperation.*

*Eurojust direct intervention* involves the right to require Member States to carry out investigations and prosecutions regarding certain facts, and the reciprocal obligation to respond to requests for assistance made by the competent national authorities. All direct intervention is considered Eurojust's contribution to resolving conflicts of jurisdiction where, for a particular case, several national authorities able to conduct investigations or prosecution. It is also facilitating direct intervention that Eurojust attaches the enforcement of international legal instruments such as the European Arrest Warrant. Also, the way is același qualified financing by Eurojust for the creation of joint investigation teams to meet their operational needs.

*Cooperation meetings* are organized forms of analysis and information aimed mainly certain forms of crime defined as priority by the Council of the European Union: terrorism, drug trafficking, human trafficking, fraud, corruption, cybercrime, money laundering and other activities related the presence of organized crime groups in the economy. Participate in these meetings judicial authorities, research and the criminal prosecution of the Member States and, where appropriate, third countries. In this framework these cases are solved specific problems and action plans are operative on, for example, simultaneous arrests and searches.

### **Future prospects of Eurojust**

Since its establishment, Eurojust has facilitated coordination and cooperation between national investigating and prosecuting authorities to investigate cases affecting several Member States. He helped to build mutual trust and create a link between the wide variety of legal systems and traditions of the EU. The rapid resolution of legal issues and identifying competent authorities of other countries, Eurojust facilitated execution of requests for mutual recognition and enforcement tools.

This organization has grown continuously in recent years, now becoming a central actor in judicial cooperation in criminal matters<sup>1</sup>.

In this context, many discussions have been initiated on administrative reform and strengthening governance, parliamentary involvement at European and national level and any additional skills and future relations with Eurojust future institution of the European Public Prosecutor (EPPO)<sup>1</sup>. It was also discussed the future of Eurojust in special informal meeting of the Council on the occasion of the tenth anniversary of Eurojust, in February 2012.

On July 18, 2013 was made public in Brussels, the proposal developed by the European Parliament and the Council on a new regulation of the agencies, which envisages "a single legal framework and upgraded" to change in inclusively regarding name, Eurojust are to be called "European Union Agency for Cooperation on Criminal Justice" (Eurojust), which is the legal successor of Eurojust.

The proposal for a Regulation was filed simultaneously with the proposal for a Regulation establishing a European Prosecutor, it is expected that the European Public Prosecutor be established from Eurojust, as provided in Article 86 TFEU that Eurojust can support more more.

The new regulation envisages firstly improving governance structure and Eurojust efficiency by allowing a clear distinction between the two components of the College, depending on the type of functions they perform, operational (basic activity of Eurojust support and coordinate investigations nationally), compared to management (relating, for example, the adoption of the Agency's work program, annual budget and the annual report.

The aim is also to improve the operational effectiveness of Eurojust homogeneously defining the status and powers of national members and defining a role for the European Parliament and national parliaments in the evaluation of Eurojust's activities in accordance with the Treaty of Lisbon.

Existing mechanisms remain operational effectiveness of Eurojust, including the permanent coordination (SCP), Eurojust national coordination system (ENCS), exchanges of information and tracking requests Eurojust.

It could be considered other new ways of extending the powers in accordance with the relevant provisions of the Treaty, including the granting of additional powers to the national member of Eurojust, strengthening the powers of Eurojust College.

### **Conclusions:**

Eurojust is a European agency independent legal personality, made up of representatives of the Member States or third countries with which it has statelet agreements, whose role is to assist the national authorities for criminal investigation for activities effectively combat various forms of the cross-border crime.

Although Union body was exercising certain powers and through its national members representing Member States and non EU officials or agents.

Areas where Eurojust may decide to intervene in article 4 paragraph it established the Decision 2002/187 / JHA also refers to certain types of crime such as cybercrime, fraud, corruption, crimes affecting the financial interests of the EU, washing products from crime, environmental crime, participation in a criminal organization; other offenses committed in connection with the types of crime listed above) or types of crime such as terrorism, illicit drug trafficking, human trafficking, illegal immigration pathways, illicit trafficking of radioactive and nuclear materials, illicit vehicle, euro counterfeiting, money laundering activities related to international criminal.

As ways of working Eurojust use direct intervention and cooperation meetings.

Forms of direct intervention involve requesting Member States to conduct investigations or prosecutions with respect to certain facts; response to requests for assistance to the competent national authorities; contribution to resolving conflicts of jurisdiction where, for a particular case, several national authorities able to conduct investigations; enforcement of international legal instruments, finance JIT and to cover their operational needs.

Cooperation meetings aimed at analysis and mutual information on the types of crimes defined as priority by the Council of the European Union: terrorism, drug trafficking, human trafficking, fraud, corruption, cybercrime, money laundering and other activities related to organized crime groups in the economy.

Administrative reform and strengthening governance, expected the new rules project whose form was present in Brussels on 18 July 2013 by the European Parliament and the Council aims inter alia, parliamentary involvement at European and national level and some additional powers, arising from its connections future institution of the European Public Prosecutor (EPPO).

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<sup>1</sup> Consolidated versions of the Treaty on European Union and the Treaty on European Union and the Protocols and Annexes thereto, which we quote, resulting from the amendment by the Treaty of Lisbon, signed on 13 December 2007 in Lisbon, which entered into force on 1 December 2009 the official versions of these releases have appeared under the Council of the European Union, Brussels, 28 May 2010, REV. 2 6655/2/08.

<sup>1</sup> Right to liberty and security is established in Title II Freedom Charter of Fundamental Rights of the European Union Official Journal of the European Union C 83/391 of 30.3.2010: Article 6 Everyone has the right to liberty and the siguranță. Dreptul freedom of movement is also protected by art. 2 of Protocol no. 4 to the European Convention on Human Rights and Fundamental libetăților, namely: 1. Anyone lawfully within the territory of a state has the right to move freely and to choose his residence

<sup>1</sup> First steps in this direction have been done in the early "90, through the force of the Schengen Agreement and Convention accompanying this agreement, but these documents aimed at a limited number of states. Maastricht Treaty, signed on 7 February 1992 and entered into force on November 1, 1993, creates a legal framework for cooperation extended to the entire community through the establishment of the Third Pillar Affairs Meanwhile -Justiție and justice and home affairs issues internal is treated to a strictly intergovernmental. Since then, the degree of integration between the Member States in relation to these issues and the role of the European Parliament and the Court of Justice continues to grow .. The text of the Treaty of Amsterdam this objective is explicitly stated as a separate objective the European Union. Performed Amsterdam Treaty incorporated into European law by a Protocol annexed to this Treaty, the Convention implementing the Schengen agreements with the Schengen Agreement in 1990, thus expanding the possibilities for the establishment of institutional structures at Community level aimed at defend and strengthen European security space and justiție. Lisbon Treaty divided the topics related to the area of freedom, security and justice in four areas: policies on border checks, asylum and immigration; judicial cooperation in civil matters, judicial cooperation in criminal matters, police cooperation. Luke Iamandi cooperation in justice and home affairs co-dimension of European countries, the Police Academy "Alexandru Ioan Cuza".

<sup>1</sup> Luke Iamandi cooperation in justice and home affairs cooperation dimension of European countries, the Police Academy "Alexandru Ioan Cuza",

<sup>1</sup> The legal framework for the functioning of the European Judicial Network was subsequently amended by Decision 2008/976 / JHA. European Judicial Network consists of central authorities of each Member State responsible for international judicial cooperation. For the network, each Member State was established one or more points of contact, according to the internal rules of the State, and the contact points shall ensure effective coverage of the entire territory of that Member State. Contact points are active intermediaries in charge of facilitating judicial cooperation between Member States to provide practical information and local legal authorities, to improve coordination of local authorities for crimes that require such coordination. Also, each Member State shall appoint a national correspondent and national correspondent technical. . Peer review procedure was established by Joint Action no. 97/827 / JAI of 5 December 1997 on the establishment of evaluation mechanism and implementation at national level of international instruments on the fight against organized crime.

<sup>1</sup> Eurojust was established by Decision 2002/187 / JAI as by Decision 2009/426 / JHA were made to improve the organization and functioning of the body

<sup>1</sup> Elena Cismaru: General on developments in EU legal instruments specific to the field of judicial cooperation in criminal matters, Information Bulletin No. 2/2012, page 9, edited by the Legislative Council

<sup>1</sup> Romania's representative is appointed in accordance with Article 2 of Law no. 58 of 22 March 2006 ratifying the Agreement on cooperation between Romania and Eurojust signed in Brussels on December 2, 2005, and for regulating measures on representation with Eurojust, in the period preceding accession and after accession to the European Union. The appointment is made by the President on the proposal of the Minister of Justice, following a selection procedure. The mandate is for three years, with the possibility to reinvest once.

<sup>1</sup> The administrative structure of Eurojust is an administrative unit of about 200 people who support sending a prompt response to calls for assistance from national authorities or other bodies of the European Union.

<sup>1</sup> Eurojust is based on the principle that the whole is more significant than the sum of its parts and that cross-border issues such as terrorism and organized crime requires increased cooperation between judicial authorities.

<sup>1</sup> Judge Asist.univ.drd Camelia Bogdan: European judicial bodies specializing in preventing and combating crime, [www.criminologie.ro](http://www.criminologie.ro)

<sup>1</sup> With the entry into force of the Treaty of Lisbon on 1 December 2009, the majority rules and policies on justice and home affairs are proposed by the Commission and approved by both the European Parliament and the Council, the latter acting by qualified majority instead of unanimity, which will streamline decision-making

<sup>1</sup> Joint investigation teams can be established under Council Framework Decision nr.2002 / 465 / JHA It was provided by Article 30 of the Treaty. These teams are not intended to transform the bi-national or multinational permanent structures, but specific cases, it is necessary to gather information and evidence Framework Decision provides that Member States must set up an investigation team to define composition, purpose and tenure is also necessary that Member States which set up a team to aibăposibilitatea decide the extent possible and in accordance with applicable law, as the activities of the team to participate persons not competent authorities Member States, in particular representatives, for example, Eurojust, Europol, the European Anti-Fraud Office's (OLAF) or representatives of third countries and, in particular, representatives of law enforcement services in the United States. In such cases, the agreement setting up the team should specify aspects of liability for such representatives Ase see Cristian Eduard Stefan, joint investigation teams, effective tool to fight crime and terrorism, in the "right" No. 2/2009, p. 212

<sup>1</sup> Assessments are taken from the Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on European Union Agency for Cooperation in Criminal Justice (Eurojust), published at Brussels, 18 July 2013 (13.08), (Or.) Interinstitutional File: 2013/0256 (COD) 12566/13

<sup>1</sup> Such discussions were held in seminars and conferences such as strategic seminar "Eurojust and the Lisbon Treaty" for more effective action "(Bruges 20 to 22 September 2010) and the conference organized by ERA" 10 years of Eurojust. Operational Achievements and Future Challenges ", held in the Hague from 12 to 13 November 2012.



# ASPECTS REGARDING THE IMPLEMENTATION OF THE EUROPEAN ARREST WARRANT

Cătălin, Marinescu<sup>1</sup>

## Abstract:

*The Treaty of Amsterdam stipulated the fact that the European Union must maintain and develop an area of freedom, security and justice, freedom assuming the existence of a common judicial area in which European citizens are able to seek justice in any of the member state same as in their own country.*

*This goal aims to eliminate the possibility that criminals exploit the differences between the legal systems of the member states, imposing that the judgments are recognized and enforced abroad without the formalities laid down by the classical conventions on international judicial assistance.*

*The Council Framework Decision 2002/584/JHA of 13 June 2002 on the European arrest warrant and the surrender procedures between Member States, materialized the decision taken in Tampere, following that between EU Member States to be replace the formal extradition procedure of the people who evade the execution of a sentence of imprisonment imposed by a judgment of conviction became final, with a simplified surrender procedure..*

**Keywords:** European warrant, arrest, judicial cooperation, criminal matters

**JEL Classification:** K14

## 1. Introductory concepts

The European Union citizens have the right to travel freely, to choose the place to work or to live without any other restriction. Although this fundamental right seems to be simple to elaborate, we must not ignore the fact that there are numerous obstacles that need to be overcome for people to fully benefit from this right, mainly given the desire to create a European security, freedom and justice space.

The Amsterdam treaty sets forth the fact that the European Union must maintain and develop a freedom, security and justice space, the freedom meaning the existence of a common judicial space, where the European citizens could resort to justice in any of the member states as they do in their own country.

Moreover, this desire aims at the removal of the possibility of the offenders to exploit the differences between the legal systems of the states, setting forth as well that the court decisions should be acknowledged and enforced abroad without the formalities set forth by the classical conventions on the international legal assistance (Ministry of Justice, 2008).

During the Tampere European Council organized between October 15 and 16, 1999, the mutual acknowledgement of the decisions was set forth as *the corner stone* of the legal cooperation between the EU member states. Moreover, during the Dutch presidency of the EU Council, the Hague Program was adopted, aiming at the speeding up of the measures meant to form a common legal space.

Although, the conventions initially had a large share, during the last years the solution of adopting some frame decisions and Council decisions have been selected, these having the advantage of not needing the ratification by the EU member states, thus easing the legislation harmonisation (Ministry of Justice, 2006).

Through the Frame Decision of the EU Council no. 2002/584/JHA from June 13, 2002, on the European arrest warrant and the surrender procedures between the member states, the Tampere decision was enforced, aiming at the fact that the formal extradition procedure should be replaced between the EU member states, in the case of persons who avoid the enforcement of a detention punishment, applied through a final conviction decision, with a simplified surrender procedure.

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Upon taking such a decision, on the establishment of a European arrest warrant which replaces the formal extradition procedure, the objective that the European Union should become a freedom, security and justice space has been mainly considered, objective which cannot be reached optimally within the extradition conventions system, which establishes a formal and difficult procedure (Ministry of Justice, 2005).

The European arrest warrant seems to be defined as being a legal decision issued by the relevant legal authority of an EU member state, in order to arrest and surrender to a member state of a particular individual, in order to establish the criminal investigation, the trial or to enforce the punishment or a detention measure.

We must emphasise the fact that the European arrest warrant must not be confused with the preventive arrest warrant within the internal law, because the European arrest warrant is a legal decision that has always as basis a preventive arrest warrant or a warrant to enforce the punishment issued internally according to the law.

Moreover, the European arrest warrant is issued only when a preventive arrest warrant or the warrant to enforce a punishment cannot be enforced in the country, because the person in question avoids this, being present on the territory of another member state of the European Union.

Therefore, the European arrest warrant constitutes the first concrete measure taken for the application of the mutual acknowledgement principle of the criminal decisions, for the member states that implement the frame decision, this replacing, in principle, the extradition procedure, as shown in the Recitals of the Frame Decision 2002/584/JHA.

By introducing this new simplified system of surrendering the convicted or suspected persons for the enforcement of the criminal sentences or investigations, the possibility of removing the complexity and the associated existing delay causes in the extradition procedure has been created.

The European arrest warrant mechanism is based on a high degree of trust between the member states.

## **2. The implementation of the European arrest warrant in the Romanian law**

The Frame decision no. 2002/584/JHA of the European Union Council, on the European arrest warrant and the surrender procedures between the EU member states, has been harmonised in Title III of Law no. 302/2004 on the international criminal legal cooperation, as amended and supplemented by Law no. 224/2006, published in the Official Gazette no. 534 from June 21, 2006.

According to the provisions of art. 78, related to the art. 81, para. 1 from Law no. 302/2004, the court of law, issuing an enforcement or preventive arrest warrant, has competence to issue a European arrest warrant, either ex officio or upon the Prosecutor's request.

Therefore, the court shall be able to issue a European arrest warrant only based on a pre-existing title, which could be an arrest warrant, an enforcement warrant of the applied punishment or a court decision through which a detention security measure has been applied.

During the criminal investigation or trial, the European arrest warrant cannot be issued unless the punishment set forth by the law is equal or higher than a year in prison, and this cannot be issued for the enforcement of the punishment unless the ruled punishment is higher than four months in prison. Moreover, the European arrest warrant may be issued for detention security measures as well set forth for a period equal or higher than four months.

If the location of the person in question is known, the Romanian issuing legal authority can forward the European arrest warrant straight to the enforcement legal authority.

If the pursued person is not exactly localised, the forwarding of the European arrest warrant shall be performed by means of the Schengen Information System (SIS) or, if this

is impossible, it shall be forwarded through the International Organisation of Criminal Police (Interpol).

Until the commissioning of SIS in Romania, the forwarding shall be performed by means of the National Information Signalling System (SINS) (Official Gazette no. 866/26.09.2005: GEO no. 128/2005), the data provision to SINS being performed through the SIRENE Office, from the date on which it shall become operational.

Considering the fact that the forwarding to SIS or SINS equals to a European arrest warrant, given the fact that such forwarding comprises the information set forth in paragraph 1 of art. 79 from Law no. 302/2004, in the case of the arrest of the person in question, the issuing court is forced to provide the enforcement authority, during the term set forth by it, with the original and the translation of the European arrest warrant.

According to the provisions of art. 83, the forwarding of the European arrest warrant shall be performed by any written means, allowing the enforcement legal authority to ensure the authenticity of the submitted document, such as a letter, a fax or electronic message of the numbered documents. A copy of the European arrest warrant shall always be sent to the Ministry of Justice, the International Law and Treaties Division (art. 83, para. 6).

When the drawing up of emergency documents is considered or of documents requesting the presence of the person in question or for the prevention of the repeated postponement of the cause, the Romanian issuing court has the possibility to request the enforcement authority the hearing of the person in question or his/her temporary transfer, until the ruling of a decision to the enforcement authority on the surrender procedure.

The surrender of the person in question to the Romanian authorities must be performed within 10 days from the date of the final decision of the foreign enforcement legal authority, exceeding this term leading to the release of the person in question.

If, in case of a force majeure event or from independent reasons, the surrender cannot take place within the above-mentioned term, the Romanian relevant receiving authority must immediately notify the foreign authority on the case that makes the receipt impossible, following which this should take place at least until the expiry of another term of 10 days.

The forwarding on the national (SINS) and international (INTERPOL) systems must stop when the person is surrendered to the relevant authorities, the deregistration of the SINS signalling automatically triggering the deregistration of the SIS signalling.

The surrender allows only the performance of the investigations or the enforcement of the punishment or the security measure for which the foreign legal authority has granted the surrender, except for the case when the pursued person or the enforcement member state has waived the speciality principle.

The Romanian relevant authorities to enforce the European arrest warrants issued by the legal authorities of other member states are the Appeal courts. Thus, when the foreign legal authority knows the place where the person sought is located on the Romanian territory, it may directly address the European arrest warrant, in original or certified copy, by any safe written means, to the relevant Appeal court.

While waiting for the adaptation to SIS, art. 9 of the Frame Decision sets forth that a signalling in SIS equals to a European arrest warrant, while waiting for the original document, in good and adequate form, by the enforcement legal authority. During this transition period, the original or certified copy of the European arrest warrant must be forwarded to the relevant Appeal court at the latest within 48 hours from the arrest date of the person in question.

If the Appeal court to which the European arrest warrant was addressed considers that it has no competence on the territory to enforce it, it has the duty to forward it without delay to the territorially relevant Appeal court and to notify the legal authority of the issuing member state.

If the European arrest warrant is not accompanied by translations, the court, either shall request the translation of the warrant, case in which this must be performed urgently within at the most two working days, or shall request the issuing legal authority to proceed to the translation of the warrant, case in which the procedure is suspended until the receipt of the translation.

If the warrant is compliant with the provisions set forth in para. 1 of art. 79 from Law no. 302/2004, the Appeal court takes measures to identify the person in question, by notifying the general prosecutor of the office attached to the respective Appeal court. The prosecutor, after verifying the identity of the person in question, is bound to notify him/her, in a language that is understood by the person, on the existence of the European arrest warrant whose subject he/she is, according to the information held.

We have to emphasise the fact that the person held for the enforcement of the European arrest warrant must be presented within 24 hours from his/her detention before the relevant Appeal court. Moreover, according to the provisions of art. 91, the arrested person has the right to be informed on the content of the European arrest warrant, to be assisted by a defence attorney chosen by him/her or ex officio by the court, and if he/she does not understand or speak the Romanian language, he/she has the right to an interpreter, provided free of charge by the court.

Thus, after the person in question has been brought before the relevant court, the arrest of the respective person shall be ruled through a justified sentence. This sentence may be attacked with an appeal within 24 hours from its ruling or verbally during the hearing when the sentence has been ruled. If the appeal has been declared in writing, the justification shall be performed through the appeal application, and if the appeal has been declared verbally, the justification shall be elaborated in writing, through a separate document, which should be submitted within 24 hours from its declaration.

The High Court of Cassation and Justice is the court that judges the appeal, within at the most three days from the submission of the file, the appeal not being suspensory from the enforcement in this case.

The 48 hour term during which the Appeal court must proceed to the hearing of the person in question on the warrant, shall be calculated from the date on which the arrest measure was declared final either by not declaring the appeal or by its rejection.

If the person in question declares that he/she agrees to his/her surrender, he/she shall be notified on the legal consequences of the consent and on its final nature after the respective moment.

According to the provisions of paragraph 3 of art. 90 from Law no. 302/2004, the Romanian law maker has understood to confer an irrevocable nature to the consent to the surrender, unlike the Belgian, Danish, Irish, Finish and Swedish law makers, who have shown the intention to confer a revocable nature to the consent to surrender expressed by the person in question (Official website of the European Union, 2002).

If the court finds that the legal conditions for the enforcement of the European arrest warrant are met, it shall rule a final sentence by which it shall be notified on the consent of the person in question, deciding within 10 days from his/her presentation before the court.

If the person in question declares that he/she does not consent to his/her surrender, the court shall decide within 5 days from the date on which the hearing of the person took place.

During the course of the procedure, the person in question may be released, the court being bound to take the necessary measures to avoid his/her running away, including the preventive measures set forth by the law. Moreover, the person in question may be bound to comply with one or several judicial control obligations.

The court shall be able to rule the suspension of the distraint or the amendment of the judicial control obligations of the person in question, as well as to issue an arrest warrant against the person, when he/she avoids the respective obligations.

Upon the request of the issuing legal authority, the Appeal court shall be able to approve the temporary transfer of the person in question, setting forth the conditions and the term until the person shall be surrendered to Romania. If such a transfer is considered not to ensure the timely return of the person in question, or if, from any reasons, the temporary transfer is not justified, the court shall proceed to the hearing of the person in question if the issuing authority requests this. A person appointed by the issuing legal authority shall assist the hearing, without the need to draw up a legal letter rogatory.

Regarding the control exercised by the Romanian court, we emphasise the fact that, unlike the extradition procedure, the verification of the compliance with the double incrimination condition for 32 offence categories has been removed from the field of the European arrest warrant. For the other deeds, the Romanian law maker has chosen to allow the legal body to decide whether to enforce the European arrest warrant or not, when the double incrimination condition is not fulfilled.

Regarding the verification of the punishment quantum, these are controlled exclusively according to the law of the issuing member state, without any other condition regarding the punishment applied or set forth by the Romanian legislation.

Unlike the current legal provisions on extradition, in the field of the European arrest warrant the prescription in the Romanian law is no longer a reason to refuse the surrender nor does the Romanian citizenship of the person in question constitute a mandatory reason to refuse the surrender.

Article 88 from Law no. 302/2004 sets forth the mandatory reasons to refuse the surrender of the person in question, as well as the optional reasons for this refusal. The mandatory reasons for refusal comprise the following situations: when, according to the information held, it is found that a final decision has been ruled for the person in question for the same deeds by a member state, different from the issuing state, provided that, in case of conviction, the sanction should have been enforced or should be in progress or the enforcement has been prescribed, the punishment should have been absolved or the offence should have been amnestied or another deed impeding the enforcement has intervened, according to the law of the enforcement state; when the offence based on which the European arrest warrant has been issued is covered by amnesty in Romania, if the Romanian authorities are entitled to investigate the offence; when the person in question does not answer from a criminal point of view, because of his/her age, for the deed based on which the European arrest warrant has been issued according to the Romanian law.

According to para. 2 of art. 88, the optional reasons for refusal are the following: if the condition of double incrimination may be verified, exceptionally in the case of taxes and fees, the customs fees and exchange rate fees; when the person in question is subject to a criminal procedure in Romania for the same deed based on which the European arrest warrant has been issued; when against the person in question a final decision has been ruled in another EU member state for the same deeds; when the European arrest warrant has been issued for the enforcement of a punishment, if the person in question is a Romanian citizen, and the relevant court rules the enforcement of the punishment in Romania, according to the Romanian law; when the person in question has been ruled a final decision for the same deeds in another third party state provided that, in case of conviction, the sanction should have been enforced, should be in progress or should be prescribed, or the offence should have been amnestied or the punishment should have been absolved according to the enforcement state; when the warrant refers to offences that, according to the Romanian law, are committed on the Romanian territory; when the European warrant comprises offences committed outside the territory of the issuing

state and the Romanian law does not allow the investigation of these deeds when they have been committed outside the Romanian territory; when, according to the Romanian state legislation, the liability for the offence based on which the European arrest warrant has been issued or the enforcement of the applied punishment has been prescribed, if the deeds have fallen under the competence of the Romanian authorities; when the Romanian relevant legal authority has decided not to investigate, either to stop the investigation of the person in question for the deed based on which the European arrest warrant has been issued.

Following the decision justified by the Appeal court, a surrender decision, a surrender refusal or a conditioned surrender may be ruled, this decision being notified to the person in question, and when the decision becomes final, it shall be immediately notified by any means to the issuing foreign authority.

If the person in question has consented to his/her surrender, the decision ruled by the Appeal court cannot be subjected to any remedy, unlike the situation when the person in question has not consented to his/her surrender, having the possibility to attack this decision with appeal within 5 days from the ruling, if the person has been present, or from the notification, if the person has been absent on the ruling date.

If the appeal has been verbally declared, the appeal reasons shall be drawn up in writing, through a separate document, which has to be submitted within 5 days from its declaration, and if the appeal has been declared in writing, the justification shall be made through the appeal request itself, without any different term set forth by the law in this case for the drawing up of the appeal reasons.

The appeal declared against this decision shall be judged by the High Court of Cassation and Justice, within at the most three days from the submission of the file, the appeal being, in this case, suspensory of enforcement.

The person in question should be surrendered to the member state issuing authorities within ten days from the final decision of the Appeal court, except for a legal reason for the surrender postponement. We have to mention that the lack of efforts from the part of the foreign authorities to organise the surrender triggers the release of the person in question.

If the person in question is released upon the decision that authorises the surrender, he/she may be arrested in order to be surrendered, upon the proposal of the general prosecutor, in the extent to which this person avoids the surrender.

The surrender may be postponed from serious humanitarian reasons or if the person in question is criminally investigated in Romania or he/she has to enforce a punishment applied for another deed than the one set forth by the European arrest warrant. This last hypothesis may allow the temporary surrender of the person in question.

If several member states have issued a European arrest warrant against the same person, including for different deeds, the choice of the warrant that must be enforced is performed by the Appeal court, if necessary after the Eurojust consultation, considering all the case circumstances and, especially, the place and the seriousness of the offence, upon the date of warrants issue, as well as the situation in which the mandate has been issued in order to enforce the criminal investigation, of the trial or in order to enforce one punishment or a security measure.

Eurojust is a new European body, established in 2002, in order to increase the cooperation and the efficiency of the relevant authorities within the member states that have to criminally investigate the organised and cross-border crime (European Institute of Romania, 2005).

The agreement on the cooperation between Romania and Eurojust, signed in Bruxelles on December 2, 2005, and on the regulation of measures referring to the representation of Romania in Eurojust, during the period prior to the adherence and after

the date of EU adherence, was ratified by Law no. 58/2006, published in the Official Gazette no. 300 from April 4, 2006.

In case of the competition between the European arrest warrant and an extradition request, the Appeal court may decide the postponement of the ruling of the surrender decision, until the receipt of the justifying documents for the support of the extradition request, considering all the circumstances.

According to the provisions of paragraph 2 of art. 108 from Law no. 302/2004, the extradition procedures in progress, at the moment of entering into force of the European arrest warrant, shall continue to be settled according to the extradition procedures.

### **3. The implementation of the European arrest warrant in the other member states of the European Union**

The terrorist attacks from September 11, 2001, from the United States of America offered the necessary drive to take a decision, when political declaration at the highest level were made for the creation of the European arrest warrant. Several days later, the Commission presented officially the Frame Decision, this document having been on the agenda for several months. After difficult negotiations carried out following a predetermined schedule, the Belgian chairman offered a political agreement on December 11, 2001, the Frame Decision being officially adopted on June 13, 2002 (European Parliament, 2005).

Although the Frame Decision entered into force on January 1, 2004, at that date only Belgium, Denmark, Spain, Finland, Ireland, Portugal and Sweden had harmonised the decision text with the internal legislation.

The difficulties in the implementation of the Frame Decision occurred when several national courts declared that this is incompatible with their constitutional provisions. Thus, the Polish Constitutional Court gave such a verdict on April 27, 2005, the German Constitutional Court on July 18, 2005, and the Cyprian one on November 7, 2005.

France, Italy and Austria expressed their intention to continue with the request of the extradition system for the deeds committed before January 1, 2004, regarding Italy and Austria, and for the deeds committed before November 1, 1993, regarding France (Official website of the European Union, 2002).

On February 23, 2005, the Commission presented the evaluation report on the implementation of the European arrest warrant that considered that it did reach the proposed objectives. Upon that date, the warrant was implemented and applied in all the states, except Italy (Official website of the European Union, 2005).

The surrender of the persons in question between the member states is an entirely legal procedure without any intervention from the enforcement authorities. The general purpose of the decision is to reduce the number of the rejection reasons upon surrender and to significantly limit the offence categories for which the double incrimination rule is applicable.

Nevertheless, difficulties still exist, considering that the Czech Republic, Luxembourg and Slovenia have unilaterally reduced the time scope of the European arrest warrant, contrary to the Frame Decision provisions.

Two of the member states, respectively the Czech Republic and the Netherlands, requested a change in the punishment limits, in order for these to be harmonised with the ones from the national legislative systems of the two countries, fact that re-enacted the double incrimination condition. Other states, such as Denmark, the Netherlands, Malta, Portugal and Great Britain introduced rejection reasons upon surrender contrary to the Frame Decision, such as the risk of political discrimination, national security issues, etc.

The greatest innovation of the Frame Decision is the surrender of the citizens that is now a reality, although the majority of the member states have chosen to apply the condition to enforce the punishment of the citizens on their territory.

From a statistical point of view, 653 persons were arrested and 104 persons surrender from the total of 2603 issued warrants until September 2004 (Official website of the European Union, 2005).

Since the entry into force of the Frame Decision provisions, the average time needed to enforce a European arrest warrant has been estimated to be reduced from more than nine months to 45 days, this estimation not including the frequent cases when the persons in question consent to the surrender, case when the necessary time is of approximately 18 days.

We have to emphasise that the European arrest warrant is not only faster and more efficient than the extradition procedure, but also it complies with the individual fundamental guarantees. Thus, a legal authority may always refuse the enforcement of such a warrant if the procedure is compromised by the breach of the provisions of art. 6 from the European Union Treaty, setting forth the fundamental rights.

The improvements due to the introduction of the European arrest warrant are applied to the persons involved that, in practice, consent to their surrender in more than half of the presented cases. The decision is also more precise than its prior provisions regarding the application of the non bis in idem principle, regarding the right to legal assistance, as well as the right to deduce the already enforced period.

Finally, as a result of the fastness of the enforcement, the European arrest warrant contributes to a better compliance with the reasonable time limit principle in the legal field.

#### **4. Differences between the European arrest warrant and the extradition procedure**

The major new element in the field of the European arrest warrant compared to the extradition procedure is the elimination of the administrative stage.

Thus, according to the extradition legal instruments, this procedure implies two stages: an administrative one and a legal one. During the administrative stage, the central authorities have an important role, especially in the case of an active extradition, when the central authority of the requesting state draws up, upon the proposal of the relevant legal authority, and submits directly or through diplomacy the extradition request, but also in the case of the passive extradition, when the central authority of the requested state verifies the extradition requests received according to their aspect, the form, the international regularity and either report to the relevant legal authority or return the extradition request, with justification, if the form conditions are not met.

Through the new surrender system based on the European arrest warrant, the administrative stage is eliminated, the cooperation for the surrender of the persons that avoid the criminal investigation, the trial or the enforcement of the punishments, being almost exclusively achieved between the relevant legal authorities from the member states, the central authorities being able to potentially assist the relevant legal authorities or to have the role of transmitting authorities.

Therefore, if, in the case of the extradition procedure, the final decision on the surrender or not of the person in question is a political one, in the case of the European arrest warrant, the entire procedure is carried out between the issuing legal authority and the enforcement legal authority, these being assisted by the central authority appointed for this purpose in the related member states, respectively by the contact points of the European Legal Network.

Regarding the surrender conditions and the procedure rules, these are similar to the ones of classical extradition system in the case of the European arrest warrant.

An important difference between the European arrest warrant and the extradition procedure refers to the conditions on the deed, the new system setting forth as exceptions



from the rule of double incrimination 32 serious offence categories, in these cases the surrender being granted without verifying the double incrimination condition.

Regarding the procedure duration, the European arrest warrant system regulates a time limit of the surrender procedure unlike the extradition, where there is no such limit.

Thus, the European arrest warrant shall be elaborated and enforced as urgent, the deadline being of 10 days, if the person whose surrender is requested consents to the surrender, and 60 days in the other cases, with the possibility of extending with other 30 days. Moreover, a short time limit, of 10 days has been set forth for the actual surrender of the person in question, with a possibility to extend the limit in certain circumstances.

The measure of provisional arrest in order to extradite the person in question may stop if, during a range of 18 days from such a measure, the requested state is not notified with the extradition formal request and the justifying documents, and, in any case, this term cannot exceed 40 days if the extradition document are not received during the above-mentioned time frame. These provisions constitute the main inefficiency cause of the extradition procedure.

In the European arrest warrant system, the relevant legal authority notified with such a warrant is bound to verify and enforce as urgent the respective warrant, fact that implies the arrest of the person in question during the procedure before the enforcement legal authority. Therefore, the European arrest warrant ensures the needed balance between efficiency and strictness of guarantees for the compliance with the fundamental rights of the person in question. Consequently, any arrested person based on a European warrant has the right to be assisted by a defence attorney, and, if necessary, by an interpreter, and if the trial has been performed in absence of the person in question, this has the right to be judged again. If a person arrested based on a European warrant has been convicted to life imprisonment, the requested state may ask, as a condition of warrant enforcement, that the person should have the right to regular review of his/her situation.

Finally, according to the system of the European arrest warrant, the member states of the European Union cannot reject the surrender of their own citizens anymore. This system is based on the principle according to which each EU citizen must be liable for his/her deeds before the courts of the entire Union. It is, however, likely for a member state to request, upon the surrender of the person in question, the return of the person for the enforcement of the punishment, for a better social rehabilitation.

In conclusion, the Frame Decision no. 2002/584/JHA from June 13, 2002, of the European Union Council on the European arrest warrant and the surrender procedures between the EU member states is the first concrete measure adopted in the criminal law, that seems as a natural consequence of the attempt to maintain and develop a freedom, security and justice space within the EU, the more so as within the Tampere European Council from October 15 - 16, 1999, it was declared that the mutual acknowledgement of the decisions is the *corner stone* of the legal cooperation between the EU member states.

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# POLITICAL PARTIES AND THEIR ROLE IN SAFEGUARDING THE SUPREMACY OF THE CONSTITUTION

Silvia-Elena, Olaru<sup>1</sup>

## **Abstract:**

*Nowadays, the political scene of the world is stirred by political parties. The separate fronts of the Government, on the one side, and Parliament, on the other, are now obsolete notions, while political parties dominate social life, having become genuine states in state. Therefore, within the contemporary organization of the powers in state, the issues are assessed from a different perspective: traditional structures are maintained, while their functions evolve and transform rapidly.*

*A modern society without political parties is unconceivable. Today, more than ever, political parties deserve their qualification of “engines of political life” and “reasons of the aging of the classical theory of the separation of powers”; at the same time, they must act within the boundaries set by law, namely by observing the principles of a democratic state and the constitutional order.*

*When dealing with the theory of the separation of powers in state, we must keep in mind that, to a large extent, it was developed in a time in which political parties did not exist yet or were not in their modern form. The main problems were of institutional nature and referred to the various bodies, their competencies and the relationships between them.*

*Unfortunately, in societies in transition, where authentic democracy is still developing, political parties – in some countries – perceive governing as a means of obtaining ministerial portfolios at all costs, irrespective of whether they have professionals for the field concerned or not. This often creates a governmental crisis, which usually leads to changing the incumbents and obtaining more positions in the new government.*

*In this context, some of the incumbent parties set up all kinds of obstacles in order to limit the number of parties, and if this limitation fails, they manage to create legal provisions which discriminate among parties with seats in Parliament and those which are not represented, both in local and parliamentary elections. However, this is a mistake which has its origins in a misapprehension of the role of political parties in a democratic state, governed by the rule of law, ignoring thus important values such as political and party pluralism.*

**Keywords:** *political party; pluralism; freedom of association; ballot vote; state power.*

## **General considerations**

The history of the beginning of political parties – close to the shape they exist in today – as one of relatively recent date, being in close relation with the appearance of legislative assemblies and universal suffrage; the starting point is represented by the bourgeois revolution of 1789 in France, a moment that marks the transition from feudalism to capitalism. In these conditions, the political parties – that are in an incipient form – were fighting tools in the hands of the bourgeoisie against the aristocracy and absolute monarchy.

Bourgeois democratic revolutions of 1848 in Europe led to the development and completion of democratic institutions, to the establishment of a new system of principles about the conquest and exercise of state power – the principle of eligibility and representation. Thus political parties have evolved into stable organizations with an ideology, programs, statutes and clearly defined goals. Evolution has favored the emergence of electoral systems and the extension of voting rights to increasingly large categories of people, which increased the support base of parties and allowed them the designation of representatives in the governing bodies of the state – parliaments and governments.

The political scene in the second half of the nineteenth century was divided between conservative parties, supporting the interests of the nobility, liberal parties promoting the interests of the big bourgeoisie and workers' parties, organized into unions, leagues or revolutionary clubs based on which later formed most socialist parties. Since then, the democratic life of a country is hardly conceivable without the presence and evolution in the political scene of political parties.

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<sup>1</sup> Olaru Silvia Elena, consilier Comisia Juridică de disciplină și imunități din Camera Deputaților.

The sociological phenomenon, of the association in temporary groups in order to achieve certain interests, often occult or personal, is present since antiquity. These formations represented only the interests of a social segment reduced, did not have an organization based on programs and statutes and their work ceased when fulfilling their purpose for which they were established. In this position, those parties - called clans, clubs or committees - were far from the modern notion of political party, resembling more with pressure groups. Grouping was done according to various criteria - or rather interests : political, military, dynastic, socio-professional or, more often, religious<sup>1</sup>.

In Romania, the history of political parties begins in the second half of the nineteenth century through the establishment in 1871 of the Conservative Party and the National Liberal Party in 1875. The political party phenomenon manifested and developed subsequently and by other political parties who have made their presence felt in Romanian politics after World War I; Thus, in 1926 the National Peasant Party was established and in 1927 the Social Democratic Party appears.

Through a decree given by Charles II in 1938 were dissolved all associations, groups and political parties; the party system was established by the creation of the National Renaissance Front, a situation that lasted until 1940. There was a short period during the Antonescu regime, in which the Legionary Movement occupied the forefront of the political scene. 1947 marked the beginning of the communist dictatorship, dissolution of political pluralism and the establishment of a single party dominated existence - the Communist Party.

The normative acts adopted after 1989 brought in Romanian the political life also reaffirming the principle of political pluralism. Following the Decree-Law No. 8 of 31 December 1989 on the registration and operation of political parties and public organizations have been set up numerous formations and political parties, but few are those who resisted and were imposed in politics. This contributed to the Political Parties Law No. 27 of 29 April 1996 through which were established more stringent legal conditions for the establishment and organization of political parties.

Currently, the regulation of the political parties field in the internal order is given by the several articles of the Constitution - namely article 8 on party pluralism and the establishment the political parties, Article 40 on freedom of association, Article 73, paragraph 3 b) organization , operation and financing of political parties; are governed by organic laws, and 146 lett.k) The Constitutional Court decides on complaints that have as object the constitutionality of a political party. and political parties law no.14/2003 respectively no.334/2006 Law on financing of political parties and electoral campaigns<sup>2</sup>.

Law, no.14/2003 defines political parties as political associations of the citizens with voting rights, participating freely to training and exercising their political will, fulfilling a public mission guaranteed by the Constitution. They are legal entities of public law.

Currently the political life of the world is driven by political parties. Currently is no longer on one side of the barricade the Government and the Parliament on the other side of the barricade, but political parties have great weight in social life, becoming true major states. So in organizing contemporary branches of state power, the problems are put in another way: traditional structures remain, while their functions evolve and transform rapidly.

A modern society is unconceivable without political parties. Today, more than ever, political parties deserve their characterizations of "motor of political life", "why the aging

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<sup>1</sup> In feudalism, religious affinities were reasons, of passions and political battles, given the overwhelming influence of religion in that period as well as the major differences between the major theological doctrine: Christianity, Buddhism, Islam, etc.. Battles were present even within the same confession; for example, there were parties who claimed supremacy of the Pope and parties supporting the fight against the papacy.

<sup>2</sup> Law no.14/2003 the political parties' law, published in the official Gazette.no.25/17.01.2003.

Law no.334/2006 regarding the financing of the activity of the political parties and the election campaigns , republished in the official Gazette .no.510/22.07.2010.

of the classic theory of separation of powers", while they have to work legally, that is to recognize the rule of law and constitutional order<sup>1</sup>.

In valuing the theory of separation of powers must be taken into account to a large extent by the fact that it was developed in a time when political parties were not yet existing or not in their modern form. The main problems were institutional matters and regard the various organs, their powers and relations between them.

Unfortunately, in societies in transition, where democracy has not yet been affirmed authentic political parties in some countries, see the purpose of government, to obtain at any price ministerial portfolios, regardless if they have staff trained in this area or not. They often create the government crisis in order to change the government to get more seats in the new one.

In this context, some parties that have come to power, set up all kinds of barriers to limit the number of parties, and if you fail this limitation, the law creates discrimination between parties in Parliament and local elections in both non-parliamentary and parliamentary elections. But this is an error that comes from misunderstanding the role of the political parties in a democratic state of law, ignoring such values as political pluralism and multipartism. Thus nr.67/2004 31 paragraph 2 of the Law provides that "Within 24 hours of the establishment of electoral of the County, it is supplemented by a representative of the political parties. And, article 34, paragraph 4. The electoral precinct shall be filled with representatives nominated by organizations of the county or Bucharest organization, of the political parties that submitted the candidate for mayor, general mayor respectively. Completion is done by the chairman of the electoral precinct within 24 hours of his appointment in descending order of cumulative number of MPs of each party.

The provisions of Law 55 para.8 no.67/2004 provides that, in determining the number of order on the ballot containing the lists of candidates or independent candidates for counselors, mayors as well as presidents of county councils it is proceeded as follows:

a) in the first stage the lists submitted by the parliamentary political parties, political alliances and electoral alliances with at least one parliamentary political party, fall in the quadrilaterals of the ballot in the order resulting from the draw conducted by the chairman of the county electoral district, respectively Bucharest, in the presence of a majority of its members;

b) in the second stage, the lists submitted by the political parties not represented in Parliament, the political alliances and their electoral alliances, shall be printed in the following quadrilaterals of the ballot in the order resulting from the draw conducted by the chairman of the municipal electoral district, town, municipality and sector of Bucharest respectively the chairman of the county electoral district and of Bucharest.

The order established under letter a) is valid for all county electoral districts respectively in Bucharest, including county electoral district, respectively Bucharest. The order established under letter a) and b) is valid in the case of the ballot for the election of the mayor and county council president.

For each independent candidate, including independent candidates for mayor and the president of the county council, shall be printed a distinct quadrilateral in the final part of the ballot in which they are enrolled in the order of the registration of the applications.

Also in this regard, we exemplify the provisions of Article 34 paragraph 2 of Law no.35/2008 which states that the order in which candidates' names are printed on the ballot shall be determined by the electoral district by drawing lots successively: first for parliamentary political parties and the organizations of national minorities with their own parliamentary group in both houses of Parliament and the political or electoral alliances that include at least one parliamentary political party, then for the non-parliamentary

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<sup>1</sup> Ciobanu D., Duculescu V. – Romanian constitutional law. – Bucharest: "Hyperion XXI" Publishing House, 1993.

political parties and electoral or political alliances, of these, then organizations of national minorities. Independent candidates will enroll on the ballot in the final part of this, in the order of the registration of the applications.

This creates discrimination between the parties that have come in Parliament and those that are not parliamentary parties in the parliamentary elections, presidential and local elections even - at the local level there must be greater autonomy and do not think it is constitutional that elections for the mayor and city councilors to have delegates in district offices or polling stations only parliamentary parties.

The political party can be defined as an organized group of people, united by an ideology, group playing the role of intermediary between the state and civil society aimed at conquering and exercising political power.<sup>1</sup>

In the specialized literature addressing the concept of political party is done from several points of view. Thus, legally, a political party is a legal entity of public law<sup>2</sup>, with an self-contained organization, its heritage and which pursues a legitimate aim<sup>3</sup>. *As a sociological phenomenon, the political party is an expression of the exercise by citizens of their right to free association*<sup>4</sup>; these free associations brings together people who share the same views or how Benjamin Constant expresses, "profess the same political doctrine".<sup>5</sup> *From the political point of view, creating a party aims participation in political life by conquering the power or influence it effectively to give gain to ideas or interests of its members.*

Understanding the concept of political party also means delimiting it from other intermediary bodies that play an important role in the democratic life of a state - pressure groups and interest groups. These social forces do not seek the appropriation of political power, although their work is conducted in close connection with the development of the political scene; by influencing or manipulating the power, pressure groups and interest groups seek most often to obtain material benefits. they do not have permanent structures, their existence is often conjectural<sup>6</sup>, determined by the claim and satisfying an interest or achieving a goal. There were also cases in which the pressure groups have turned into political parties by taking power.<sup>7</sup>

### **Features of the political parties**

Political parties have as main features:

- the political party is an expression of the citizens' right to free association as it is regulated in article 40 paragraph 1 of the Constitution;
- Political parties are associations that have political character, because their primary purpose is the conquering and exercise of state power and party activities are conducted in

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<sup>1</sup> According to article 1 of Law no.14/2003 political parties are defined as "political associations of the Romanian citizens with voting rights, participating freely to the formation and exercise of their political will, fulfilling a public mission guaranteed by the Constitution".

<sup>2</sup> According to the last sentence of Article 1 of Law no.14/2003 political parties "are legal entities of public law."

<sup>3</sup> According to Article 40 paragraph 2 of the Constitution, political parties "which, by their aims or activity, militate against political pluralism, of the rule of law or the sovereignty, integrity or independence of Romania shall be unconstitutional."

<sup>4</sup> "Citizens may freely associate into political parties, trade unions, in employers and other forms of association", article 40 paragraph 1 of the Constitution.

<sup>5</sup> Benjamin Constant (October 25, 1767 - December 8, 1830) was a thinker, writer and French politician, one of the first political thinkers, who called themselves liberal and also an important doctrinaire of liberalism in the nineteenth century. "*Principes de politique applicables à tous les gouvernements représentatifs*" (*Policy principles applicable to all representative governments*)

<sup>6</sup> U.S. pressure groups called "lobbies" go out of print because they are characterized by permanent structures, stable and through organized activity.

<sup>7</sup> This is the case of environmentalists in many European countries, having their representatives in the Parliament and associating to the government.

close connection with the work of the Board of the State;

- political parties act as an intermediary body between the state bodies and the electorate, contributing to the definition and expression of the political will of the citizens;

- as permanent and stable organizations, political parties benefit from specific management structures with clearly defined duties by the statutes and rules of the party;

- political parties are "organizations at the service of an idea" (Maurice Hauriou)<sup>1</sup> and the action lines of the party's activities are included in the political program, based on the doctrine of the party. Currently, a pragmatic political program, anchored into social and economic realities of a state, can provide that party success through broad support of the electorate;

- the framework of the establishment, conduct of business and dissolution of the political parties is regulated in our order of law, by the Constitution and organic law;<sup>2</sup>

- political parties are characterized by a diversity of ideologies and political programs, in accordance with the diversity of groups in society whose interests they represent, and also are presented as various names. Not always, however, the party ideology is reflected in its name;

- the totality of supporters of a party - the electorate - implies the existence of the following categories: *the party members* - a notion with different meanings depending on the type of party. In the case of mainstream parties, the concept of membership coincides with the one of adherent respectively the person is actively involved into the activities of the party, signed a bulletin of subscription and pays his dues regularly. Another category is the militant supporters, "diehard fans" of the doctrine of the party that is actively supporting it (not necessarily members of the party), trying to convince others to join the ideas and political program of the party. Supporters are people who publicly support a party but without the intention to persuade others to vote for their candidates of that political party. And last but not least - the voters are people who without being party members, activists or sympathizers grant their vote for a particular party.

Through their work, political parties promote national interests and values, political pluralism, contributes to the formation of public opinion participates, with the candidates in the elections and the establishment of public authorities and stimulate the participation of citizens in the polls, according to the law.

A true democracy must include in itself the possibility of wider options, free between different views and orientations open to debate. In other words, the plurality shall mean a multiplicity of equivalent factors, which can not be reduced to unanimity<sup>3</sup>.

Constitution in Article 8 provides that pluralism in the Romanian society is a condition and a guarantee of constitutional democracy.

Pluralism has several definitions: it allows the expression of a diversity of views, embracing any philosophical doctrine, any ideal setting, with the respect, of course, of the fundamental values of the given society, of political and legal order that requires the rule of law<sup>4</sup>; by political pluralism we understand possibility for citizens of a state to realize the right to freedom of political opinion through political parties in which they can be associated<sup>5</sup>.

Multi-party system is an integral part and essential to political pluralism, without which it can not exist and which involves several strong political parties.

At the same time, recognizing that the multi-party system is a condition of constitutional democracy, we should point out some shortcomings of this principle:

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<sup>1</sup> Maurice Hauriou - *Precis de droit constitutionnel*, 2-eme, Sirey Publishing House, 1929. p.347, Université de Toulouse.

<sup>2</sup> N.Grădinaru, I.Popescu, I.Mihalcea, E.Neagu – *Constitutional Law*, Independența Economică Publishing House. Pitești. 2011. p.329.

<sup>3</sup> Deleanu Ion - *Constitutional Law and Political Institutions*, Europa Nova Publishing House, Bucharest. 1996.

<sup>4</sup> Vrabie Genoveva - *Romania eratives political organization*. - Iași: „Cugetarea” Publishing House, 1999, p.19.

<sup>5</sup> Popa Victor – *Public Law*. - Chișinău, 1998, p.117.

a) can lead to too much diversity can jeopardize the proper release of the general will and its reflection in the decisions taken at national or local level;

b) determines the voting list, often criticized for the adverse consequences in terms of real representation of the people, "national will" expressing itself in a process of coalition of parties regardless of election results;

c) often causes the formation of coalitions which result instability and political government crisis<sup>1</sup>.

### **The role of political parties in ensuring the supremacy of the Constitution**

According to article 3 of Law no.14/2003 can function as political parties, only the associations, with political character, constituted according to the law and which fights for national sovereignty, independence and unity of the State, territorial integrity, public order of the law and of the principles of constitutional democracy.

A democratic society necessarily implies the presence in the political arena of social and political forces to ensure the existence and functionality of the connecting channel between the government and citizens. Among these forces, political parties have proven indispensable by the political role that they meet - electoral , parliamentary or governmental - but without leaving aside the social role, parties being able to train and animate the force of a significant social mass in some cases.

In the constitutions of the states but also in the comments of the specialized literature, opinions differ on the essential role that the parties have in a state. The majority opinion states the following roles of the political parties:

- to protect the interest and with priority the interest, of the social group represented;
- to determine and shape the political will of the citizens;
- to determine the national policy of a state;
- to contribute to the expression of suffrage;
- to pursue the party's ideology, by setting up a political program and its implementation.

All these are not actually other than different aspects, angles of which can be seen in the work of a political party one time or another; the general role that the parties fulfill, is to ensure the organization and management of social and political life of a country and is achieved by the following functions:

- *the electoral function is fulfilled by forming political opinion trends in society, by designating candidates in local and general elections and thus, by supporting the electoral "fight" against other political parties. By providing a thematic framework, doctrinaire , or ideological of the electoral campaign, for training and information, of the opinion of voters, the selection of candidates for admission to the parliamentary groups of the elected, to ensure political support for these groups and their relations with voters.*

- *the political function involves the coordination of those elected in order to achieve the party's political program but also to maintain party discipline. This happens in the case of the party - or parties if there is an electoral alliance or coalition - which won a majority in Parliament and participate in governing; Instead, the 'minority' parties from the opposition political function to oversee those who govern to criticize their errors and inefficiencies, with the ultimate goal of overthrowing the government and to regain power;*

- *the management function is achieved primarily through the accession to power, to ruling party status, and by turning his program in government programs, and participation in the governing bodies of the state but also by establishment of internal organizational structures and leadership of the party and the coordination of its members;*

- *the function of intermediary body between the people and the government, which helps*

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<sup>1</sup> Vrabie Genoveva - Romania eratives political organization. - Iași: „Cugetarea” Publishing House, 1999, p.20-21.



*to relieve the general will and to valuing them as momentum to power, and is achieved by party representatives in parliament and in government; citizens participate through them indirectly to exercise state power. In the case of lawmakers, the function is reflected by the close links, which are kept between them and the voters in the district where they were elected. At the same time, parties can mobilize people in case of violation by state authorities of the constitutional provisions;*

*- the civic function is achieved by training and educating a responsible attitude both of party members but also of citizens in general, on the main problems of society, of agent of the information measure, and political education of citizens, their training requirements to power, harmonization and aggregation of diverse interests.*

We note that currently the Constitutional Court of Romania is facing political domination tendencies of the block "parliamentary majority - Government" which dictates the legislative and executive activity. Hence the increasing importance of the act of "constitutional review".

To prevent actions that would contravene the Constitution, in this plan, one increasingly important role, returns to the parliamentary opposition, which in such circumstances notify the Constitutional Court.

Thus from the analysis of the activity of the Constitutional Court, we note that the right of the Government to notify the Constitutional Court before promulgation is almost nonexistent.

Deputies and Senators in opposition, have spent their right to petition the Constitutional Court before the enactment of laws.

Since its establishment until January 31, 2013, the Court had to settle complaints 30.042:

**The activity of the Constitutional Court from establishment up to April 30, 2014**

Since its establishment until 30 April 2014, the Court had to settle complaints 31.294:

**238 complaints in the framework of the constitutionality of laws before promulgation: - According to Article 144 a) of the Constitution:**

The subject of the complaint/ year	The President of Romania	The President of parliamentary chambers	Government	The supreme court of justice	Deputies or senators	No. Complaints
1992	-	-	-	3	6	9
1993	-	-	2	-	9	11
1994	-	-	-	3	14	17
1995	-	-	-	2	17	19
1996	-	-	2	-	9	11
1997	-	-	-	2	9	11
1998	-	-	-	-	7	7
1999	1	-	-	1	7	9
2000	-	-	1	1	-	2
2001	1	-	-	1	6	8
2002	-	-	-	-	5	5
2003	-	-	-	-	2	2
TOTAL						111

- according to Article 146 a) of the Constitution republished:

The subject of the complaint / anul	The President of Romania	The President of parliamentary chambers	Government	The High Court of Cassation and Justice	The Ombudsman	Deputies or senators	No. Complaints
2004	1	-	-	-	1	5	7
2005	4	-	-	1	1	7	13
2006	2	-	-	-	-	7	9

The subject of the complaint / anul	The President of Romania	The President of parliamentary chambers	Govern-ment	The High Court of Cassation and Justice	The Ombud-sman	Deputies or senators	No. Com-plaints
2007	3	-	3	-	-	10	16
2008	5	-	2	-	-	11	18
2009	-	-	-	1	-	9	10
2010	1	1	-	2	-	20	24
2011	4	-	-	1	-	15	20
2012	2	-	-	1		7	10
2013	6			1		15	22
2014	2					1	3
TOTAL	152						

**6** examinări referitoare la inițiativele de revizuire a Constituției, potrivit art.144 lit.a) teza finală din Constituție, din care: 1 în anul 1996, 1 în anul 2000, 3 în anul 2003, 1 în 2011 și 1 în 2014;

**37** sesizări în cadrul controlului constituționalității regulamentelor Parlamentului:

- potrivit art.144 lit.b) din Constituție:

Subject of complaint / year	The President parliamentary chambers	Parliamentary Group	Deputies or senators	No. Complaints
1993	-	3	-	3
1994	4	-	-	4
1995	-	1	1	2
1997	-	-	1	1
1998	-	-	2	2
1999	-	1	-	1
2000	-	-	1	1
2001	-	3	-	3
TOTAL				17

- according to Article 146 c) of the Constitution republished:

Subject of complaint / year	The President parliamentary chambers	Parliamentary Group	Deputies or senators	No. Complaints
2004	-	2	-	2
2005	1	-	3	4
2007	-	1	2	3
2008	-	-	2	2
2009	-	2	3	5
2010	-	-	3	3
2012	-	-	1	1
TOTAL				20

**30.574** unconstitutionality exceptions, of which:

**30.526** Exceptions raised in court [according to Article 144 c) of the Constitution, namely Article 146 d) first thesis of the republished Constitution];

**48** Exceptions raised directly by the Ombudsman [according to 146 d), second thesis of the reissued Constitution]

Year of complaint	Exceptions raised in the courts	Exceptions raised directly by the Ombudsman	No. Complaints
1992	24	-	24
1993	88	-	88
1994	116	-	116
1995	132	-	132
1996	292	-	292
1997	570	-	570
1998	179	-	179
1999	246	-	246
2000	384	-	384
2001	432	-	432
2002	539	-	539
2003	573	-	573
2004	728	-	728
2005	1037	2	1039
2006	2455	3	2458
2007	1834	4	1838
2008	2851	6	2857
2009	8819	4	8823
2010	4743	7	4750
2011	1661	2	1663
2012	1554	14	1568
2013	882	6	888
2014	387	-	387
TOTAL			30.574

**25 requests for legal settlement of a constitutional nature, between public authorities, according to Article 146 e) of the republished Constitution:**

Subject of complaint / year	The President of Romania	The President Parliamentary chamber	The prime minister	President of the Superior Council of Magistracy	No. complaints
2005	-	2	-	-	2
2006	-	-	-	1	1
2007	-	1	1	-	2
2008	2	2	2	1	7
2009	1	2	-	1	4
2010	-	1	1	-	2
2012	2	-	-	1	3
2013	-	-	-	2	2
TOTAL					25

- 336 complaints made in the procedure for electing the President of Romania [according to Article 144 d) of the Constitution, namely Article 146 f) of the Constitution reissued], of which 43 in 1992, 132 in 1996, 70 in 2000, 50 in 2004 and 41 in 2009;

- 2 requests for ascertaining the circumstances which justify the interim in the position of President of Romania [according to Article 146 letter g) of the reissued Constitution], of which 1 in 2007 and 1 in 2012;

- 3 proposal of suspension from office of President of Romania [right 144 f) of the Constitution respectively 146 h) of the reissued Constitution], including one in 1994, one in 2007 and one in 2012;

- 13 complaints relating to the procedure for organizing and conducting the referendum [according to Article 144 letter g) of the Constitution respectively Article 146 a) of the reissued Constitution], of which 2 in 2003, 4 in 2007, 1 in 2009 and 6 in 2012;

- 6 notifications on the control conditions for the exercise of legislative initiative by citizens [according to 144 h) of the Constitution respectively Article 146 letter j) of the reissued Constitution], of which two in 1994, one in 1996, one in 2004, one in 2007 and one in 2009;

- **Two petitions on the constitutionality of a political party [right 144 a) of the Constitution respectively Article 146, of the Constitution, republished, including one in 1993, returned to attach the necessary evidence and to be examined, the Chamber of Deputies and the Senate and one in 2014;**

- **22 complaints regarding the other functions provided by the organic law of the Court according to Article 146 letter l) of the Constitution, republished, including two in 2010, three in 2011, 12 in 2012, three in 2013 and two in 2014.**

In resolving complaints, the Court issued 15 163 decisions, rulings, notices, including:

- 230 decisions under Article 144 letters a) and Article 146 a) of the Constitution republished - six in 1992, nine in 1993, 10 in 1994, 13 in 1995, 11 in 1996, seven in 1997, six in 1998, seven in 1999, three in 2000, six in 2001, four in 2002, seven in 2003, five in 2004, 10 in 2005, 8 in 2006, 17 in 2007, 15 in 2008, 13 in 2009, 18 in 2010, 17 in 2011, 14 in 2012, 16 in 2013 and 8 in 2014;

- 35 decisions under Article 144 b) and Article 146 c) of the Constitution reissued - two in 1993, four in 1994, two in 1995, one in 1997, two in 1998, two in 2000, one in 2001, two in 2002, two in 2004, three in 2005, one in 2006, three in 2007, two in 2008, five in 2009, two in 2010 and one in 2012;

- 14,583 decisions under Article 144 c) 146 d, respectively) of the Constitution republished - 60 in 1993, 126 in 1994, 114 in 1995, 137 in 1996, 707 in 1997, 180 in 1998, 232 in 1999 268 in 2000, 347 in 2001, 357 in 2002, 484 in 2003, 560 in 2004, 687 in 2005, 943 in 2006, 1,215 in 2007, 1,394 in 2008, 1,686 in 2009, 1,636 in 2010, 1610 in 2011 in 1065 in 2012, 537 in 2013 and 238 in 2014;

- 22 decisions under Article 146 e) of the Constitution republished - one in 2005, one in 2006, two in 2007, five in 2008, four in 2009, two in 2010, three in 2012, two in 2013 and two in 2014

- 248 decisions on the procedure for electing the President of Romania - 43 in 1992, 77 in 1996, 53 in 2000, 34 in 2004, 40 in 2009 and 1 in 2010;

- 2 decisions under Article 146 letter g) of the Constitution republished - one in 2007 and one in 2012;

- 3 opinions (negative) for the proposal of suspension from office of President of Romania - one in 1994, one in 2007 and one in 2012;

- 9 ruling on appeals concerning the procedure for the organization and the referendum - two in 2003, four in 2007, one in 2009 and two in 2012;

- 5 decision confirming the results of the national referendum - one in 2003 and two in 2009 and one in 2007.1 2012;

- 6 decision on the control conditions for the exercise of legislative initiative by citizens, including two in 1995, one in 1997 and one in 2004, one in 2007 and one in 2009;

- 20 decisions under Article 146 letter l) of the Constitution republished - 5 in 2011 and 10 in 2012, two in 2013 and three in 2014.

There have also been issued:

- 6 decisions of interpretation of which 1 in 1993, 2 in 1994, and 3 in 1995;

- 12 decisions for approval or, if appropriate, amending the Regulation on the organization and functioning of the Constitutional Court, including one in 1992, one in 1993, one in 1995, one in 1996 and one in 1997, one in the year 1999, two in 2000, one in 2001 and one in 2002, one in 2005 and one in 2012.

From citizens and some organisations there have been received 10.284 **letters and petitions**.

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# CONSIDERATIONS ON THE EUROPEAN SOCIAL DIALOGUE

Mihai, Opreșcu<sup>1</sup>

## Abstract:

*At the moment, worldwide, social dialogue is considered to be a very useful tool in solving serious social problems caused by globalization or as a consequence of the way the costs and benefits of the economic changes are distributed.*

*Promoting social dialogue at European level remains a strategic objective of the European Union, which must be sustained by all appropriate means, and in the same time it should be used as an instrument for Stability and Development. Improving the convergence of the social partners' actions from the Member States with the social partners' actions from the Community level is required for the effectiveness of European social dialogue.*

*Social dialogue will be applied, in the next period, into the trans-national system, at regional and inter-regional levels, given the trends of decentralization, integration and globalization that affect all communities.*

Democracy presupposes, first of all, participation and retention of social actors in the management of the company. Decision-making is based on a system totally opposed to authoritarian States, typology with a single power centre, through the involvement of all components of civil society.

Civil society must be understood in the sense of non-governmental institutions, and completely different, strong enough to counterbalance the State prevent him to fulfil his role as peacekeepers, but judging impartially, objectively, the major interests of the society. It adds, however, force them to prevent the dominant trend and abuse, of the rule of atomize the rest of society.

Political sciences have founded a concept expressing the plurality decision poliarhia respectively, involving a variety of social organizations with a broad autonomy from each other. Every organization, in turn, has a number of leaders to lead the work, engage in skilful action to promote specific interests.

Instead of "messianic" leader, who directs followers to acquire supremacy, slim head appears in the attitudes, promoting their own persuasive beliefs. Poliarhia complicates their leaders network enhancing relations of mutual dependence of both the ruling structures, vertical and horizontal landing on each of their correspondence. Poliarhia asked in essence, active citizens from the political point of view, to push political structures in the direction of separation of powers.

It takes the support of citizens, to the individuals so that their activities must be intense, by understanding through active participation in decisions that obviously concerns them.

Within participatory culture citizens are aware of their political system, as well as their ability to influence the course of events by means of specific political democratic participation: referendum, elections, protest actions, strikes, etc.

Political participatory culture corresponds to a democratic political structures in which the citizens are aware of the tremendous role that should have every individual to defend democratic values.

Democratic State differs from the authoritarian or totalitarian in that it allows the Association of citizens for the purpose of establishing civic bodies with legal personality in order to defend them and promote their interests.

From this perspective, political sociology considers democracy a negotiating mechanism, assembly and a plurality of interests and organization of the community in a uniform and coherent leadership.

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The consensus, as an instrument of negotiation, it is essential for effective decision making, by assuming and accepting them, and their finality.

Development of social partnership and civil society represents the cultural and historical processes that are closely linked to economic and social realities, of mindsets and human values, culture and maturity of a given community. Tolerance, social responsibility, recognition of pluralism and cultural characteristics that volunteering is endorsing a certain evolution of the dialogue in society, whether it be of social dialogue and civil dialogue.

Civil dialogue is the mechanism by which citizens shall consult, it organizes or collaborates, spontaneously or in organised structures to rule or participate in the management of public affairs, to analyze, criticize the decisions or claims of the authorities, but also to promote the interests of professional, cultural, social or economic.

Social dialogue is the concrete way to transpose the principles in consultation with socio-economic and specific consensus democracy. At the table of dialogue, negotiations are brought the two sides of industry, trade unions and employers or when the situation so requires, the social partner becomes even State or local public administrations.

Organised civil society represents an integrated whole, and organized civic life, actors of economic and social, including the social partners-employers and trade unions; representative organizations of other economic and social interests-professionals, farmers, etc. non-governmental organizations; religious communities.

From this conception and depending on the nature of the rights and interests represented on the socio-economic, civic, or dialogue with and between the social partners, and other interest groups economic and social is titled social dialogue and dialogue with non-governmental organizations and civic dialogue-religious community. Both components belong to the macroeconomic dialogue, meant to ensure a democratic Government, close to his citizens of the options, their needs and interests.

The dialogue between the Administration and the social partners should be developed concurrently with the independent dialogue between the social partners and between them and other representative organizations of civil society in an efficient manner.

A role in the development of this social dialogue lies with the public authorities to be, beyond the recognition of the autonomy of the social partners and independent process of dialogue, to give importance to the results of this process-opinions, recommendations, agreements.

Construction of national mechanisms in support and recognition of the results of bipartite social dialogue by Member States ' administrations are important actions in the development of social dialogue. Monitoring the implementation of the agreements made between trade unions and employers ' associations must be implemented so as to be known how much better their impact, with a view to the construction of future actions.

Everywhere in the world the social dialogue is considered extremely useful in solving social problems, tackling major consequence of globalization, how are assigned costs and advantages of economic exchanges. That's why the State is interested to train employers and representative organizations of workers in decision-making, allowing them to express their views and participate in the elaboration and implementation of economic measures, of a particular or general.

Social dialogue helps to prevent social instability and prevent misunderstandings that could arise if the two sides would not be consulted and taken into account their point of view. His positive effects extend not just to the economy or social issues, but even the Government.

Social dialogue was originally designed as a formal relationship between labour market actors and the public authority responsible for labour policy, tripartite institutions having to deal with General issues with private ones in the field of employment and labour. However, today, the social dialogue has a much wider. It encompasses all forms of negotiation and consultation, and the exchange of information between representatives of

Governments, employers ' and employees regarding subjects of common interest economic and social order.

The notion of social dialogue comprises the traditional term of professional relations, collective bargaining at the level of bi-unit or branch of activity, as well as relations between the social partners and the State. It shall, however, and tripartite cooperation on labour market issues and takes place in the tripartite bodies widened.

At European level the concept of social dialogue was established after 1980, when, under the aegis of the Council of Europe, have organized the first meeting between the two sides, namely the European Trade Union Confederation, the European Union and the Union of employers of public undertakings of General interest.

Dialogue with the social partners and other organised civil organizations in an efficient manner, as well as their involvement in the process of socio-economic development were the tools and strategic objectives for the European Union, which faced over the last ten years with new challenges arising from the enlargement of the European space, switching to information society and the process of globalization.

She identified in the dialogue with the social partners, the new pillars of stability and development.

The Val Duchesse dialogue, named after the place where the first meeting took place in 1985, built between three European organisations representative of national industrial employers ' cross-industry trade union, and on the voluntary and informal, coordinates generated dozens of joint statements, opinions and four agreements signed and over seven summits in the area of social dialogue.

But a series of conventions such as, for example, the framework agreement on fixed term work are signed and the European Association of Craft and Small Manufacturers (European Association of Craft Small and Medium-Sized Enterprises end-UEAPME).

Mutual recognition of the status of dialogue partner, of the importance of the debate on the issues faced by each other, are the ingredients of this product.

Thus, it was concluded that this form of dialogue must be supported and promoted both at European level and at national level, reflecting the level of maturity and responsibility of the social partners. Independent trade unions-employers are a key factor in taking responsibilities and proper recognition of the autonomy of the social partners. Furthermore it has been decided that the concept should be promoted Val Duchesse dialogue at all levels in Europe, up to enterprise level and beyond the current borders of the European Union and in the candidate countries.

You may find an accelerated dynamic of social dialogue, especially at the level of the past 10 years, significant in this sense of the inclusion in the Treaty on European Union regulations to support and promotion of this tool of economic and social development.

Social dialogue is already for the twenty-first century, an important component of the Community Foundation for making decisions in the face of economic and social challenges which the European Union will face. Assuming the new roles of the social partners, to use in a higher degree of instruments provided by the Treaty of the European Union, increasing the quality of industrial relations and emphasizing the principle of subsidiarity in implementing the agreements made between the two sides are expected trends at Community level.

In the context of accelerating technological change, economic and social, the 21st century will mark the balance between adaptability and security of workers ' organizations, in substantially changing employment relationships and industrial relations.

Managing change can no longer be, in this context, the responsibility of a single type of organizations, institutions or structures, cooperation and dialogue representing viable tools to these new challenges. The social partners should play an important role in



achieving the balance and in the management of change. Relations between the European institutions and the social partners and between them is reflected in the debates, briefings, consultations, negotiations, agreements and joint actions.

Representative organisations of the various economic interest groups can thus inform their social members over the decisions that affect them; they can influence or participate in their implementation.

These lead to an improvement in relations and the stability of the European legislative framework, increasing social actors responsibilities regarding the improvement of living conditions of employees, the widening of economic agents competitiveness, to the observance of human rights and European values.

The effectiveness of industrial relations platforms, level of maturity, and representativeness of social partners at the level of each Member State of the Union, are essential prerequisites for a modern building of the social dialogue at European level.

Today, there are structures of social dialogue in all the European Union countries, where the social partners can be consulted and where they can express their views on the various decisions of the administration. In many countries, social partners participate directly in the implementation of strategies and social policies, by participating in the management of various institutions with roles in these areas. In this way, the responsibilities to achieve the objectives are split, the consent becomes an instrument of social policy management.

The creation of a consolidated system of social dialogue fits and integrated into the development and implementation of Community policies should be a priority for the future evolution of the European Union.

Promoting the social dialogue at European level remains a strategic objective for the European Union, which must be supported with all appropriate steps concurrent with its use as an instrument of stability and development. An improvement of the convergence social partners' actions at Member State level, with the actions of the social partners at Community level is necessary for the effectiveness of the European social dialogue.

In this way Member States should reconsider the measures that can stimulate and at the same time recognize the importance of social dialogue, taking into account the nature of the instruments covered by article 137-139 of the Amsterdam Treaty. The current coordinates of consultation between the European institutions and the social partners are determined by a set of Community rules, structured, including a special significance of the agreement on Social Policy annexed to the Treaty of Maastricht. This document confers on the Community administration's ability to deal with the social challenges and provides an important instrument of social dialogue in this process.

Consultation of the social partners under the auspices of the Treaty of the European Union, calls for construction of a new balance between the terms of time and effectiveness of the process, between procedural and dynamic stability of the organizations to be consulted. This new challenge will consider it necessary to adapt the procedures for consultation to accelerate socio-economic changes and technological.

In the context of enlargement of the European Union, to speed up the change of all kinds, globalization, the emergence of new technologies and forms of work, the social partners will play an active role in several new areas.

In this sense, social dialogue will expand towards the areas of modernisation of work organisation, anticipating structural changes, the development of continuing vocational training, reconciliation of professional life with family life, the integration of disadvantaged persons, etc.

Extension of the consultation of social partners should be effected as to ensure representation degree, to get to implement the Community acquis and of the manifestation

of their interest for other areas which are not provided for in the Treaty on European Union, as well as stepping up the European institutions support to meet these requirements.

Reformation of the social dialogue at Community level shall take into account the results, effectiveness and efficiency of the sectoral social dialogue structures, institutionalized by decision 98/500/EC on the establishment of sectoral dialogue committees promoting the dialogue between the social partners at European level.

A regular functioning and assessment of the results generated within these committees is necessary for the identification of new measures to strengthen the sectoral social dialogue in the community. New sectoral social dialogue committees can occur due to challenges in the period ahead that derives from economic and social developments of the 21st century.

The actions of those factors which causes substantiation of actions and reaction of the social partners in the framework of these structures should be intensified so that statements and opinions common to represent the constructive inputs for each community measure.

Consultation procedures for decentralization at the level of the European institutions is still a necessity, so that the process to be carried out at the level of components and new solutions to be identified at the periods of reply of the European economy. The Standing Committee on Employment, established in 1970 and which reflects the dialogue, consultation and joint action of the Council, the Commission and the social partners in the co-ordination of employment and human resources, is a large pillar of community social dialogue for the future period.

The reform of the Standing Committee on employment determined the new coordinates of the social dialogue at the level of the European employment policy. Involvement of the social partners at all stages of the coordinated strategy for employment work force contributes to a highly effective safety programs related to the employment guidelines.

The establishment of mechanisms for the evaluation of this contribution should be imposed both at European level and at national level. Involving the social partners in the employment system coordination of human resources has generated new roles at their level, expanding their role in the European plan.

Greater decentralization of decision-making on Community policies in the field of the social and labour can be expected for the future, taking into account the necessity to increase the capacity of the European institutions to respond to changes in what the fastest in the economic, social, technological or political.

Another cause of this decentralization and the involvement of social partners in the management of various social policies and is a requirement of the Community institutions, among its citizens increasingly emphasized in the last period. New models of consultation within the intersectoral social dialogue will have to take into account the results of ongoing projects and experience deficiencies advisory committees in existence up to now.

An effective participation of the social partners and the use of inputs that were generated within these structures can lead to an improvement of the economic and social situations in terms of the conditions of employment of employees, but also the competitiveness of companies.

Another important aspect is the shaping consultation systems through the use of information technologies in development and communication. Teleconferences, e-mail, electronic discussion groups are potential tools for use in quick and effective consultation of the social partners. The dynamic evolution of the social partners, particularly in the context of European integration, requires periodic evaluations of their representation. New tools for assessing sectoral representation degree and cross-sectoral participation should be developed for monitoring organizations in the framework of social dialogue.

Uniform criteria for representativeness at Member State level is one way that can streamline the system of evaluation of the social partners represented at European level. The procedure for consultation of the social partners, under the rules of the Treaty on European Union, must be based on new mechanisms of evaluation and certification of representativeness organizations will be consulted, in particular in accordance with the nature and purpose of the proposed Community regulatory acts. In this way you will ensure the transition from independent representativeness to representativeness-variable dependent on the purpose and nature of the issue in the debate.

Access of social partners to information is critical for the proper functionality of the social dialogue. The Community institutions must build new information systems of the two sides, using in particular the advantages generated by information and communication technologies.

The information must relate to a better knowledge of Community policies, positions and intentions of various institutions at European level. Undoubtedly, the process must be built upon, envisaging the need for Community administrative structures to know activities, and positions of both sides, before consideration of actions, facilitating in this way the development of proactive consultation processes at the expense of those liabilities.

A better understanding of the results of the process of social dialogue between trade unions and employers' associations (deals, reviews, recommendations) should be promoted at all levels of the community.

It is important that the results of the process of social dialogue between the social partners, or between them and the Community institutions, resulting in agreements, deals, opinions or common recommendations, to be known by the basic structures of employers' and workers' organizations, other institutions and not the last, to all Community citizens.

A well structured communication system between the European institutions and the social partners, between the social partners and their members and a system of information on the results of the process of social dialogue is the main objective in order to ensure the normal component of the information functions to the social dialogue.

Information channels, diversification of means of communication and outlining a system closer to citizens, businesses and their representatives are new directions of action at European level. In the context of the new Europe, an important component of the dialogue with the social partners and social dialogue platform returns from the candidate countries which will definitely affect the current parameters of the European dialogue.

Representativeness and the maturity of the social partners, information systems and consulting social partners are preconditions of an integrating system of social dialogue in these countries in the European space.

# THE PRINCIPLE OF "NO REFORMATIO IN PEIUS" IN THE ROMANIAN LEGISLATION

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## Abstract:

*The principle no reformatio in peius (prohibition of reformation in peius means that a person should not be placed in a worse position as a result of filing an appeal) should be respected both in the trial of the remedy at law and the retrial of the case, after the invalidation or the repeal of the judgment, because the retrial is the consequence of the exercise of the challenge methods, and the party must have the certainty that its situation will not be deteriorated, not only in the filling of the appeal promoted but also in the pre-proceeding process subsequent to the admission of the appeal.*

*Thus the principle no reformatio in peius is adjusted under the article 481 from the Code of Civil Procedure, it can't create for the appellant a worse situation than the one before the judgment under appeal, besides if he expressly consents to this one or in the cases specifically provided by law.*

**Keywords:** exercise of the challenge methods, appeal, recourse, deliberately, case law.

**JEL Classification:** K10

The principle of *no reformatio in peius* (prohibition of reformation in peius means that a person should not be placed in a worse position as a result of filing an appeal) is a Latin phrase expressing the principle of procedure according to which using the remedy at law may not aggravate the situation of the one who exercises it. This rule is justified by the fact that carrying out the inspection of Justice judgments, set up as a guarantee of observance of the law, it would be restricted, if the parties would face a risk to create a situation more difficult as a result of the exercise of uni remedies. This is a principle of procedural law, according to which a decision of the court cannot create a situation more difficult for the party which has declared appeal or a second appeal against the court ruling.

The principle of no reformatio in peius must be followed both in the judgment of the attack path, as well as the retrial of the case, after the cancellation or annulment of judgment, because the retrial of the case is the consequence of exercising the recourse of the legal proceedings, and the party must have the certainty that its situation will not be deteriorated, not only in the way of attack on which promoted but also in subsequent stages of acceptance of this appeals.

Although in civil matters proceedings, unlike penal procedural law, this principle does not have a specific regulatory, until the adoption decree No 138/2000, it was recognized unanimously in doctrine, and in jurisprudence, the need for application of this principle, for reasons of equity and legal logic in this field.

To the application of the principle no reformatio in peius, according to the old procedural civil code, cannot be oppose no exceptions with character absolutely, the court being unable to plead of its own motion or to admit exceptions with character absolutely cited by appeal, if their admission would mean to worsen the situation of the party which has exercised the appeal. Only exceptions with absolute lack of competence, incompatibility or invalidity of the judgement which affects aspects related with the progress in terms of legality of the dispute could oppose the principle governed by the article 296 sentence of II-a of the Code of civil procedure " it cannot be created a worse situation for the appellant in his own appeal than that under the judgment".

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In accordance with this principle, there are two other fundamental principles of the process, namely: the principle of insurance for the party, of the right to defence and the principle concerning the judge role in finding out the objective truth which application ensures smooth operation of judicial process, ensuring preservation of rights and interests of the parties, the thorough and the legality of solution contained in civil judgment.

In the absence of this principle, the parties, knowing the possibility that their situation may get worsened, it could be determined to give up to the attacks against the judgement, in order to assume no risk, even if the judgment would be illegal and unfounded.

The role of this principle is not only to protect private interests of the one who declared the appeals, but also to ensure a fair share of ongoing civil process, meaning a legal and founded judgement.

This principle is currently devoted by express provisions, according to which the use of appeals cannot create, in the case in which the party has pursued a situation more difficult than that of judgment. The contested judgment shall, where appropriate, may be reformed only in favour (in melius) and not to the disadvantage (in peius) of that party. New Code of penal procedure, contains a different regulatory principle of no reformatio in pejus (unworsen the party situation in his own way of appeal).

The principle no reformatio in pejus is covered in this way, in accordance with Article 481 of the Code of civil procedure, the appellant cannot create in his own way of attack a situation worse than that in the contested judgement shall, except in the case in which he consents expressly in this or in the cases specifically provided for by law.

No reformatio in principle pejus knows two limitations:

a) when the appellant agrees to make the situation worse in the exercise of the challenge methods who has used it. The consent may be expressed for the appellant by the means of the challenge methods or by special request sent to the court and deposit it at the end of the meeting. The judge must establish itself in report with the manifestation of will of the appellant in this respect, on the basis of Article 22 (2) of the Code of civil procedure, regarding the judge role in finding out the truth, since the law requires express consent of appellant and not to be inferred from acts and deeds which would imply that agreement.

b) In certain cases provided by law. Such a situation is the case law exception provided in Article 432 of the Code of civil procedure, and as a result of admission exceptions, it can be created for the party worse situation than that in judgment in his own appeal, without being necessary the express consent of appellant but this rule operates against his will. The case law exception is a fund exception, absolute, of public policy can be invoked by the court or by the parties in any status of the process, even before the Body of appeal. The court has an obligation to respect and to invoke the case law, regardless of conduct parties. Exception is intended to ensure the legal stability relations and effective judicial activity.

The effect of the exception admission is that for the party it can be created in his own appeal a situation worse than the one of judgment.

This effect is justified by the fact that the party intended to pass over the case law and initiated a new process on a accusations it has been settled definitively by a previous court.

The case law exception is one of public order and requires compliance with a judgement of court and keeping public order. The code of civil procedure provided in Article 431, paragraph 1, no one can be sued twice in the same quality, under same causes and for the same object.

Either party may object to previous work were put on trial in another dispute, if it's got something to do with the settlement of the latter.

The case law regarding the device, as well as the grounds on which it rests, including those by which it worked out a matter contentious (Article 430 (2) of the Code of civil procedure).

The case law exception can be invoked:

- In the motivated appeal, when the exception has not been settled by the first instance of the European Communities and can be invoked by both the appellee or of its own motion by the court, the appellant does not have interest to invoke so his situation not to worsen in their own exercise of the challenge methods.

In the event that the exception was debated by the court, the parties may invoke it in the appeal, but not as a reason for public order and no court may of its own motion, but it can be reconsidered within the limits of transmission of the appeal.

In accordance with Article 477 (1) of the Code of civil procedure, the Court of Appeal will proceed to retrial the fund within the limits laid down express or implied, by appellant, as well as of the solutions that are dependent on the part of the judgement under appeal.

High Court of Cassation and Justice decided that re-evaluation of findings and assessments made by the court on the background of the evidentiary material of the cause is allowed within the appeal settlement only in so far as, the accused, through the grounds for the appeal, has formulated criticism relating to these solutions given by the first instance. In addition, even if both sides have promoted appeal the solution adopted was not allowed within the settlement of the defendant's appeal whereas runs counter to the principle of no *reformatio in peius* (it will not be created, for the appellant, in its own appeal a situation more difficult than that of judgment). High Court further argued that the provisions C. proc. civ., allow the court to invoke of its own motion reasons of public order, but in this situation the Court of Appeal, in order to ensure compliance with the principle of contradiction and the right of the parties to the defence, had an obligation to put in the parties debate the reason restrained for adoption of solution, or, in question deducted judgment, the court has not exercised active role for the purposes referred to.

In the unmotivated appeal the court will decide, as a matter of fact, only on the basis of the arguments put forward in the first instance, in such a way that, the Court of Appeal will not invoke the exception for its own accord and will not reconsider the case law judgement debated by the Court of the First instance, but it will be issued only on the basis of those invoked in the first instance (Articles 476 (1) of the Code of civil procedure).

If the exception has not been invoked in the first instance, the Court of Appeal may invoke one for its own initiative, in accordance with Article 479 (1) of the Code of civil procedure, the reasons of public order may be invoked also by its own motion.

When a decision of the court accepts the appeal, by taking into account the character grounded on the case law exception, it will cancel the appealed judgement and will reject the application as inadmissible.

Thus, in accordance with the provisions of Article 502 of the Code of civil procedure, as well as the lawsuit after the cessation of the judgement by the Court of Appeal, the appellant cannot create in his own way of attack a situation worse than that in the contested judgment shall, except in the case in which he consents expressly mentioned in this or in the cases specifically provided for by law.

Breaking the case law represents an illegality for which can be promoted civil appeal according to Article 488, paragraph 1, point 7 of the reasons of disposal, of the Code of civil procedure.

High Court of Cassation and Justice decided that, in the case in which the application for winding up of the company has the legal basis the provisions of Article 237 of Law 31/1990, the law sets the exercise of the challenge methods for the second appeal, and in case are invoked cases of winding up provided for in Article 227 of Law 31/1990, special law does not provide for the appeals, so that common law applies in this matter, the exercise of the challenge methods being the appeal. In this case, by sue petition, the claimers invoked as grounds for the winding up of the company, the provisions of Article

227, as well as the provisions Article 237 of Law No 31/1990. High Court has stated that, because the appeals are unique, in the light of more favourable provisions of the common law, the application of these provisions is correct and in cases of dissolution rate provided for in Article 237 of Law 31/1990. The analysis on the texts shows that the appellant cannot be set up in its own way of attack a situation more difficult than that of judgment.

The party attacking a decision must be given guarantees that his approach will not result in worse of his situation not only in the trial but also in the respectively remedy at law, but also in subsequent stages of admission of the remedy at law, which is nothing more than the effect of initiative in the exercise of the challenge methods.

No reformatio in principle pejus is limited only in the path of the attack. In the event that, the same remedy at law is also used by another party, with provisions to the contrary, or by prosecutor in favour of another party, the sentence may be detrimental for the first party, by the admission of the appeal of his opponent. In the criminal law, the Court of Appeal, setting up the cause cannot create a situation more difficult for the one who state the appeal.

The principle of ameliorate the situation in his own appeal applies to both defence, as well as on the occasion of retrial in fact after the disposal. In addition, he shall also apply in the case of exercising his appeal by prosecutor in favour of a party. Therefore, the court assuming such an appeal will not be able to quash the judgement in the detriment of that part. This principle applies also in the case of the second appeal.

No reformatio in principle pejus is expressly covered in the Code of penal procedure, reason for which it has been examined in wide doctrine of penal procedural law.

Thus, according to Article 418 of the Code of penal procedure, the Court of Appeal, setting up the cause cannot create a situation more difficult for the one who state the appeal. Also, in the appeal filed by prosecutor in favour of a party, the Court of Appeal may not aggravate the situation.

The Court of common pleas examine the cause by extending and with regard to the parties that have not state appeal , or to which it is not referred, being able to decide in respect to them, without being able to create a situation more difficult.

In accordance with the provisions of Article 444 of the Code of penal procedure, the court, sentencing the cause cannot create a situation more difficult for the one who declared the second appeal in cassation.

In the second appeal of cassation declared by a prosecutor in favour of a party, the court of appeal in cassation may not aggravate the party situation.

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## SOME ASPECTS REGARDING REGIONALIZATION IN THE EUROPEAN UNION

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### Abstract:

*Regional development policies initiated in the last decades, European countries, aimed at recovery economic and social development locally, economic recovery less developed areas, reducing disparities between the levels of development of the regions.*

*In the EU, there is no compulsory law or practice concerning regionalization. This means that there is no unique model which ought to be implemented without discussion by all the candidates / members.*

*Indeed the EU indicates no model at all, it rather prefers to leave the States free to decide on their own an institutional architecture, based on their own historical path. By doing so, the EU intends to avoid the troubles linked to the variety of social situations inherited from the long term history. It hopes, moreover, that provided the formal aspects are respected, the citizen will be able to take possession of their own institutions and will play the game of multi level governance.*

**Keywords:** *development policies, multi level governance, regionalization.*

Regional development policies initiated in recent decades, by the European countries, aimed at relaunching economic and social development at the local level, economic recovery of the less developed areas, reducing disparities between the levels of development of regions (Popa, 2014).

Speaking of the "Europe of tomorrow", Denis of Rougemont stated: "If we look at Europe, by far, we see very clearly what it is. If someone looks at us, for example, from the perspective of the United States, it is clear that we are all Europeans. [...] If one looks closer at Europe, then it disappears. This resembles the story of the biologist who wanted to study an elephant under a microscope, and could not ever find the unity of the studied object ". Further, concluded: "We will build Europe by regions [...] EU policy should consider deleting ethnic boundaries and promoting diversity" (Rougemont, 1970).

The first basic elements of the regional definition a space and a human group, positions the region as a liaison between the local community (with a clearly defined territory and a community) and state (defined territory, living in a nation). But these two concepts of space and group can be immediately "reused" in two different directions that lead one towards regionalization, another to regionalism, the first focusing on space (organization and within it), the second of the group, community (identity and action) (Alexandru, Popescu-Slăniceanu, Cărauşan, Enescu, Dincă, 2003).

Regionalization is often confused with regionalism. However, they are processes with different specificities, describing regional level between the two movements which, in certain circumstances, there may be an interaction.

Regionalism is a process more or less spontaneous in the form, of shaping regional identities based on cultural community, of language, traditions, belonging to a geographical region, lifestyle, way of thinking, being initiated by local communities and promoted by them centrally. Regionalism does not appear from awareness of regional imbalances, but from the feeling of incompleteness and inability to assume their cultural identities within a given framework, highlighting the social and economic backwardness and national state centralism (Macoveţchi, 2014)

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The phenomenon of regionalism emerged as a normal reaction at the the inadaptability of the political and social structures of the states, at the human community demands, constantly evolving. Regionalism is the result of bottom-up, community awareness by some regional imbalances, economic underdevelopment, ethno-cultural alienation, state centralism living.

Regionalization, however, is the process that takes place from top to bottom, whereby Member acknowledges regional imbalances, with all the accompanying phenomena - ethno-cultural alienation, economic underdevelopment, excessive centralization - decentralization and go accordingly to their political and legal system through a regional institutionalization.

The two phenomena are complementary and, therefore, are most often confused ([http://www.cse.uaic.ro/fisiere/Documentare/Suporturi\\_curs/I\\_guvernanta.pdf](http://www.cse.uaic.ro/fisiere/Documentare/Suporturi_curs/I_guvernanta.pdf)).

Although fundamentally, is a socio-economic process, regionalization is seen as supporting the functional changes affecting intermediate levels of government. Thus, the term regionalization is often understood as the process of creating a new level in the territorial organization of a state (<http://victorbostinaru.ro/wp-content/uploads/2008/08/descentralizare-si-regionalizare-modelul-francez.pdf>), an average level of the governance system (<http://www.revista22.ro/regionalizarea-europa-si-romnia-10836.html>). The term region was defined differently by the European institutions.

The Council of Europe appoints the region as a "medium size range likely to be geographically determined and is considered to be uniform."

If it is accepted that the term "medium size" is totally subjective, it can not be assigned a scale type to the region. Instead, the link between the territory and the human element that inhabits, element that appears as an awareness of the homogeneous character of the region, is always present when it comes to defining it (Alexandru, Bădescu, 1997).

On the other hand, the European Union defines the region rather from the administrative point of view as being "an echelon immediately below that of the state."

According to the Nomenclature of Territorial Units for Statistics (NUTS) identifying administrative units depending on the size of the territory there: the village, the department / county and regional level.

In this respect, the Regions Community Charter<sup>1</sup> states in Article 1 that in this book, by region means a territory formed from the geographical point of view, a net drive, or a group of territories where there are similar continuity, in which population possesses certain common elements and wishing to keep the resulting specificity and develop in order to foster progress culturally, socially and economically.

By the common elements of a specific population means a Common specificity of language, culture, historical tradition and interests of economy and transport. It is not essential that all these elements are combined in all cases.

The various names and legal-political nature that these entities can receive the various states, autonomous communities, provinces, nationalities, etc., do not exclude from the considerations set out in this Charter.

Furthermore, Article 2 of the Charter states that "the Member States of the European Community are invited, given the popular will, historical tradition and the need for proper and efficient administration of their functions, particularly in planning economic development, to institutionalize their territories (or keep where they exist) regions under Art. 1 of the Charter.

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<sup>1</sup> Document prepared by the European Parliament on 18 November 1988 adopted as official document of the European Community of 19 December 1988.

The Assembly of European Regions (AER), regions defined as "low-level state political entities that have certain powers exercised by the government, which in turn is accountable to a democratically elected assembly"<sup>1</sup>.

The region is the territorial public entity corresponding to the level immediately below the state and endowed with a government that has its own political powers.

The region is recognized in the constitution or the law which guarantees its autonomy, identity, powers and the organization method.

The region is endowed with its own constitution, a statute of autonomy or a law, acts that are part of the legal structure of the state at the highest level and that at least define the organization and powers. Changing the status of the region can not be done without its participation. Within a state, the regions may have a different status, depending on the particularities of their historical, political, social or cultural. The region expresses its own political identity susceptible to dress very different political forms, depending on each region's democratic desire to adopt the type of organization that goes to his preference.

The region equips their administrative apparatus both personally and with own property and adopt its emblems of representation.

According to the Torremolinos Charter, the concept of territorial- spatial planning is defined as,, a geographical expression of economic, social, cultural and ecological society ", its objectives being:

- balanced socio-economic development of regions;
- improving quality of life;
- responsible management of natural resources;
- environmental protection and rational use of land.

To achieve its goals, territorial - spatial planning must be:

- Democratic, in particular to be conducted in a manner that ensures the participation of the inhabitants involved and their political representatives;
- Comprehensive: to ensure coordination of the various sectorial policies and integrate them in a holistic approach;
- functional: to take account of regional consciousness based on values, culture and interests sometimes beyond the administrative borders and territorial cohesion, while taking into account the institutional arrangements;
- Long-term oriented: to analyze and consider the long-term trends and the evolution of phenomena and interventions in the social, cultural, ecological and environmental field.

Legal doctrine has established a true classification of different types of regions (Tănăsescu, 2002).

- Political regions, parts of a State which is the boundary between federal and unitary states with its own powers in the legislative and executive matters, but still retains a judicial system only in the central state (Spain, Italy);

- Built regions - result of the creation of a unitary state by merging several countries that still retain a certain individuality (UK, which today tends toward federalization);

- Diversified regions with regional frameworks established not only by territorial and political criterion, but also on other criteria, such as language and culture (Belgium, before its transformation into a federal state);

- Classical administrative regions created by decentralization as autonomous territorial collectivities, from the administrative point of view.

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<sup>1</sup> Declaration on European regionalism The Assembly of European Regions (AER) meeting in Basel General Assembly on 4 December 1996.

Embodying these issues in the process of setting up a new European Union we can highlight three decisive directions which define the ascendance of the regional reality (Alexandru, 1997);

- Firstly, the regions contribute to economic development and to achievement of the objective of economic and social cohesion; - Secondly, the regions contribute to bring citizens closer to the reality of the European Union, enabling greater institutional democratization; - Thirdly, the regions are exponents of a pluralist Europe, in which very diverse cultural, linguistic and social realities, coexist.

Itself European Parliament in its resolution on Community policy in the field of culture, of the 1st of December 1993 stated that "the road to the EU passes through the manifestation and European cultural identity, which is the result of an interaction of civilizations and a plurality of national , regional and local cultures.

The Territorial Agenda of the European Union in 2020 - "Towards a smart, sustainable and inclusive Europe, composed of Diverse Regions "(ATUE 2020), adopted on 19 May 2011, reaffirms the common objective of the European Union: territorial cohesion. It thus shows that the EU objectives defined in the Europe 2020 strategy for smart, sustainable and inclusive growth can only be achieved if it is taken into account the territorial dimension of the strategy, as development opportunities vary from one region to another ([http://www.minind.ro/cctc\\_2014\\_2020/dse/Agenda\\_teritoriala\\_a\\_UE\\_2020.pdf](http://www.minind.ro/cctc_2014_2020/dse/Agenda_teritoriala_a_UE_2020.pdf))

Territorial priorities for the European Union defined by ATUE 2020 are:

1. promoting polycentric and balanced territorial development;
2. Encouraging integrated development in cities, rural areas and specific;
3. Territorial integration in cross-border regions and transnational;
4. ensure global competitiveness of the regions based on strong local economies;
5. improving territorial connections for individuals, communities and businesses;
6. Managing and connecting ecological values, landscape and cultural regions.

Choosing the proper regionalization of the administrative system of the country is based on four assumptions related to:

- a) the major problems to be solved by the new administrative-territorial reform in terms of disparities and territorial cohesion;
- b) territorial groups of socio-economic and cultural similarity;
- c) knowing the flows and major regional structure configurations
- d) recognized at European level requirements for designing efficient tier 2 regions (NUTS 2 - 800 000 inhabitants minimum, maximum 3 million inhabitants<sup>1</sup>) with administrative status ([http://regionalizare.mdrap.ro/wp-content/uploads/2013/04/Raport-de-progres-2\\_CONREG.pdf](http://regionalizare.mdrap.ro/wp-content/uploads/2013/04/Raport-de-progres-2_CONREG.pdf)).

In Romania it is considered that the regional system constitutes in the European Union, a veritable model of administrative organization (Panduru, 2006).

In the European countries the forms of regionalization correspond to different political and administrative realities prevailing in the respective countries. The models applied differ depending on the powers granted the regional authorities, the institutions involved, the degree of decentralization, existing five types of regionalization (Gerard, 1999).

1. Administrative Regionalization, which is characterized by the fact that the state creates authorities subordinated to the government or institutions working under its control,

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<sup>1</sup> Regulation (EC) no. 1059/2003 of 26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS) published in the Official Journal no. L 154/2003, p. 1 - 41. the Regulation noted was amended by Regulation (EC) no. 1888/2005 of the European Parliament and of the Council of 26 October 2005, published in the Official Journal no. L 309 1 25.11.2005, by Regulation (EC) no. 105/2007 of 1 February 2007 the Commission published in the Official Journal no. L 39 1 10.2.2007 and Regulation (EC) no. 176/2008 of the European Parliament and of the Council of 20 February 2008 published in the Official Journal no. L 61 1 5.3.2008

or on its behalf. Such examples are offered by countries such as Greece, Portugal, England, Sweden, Bulgaria, Estonia, Hungary, Lithuania, Slovakia, Slovenia.

2. Regionalization through local authorities. In this case the existing local authorities meet and regional specific functions or responsibilities by the initial extension or through cooperation in a broader context. Countries like Germany, Denmark, Finland and Ireland offering this example.

3. Regional Decentralization. This system involves the creation or substitution of a new territorial authority to a level above the existing territorial authorities, considered to be a region. A typical example in this case is France. In Eastern Europe as an example of this system we have countries like Poland and the Czech Republic and Slovakia, Bulgaria and Slovenia have introduced a new system of regional decentralization.

4. The regionalization policy or regional autonomy. This type of regionalization is considered a model aiming at regional autonomy and is found only in certain areas of Portugal and the United Kingdom specifically in Scotland and Wales. The essential difference lies in the legislative powers granted by the Constitution to such regions.

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# THE EUROPEAN COUNCIL AND ITS ROLE IN PROMOTING AND DEFENDING HUMAN RIGHTS IN THE EUROPEAN AREA

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## Abstract:

*The Council of Europe advocates freedom of expression and of the media, freedom of assembly, equality, and the protection of minorities. It has launched campaigns on issues such as child protection, online hate speech, and the rights of the Roma, Europe's largest minority. The Council of Europe helps member states fight corruption and terrorism and undertake necessary judicial reforms. Its group of constitutional experts, known as the Venice Commission, offers legal advice to countries throughout the world.*

*The Council of Europe promotes human rights through international conventions, such as the Convention on Preventing and Combating Violence against Women and Domestic Violence and the Convention on Cybercrime. It monitors member states' progress in these areas and makes recommendations through independent expert monitoring bodies. All Council of Europe member states have abolished the death penalty.*

**Keywords:** *freedom, rights, equality, member, states, minority.*

The complex of factors that led United Nations Organization to the special concern for the protection of human rights had a similar effect in Europe. One of these factors was, specifically, the reaction against the fascist systems that caused the Second World War. Denial of the existence of human rights was not just an incidental result of these systems, but "a deliberate instrument of national policy and even a precondition of their ascent" (Robertson, Merrills, 1994). Another factor was the need to protect the democratic systems of Western Europe, not only against a revival of fascist dictatorships, but also against another kind of regimes that had taken control of half of the continent: the communist regimes.

In August 1941, the Atlantic Charter proclaimed the famous "Four Freedoms" (the freedom of speech, freedom of religion, individual liberty and security of a person, the freedom not to fear, freedom from poverty) and also the right to self-determination. These principles were reaffirmed in the "Declaration of the 26 United Nations" on 1 January 1942 and three years later came the familiar provisions of the United Nations Charter. In May 1948, the Hague Congress announced at Hague, the following:

"We want a united Europe in which the free movement of people, ideas and goods is restored;

We want a Charter of Human Rights which guarantees freedom of thought, assembly and expression, and the right to form political opposition;

Want a Court of Justice with adequate sanctions for the implementation of the Charter;

We want a European Assembly where the live forces of all our nations are represented"

This statement of principles requires an organized system to be applied. The task of creating such a system belongs to the Consultative Assembly of the Council of Europe during its first session in August-September 1949. The birth certificate of the Council of Europe - the Statute of the Council of Europe, signed in London on 5 May 1949 and entered into force on 3 August 1949 - provided in art. 1 that the maintenance and realization of human rights were one of the means to fulfill the purpose of the Council and specifically a greater unity between its members for the protection and realizing the ideals and principles that formed their common spiritual heritage and facilitating economic and social progress.

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Article 3 of the Statute has strengthened this requirement, making the respect for human rights a condition of membership.

The quality of Member State of the European Council is conditioned by the acceptance of the rule of law and the principle that every person within its jurisdiction must enjoy human rights and fundamental freedoms. Also, joining the Council of Europe involves a commitment of the state to collaborate sincerely and effectively to achieve its goals.

Violation of these obligations of art. 3 of the Statute can attract penalties, according to art. 8: suspension of representation rights; the request made the Committee of Ministers to retire from the Council of Europe; termination of membership of the Council of Europe through the Committee of Ministers' decision.

The Council of Europe is the main intergovernmental international organization, at European regional level that has as main task, the consecration and defence of human rights.

The constitutive Treaty of this international organization is the Statute of the Council of Europe. In the preamble of the Treaty it is shown that party States reaffirm their commitment to spiritual and moral values which are the common heritage of their people and the true source of individual freedom, the political freedom and of the rule of law, principles which form the basis of all genuine democracy.

The purpose of the Council of Europe, as defined by the Statute, is "to achieve greater unity between its members for safeguarding and realizing the ideals and principles which are their common heritage and facilitating their economic and social progress, this goal being pursued through the organs of the Council of Europe by discussing the issues of common concern and by concluding agreements and the adoption of joint actions in the economic, social, cultural, scientific, legal and administrative matters as well as in the maintenance and further respect of rights and fundamental freedoms".

Should be noted that the organization is not competent to deal with matters relating to national defense, which, as known, is the competence of other bodies. The Statute of the Council of Europe provides a number of conditions that must be met by countries that wish to become members of this organization. Membership in the Council of Europe, according to art. 3 is related to the acceptance by them of the rule of law and the principle where each person within its jurisdiction must enjoy human rights and fundamental freedoms, and commitment to collaborate sincerely and effectively, to accomplish the purpose of the Council of Europe.

The Council of Europe has an outstanding activity in the human rights field, both in terms of their consecration by conventional acts and declaratory as well as in their protection.

The objectives of the Council of Europe are:

- protection of human rights, pluralist democracy and the rule of law;
- enhancement of the cultural identity of Europe and its diversity;
- the search for some common solutions social issues such as discrimination against minorities, xenophobia, intolerance, bioethics and cloning, human trafficking, terrorism, organized crime, cybercrime, violence against children;
- development and democratic stability in Europe, supporting political, legislative and conventional reforms(Moroianu Zlătescu Irina, 2010).

In the field of Human Rights the Convention for Protection of Human Rights and Fundamental Freedoms is the most important document of the Council of Europe<sup>1</sup>.

In the matter of human rights, we distinguish: bodies that have, under their general powers also duties in this area; bodies specialized in the matter of human rights.

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<sup>1</sup> Law no. 30 of 18 May 1994 on the ratification of the Convention for the Protection of Human Rights and Fundamental Freedoms and the Additional Protocols to the Convention, published in the Official Gazette of Romania, Part I, no. 135 of May 31, 1994

The Council of Europe's bodies that do not have exclusive competences in human rights, but which have intervened in this area, within their general competences are the main organs of the organization, namely: the Committee of Ministers; The Parliamentary Assembly and the Secretariat.

*The Committee of Ministers (<http://www.coe.ro/comitetul.html>)*

The Committee of Ministers represent the decision-making body of the Council of Europe. It is composed of foreign affairs ministers of the 47 member states or their permanent diplomatic representatives in Strasbourg. It constitutes a governmental body and a collective forum (Selejan-Guțan, 2011) where, on equal terms, can be discussed national approaches, regarding problems faced by the European society and a forum to develop European responses to these challenges. In collaboration with the Parliamentary Assembly, it represent the guardian of the fundamental values of the Council of Europe and is vested with the task of monitoring compliance with the commitments taken by Member States.

The Committee of Ministers decides Council of Europe activities. It decides also how it must be acted on recommendations of the Parliamentary Assembly and the Congress of Local and Regional Authorities of Europe and on the proposals from various intergovernmental committees and conferences of specialized ministers. It adopts the program of activities and budget of the Council of Europe.

In this respect we mention, for example, that, according to the activity report for 2014 at the 1205<sup>th</sup> meeting of July 9, 2014 the Declaration was adopted by the Committee of Ministers on banning all forms of trading human organs.

The discussions in the Committee of Ministers refer to all political issues of common interest except defense: the political aspects of European integration, operation, safeguarding of democratic institutions and protecting human rights, in other words, all problems which require concerted solutions, at pan-European level.

Foreign Ministers of the Member States meet once a year to discuss European cooperation and political issues and to give the necessary political impetus to the organization's activities. Each minister presides the Committee for a period of six months. Permanent Representatives (ambassadors) have weekly meetings, the meetings are supplemented by meetings of groups of rapporteurs or working groups responsible for developing certain issues before decisions are taken.

If projects are not supported by all Member States, the Committee of Ministers may launch them under partial agreements which allow some members to pursue joint activities in various fields.

On the other hand, enlarged agreements enable some countries which are not members of the Council of Europe to associate with certain Member States benefiting thus of the permanent structures of the organization. The Committee's decisions are passed to the governments as recommendations or are being European conventions and agreements legally binding for States that have ratified them.

The Committee also adopts declarations and resolutions on current political issues. Most of the decisions of the Committee of Ministers, need in order to be adopted a two-thirds majority of the casted votes (Purdă, Diaconu, 2011), a simple majority is not sufficient for procedural matters either.

Conventions and recommendations are drafted by committees of governmental experts, appointed by the Committee of Ministers, thereby generating a dialogue on global political vision and technical considerations. Many political initiatives are also taken at ministry meetings, held regularly.

The Council of Europe has developed cooperation and assistance programs for new member states to allow them to benefit from its experience. These are based on results of

intergovernmental collaboration of the Council : reference tools, expert networks as well as cooperation structures and mechanisms. Their purpose is to consolidate, strengthen and accelerate democratic reform in these countries so that they can integrate gradually and harmoniously into the processes and structures of European cooperation and, above all, in the Council of Europe.

It has been adopted and a program regarding measures of trust, to support initiatives of the civil society , initiatives aimed at improving knowledge and mutual cooperation between majority and minority communities.

Also at the 1207th Meeting of the Ministers delegated from the 17<sup>th</sup> of September 2014 in Strasbourg, it was adopted 'A strategy to prevent racism and intolerance in Europe "The report supports the idea of open political dialogue regarding racism and intolerance, gathering information and promoting parliamentary initiatives to combat intolerance and discrimination, and to identify solutions to the Council of Europe to combat it<sup>1</sup>.

The European countries that joined the Council of Europe Statute undertake to recognize the rule of law, and the one under which persons under their jurisdiction must enjoy human rights and fundamental freedoms. They also undertake to collaborate sincerely and effectively to achieve greater unity and to facilitate their economic and social progress. Each member state must honor these commitments and the Committee of Ministers ensures that they do.

In case of serious breach of the statutory obligations by a Member State, the Committee of Ministers may suspend the right of representation of that State, it may ask it to withdraw or even suspend its membership.

The Committee of Ministers watches also on the effective application of conventions and agreements concluded between Member States. This is crucial for human rights conventions, of which the most important (European Convention on Human Rights, the revised European Social Charter, the European Convention for the Prevention of Torture, the Framework Convention for the Protection of National Minorities) have their own supervisory mechanisms.

The responsibility of the Committee of Ministers on the European Convention on Human Rights reflects the importance of this convention, which is the cornerstone of the system of human rights protection in Europe. Supervising execution of the judgments of the European Court of Human Rights by member states, the Committee of Ministers plays an essential role in maintaining the credibility of a system without equivalent in the world.

Faithful to the philosophy that led to the widening of the Council of Europe after the fall of the Berlin Wall, the Committee of Ministers has exercised its responsibilities in an impartial and constructive spirit, emphasizing dialogue and the gradual establishment of political and material conditions conducive to positive developments. It has introduced a control procedure, called "monitoring" which ensures the compliance with the commitments made by all Member States. It offers all members the conditions and resources needed to nurture the Council's founding values.

In this respect we mention that, according to the 2014 Progress Report (Activity Report 2014) on the 1197th Meeting of the Ministers delegated from the 16th of April 2014 in Strasbourg, it has been reiterated the appeal to the Russian Federation, as the only Member State that has not yet abolished the death penalty to take, without delay, all necessary steps to transform the existing moratorium on the death penalty, in the elimination by law of this penalty, and ratify Protocol 6.

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<sup>1</sup> Activity Report 2014 published on <http://www.coe.int>



*The Parliamentary Assembly (<http://www.coe.ro/adunarea.html>)*

The Parliamentary Assembly of the Council of Europe was the first European meeting of the continent's history (Selejan-Guțan, 2011). With delegates from 47 national parliaments, it remains the largest truly European gathering.

The Assembly shall adopt its agenda, addresses current issues and themes of a prospective nature, dealing particularly with problems of society and international policy issues.

Its deliberations play an important role in guiding the work of the Committee of Ministers and intergovernmental sectors of the Council of Europe. It is reflected also on governments when members relay them to their national parliaments.

The Assembly meets four times a year for a week in public plenary session in the auditorium of the Palace of Europe in Strasbourg. It also holds a spring meeting in one of the Member States of the Council of Europe.

The Assembly shall elect its chairman from among its members, traditionally for three consecutive terms, with a duration of one year. The President, the Vice-Presidents (19 at present), the presidents of the five political groups and the chairmen of the 10 committees form the Bureau of the Assembly. The Assembly elects also the Secretary General and Deputy Secretary General of the Council of Europe, the Secretary General of the Assembly, the judges of the European Court of Human Rights Commissioner for Human Rights of the Council of Europe.

Its work is prepared by specialist committees in the areas of political, legal and human rights, social, health and family, culture, science and education, environment and agriculture, local and regional issues, economic affairs and development, migration, refugees and demography, equal opportunities for women and men, rules and immunities, compliance obligations and commitments of Member States.

The Assembly adopts four types of texts: recommendations, resolutions, notices and guidelines. Recommendations contain proposals to the Committee of Ministers to be implemented within the competence of governments. The resolutions contain Assembly decisions on matters which it is empowered to regulate, or in respect of which expresses opinions which employs only its responsibility. Opinions are mostly expressed by the Assembly on matters referred to it by the Committee of Ministers, such as the admission of new member states in the Council of Europe conventions and draft budget or application of the European Social Charter. Directives are generally the assembly instructions to its committees.

In 2014 were adopted responses to recommendations on status and rights of national minorities in Europe, Combating discrimination based on sexual orientation and gender identity, The responsibility of international organizations for violations of human rights, European Convention on Human Rights: the need to improve the training of legal professionals, monitoring return of illegal immigrants and asylum seekers rejected by land, sea and air, Violence against women in Europe, national security and access to information.

At each session there are discussions of the events in Europe and the world, focusing in particular on matters requiring action at European level.

Outstanding personalities from around the world have contributed to these debates (John Paul II, Mihail Gorbaciov, Vaclav Havel, Viktor Iuscenko and others).

The Assembly is also a forum for other international organizations such as the Organization for Economic Co-operation and Development (OECD), European Bank for Reconstruction and Development (EBRD) and several specialized agencies of the United Nations.

NGOs participate as observers in the work of certain committees, making its contribution to important events organized by the Assembly.

*The Secretary General (<http://www.coe.ro/secretarul.html>)*

In 2014, the Council of Europe's Parliamentary Assembly re-elected as Secretary General Mr. Thorbjørn Jagland (Norway) for a period of five years. He is responsible for

the strategic direction of the program and budget of the Council of Europe activities and supervision of daily management of the organization.

The Secretary General defines the priorities and establishes an Intergovernmental Work Program, the annual approval for the Committee of Ministers. The Secretary General is responsible for carrying out the program, using the Secretariat. Intergovernmental cooperation programs are coordinated primarily through directorates covering the main areas of activity of the Council of Europe.

The Secretary-General has exposed the priorities and strategies defined by the Council of Europe to build a new and united Europe, based on democracy, human rights and the rule of law and for peace and stability in Europe.

These priorities are:

- The definition, together with Member States, of the role and responsibilities of the Council of Europe and a clear mandate of the organization;
- Strengthening democratic standards and ensuring that states respect them;
- Consideration of security and crime in the Member States, in particular corruption, money laundering, cybercrime, human trafficking and drug trafficking;
- Specific programs on human rights, democracy, refugees, social, cultural and environmental issues;
- Developing new initiatives to fight against international terrorism;
- The fight against torture and degrading treatment;
- Combating racism, anti-Semitism and Islamophobia;
- Promoting equality and equal treatment irrespective of sex, ethnicity, religious or political beliefs;
- Treatment of a fair and equitable manner of all countries, regardless of size, wealth or geographical location;
- Build effective relationships with the European Union, United Nations, Organization for Security and Co-operation in Europe (OSCE) and regional organizations and non-governmental and
- Evaluating the results of actions taken to improve the effectiveness and visibility of the Council of Europe.

Therefore, the Council of Europe supports freedom of expression of the press, freedom of assembly, equality and protection of minorities. The Council of Europe launched campaigns on child protection issues and the rights of Rromes, the largest minority in Europe. Council of Europe Member States to help fight corruption and terrorism and undertake the necessary judicial reforms. Its group of experts in constitutional matters, known as the Venice Commission, offer legal advice in countries around the world. The Council of Europe promotes human rights through international conventions such as the Convention on preventing and combating violence against women and domestic violence and the Convention on Cybercrime.

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# ERRORS AND DIFFICULTIES IN TRANSLATING LEGAL TEXTS

Camelia, Chirilă<sup>1</sup>

## Abstract:

*Nowadays the accurate translation of legal texts has become highly important as the mistranslation of a passage in a contract, for example, could lead to lawsuits and loss of money. Consequently, the translation of legal texts to other languages faces many difficulties and only professional translators specialised in legal translation should deal with the translation of legal documents and scholarly writings.*

*The purpose of this paper is to analyze translation from three perspectives: translation quality, errors and difficulties encountered in translating legal texts and consequences of such errors in professional translation. First of all, the paper points out the importance of performing a good and correct translation, which is one of the most important elements to be considered when discussing translation. Furthermore, the paper presents an overview of the errors and difficulties in translating texts and of the consequences of errors in professional translation, with applications to the field of law. The paper is also an approach to the differences between languages (English and Romanian) that can hinder comprehension for those who have embarked upon the difficult task of translation. The research method that I have used to achieve the objectives of the paper was the content analysis of various Romanian and foreign authors' works.*

**Keywords:** translation quality, errors and difficulties in translation, legal texts, translation analysis.

**JEL Classification:** K0

## Introduction

Legal translation needs the services of an expert that is highly knowledgeable in legal terms and practices. Translating legal documents needs accurate and correct translation and is one of the most difficult among all translation work. There are many things that need legal translation, including birth certificates, application letters, technical patent confirmation, deposition records, financial statement, evidence documents, litigation materials and business contracts. Translators should not only possess general knowledge of legal terminology, they should also be well versed in statutory requirements and the legal intricacies of foreign cultural and legal systems.

Translating legal documents in foreign languages are considered more difficult than other technical translations. The legal terminology is what makes it difficult because each country has its own legal terminology as well as legal system. More often than not, this is also different from another country even if the language they speak is identical. A legal translator must have the competencies in three areas: competency in the target language's particular writing style, familiarity with the pertinent terminology and general knowledge of the legal systems of the source and target languages. There is no room for word for word translation when translating legal documents.

Due to this, the professional translator of legal documents must be part detective, legal scholar and linguist with the amount of research work that needs to be done to be able to decode the source and write its actual meaning that will never, in any circumstances, deviate from the originate content, even if an exact translation is not possible.

## Methods

The main methods I have used in this article are the content analysis method of various Romanian and foreign authors' works, of the reference sources and of the texts chosen to exemplify the case studies and examples in point, the comparative approach through qualitative research, and the observation method starting from empirical research in the field.

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The main aim was to emphasise the need and the usefulness of analysing the translation of legal texts, without the assistance of specialists, in order to underline the main threats and risks generated by this type of translation. This translation analysis can be thus seen as a way of allowing the researcher/translator to identify possible problems.

### **Background**

In an era of globalization, we are bombarded with the demand for constant and instant communication, which incorporates many different languages and cultures, and which very often involves legal terminology. All translators are aware of their responsibility to produce adequate and easily understandable translations, particularly when dealing with legal texts. It is for this reason that the ability to use appropriate strategies, based on properly chosen theories, is so important in such work. The theories must always be read in conjunction with the pragmatic rules that govern the trade, although the reality is that many of these rules are dictated by theory.

Legal texts involve a number of different types of translation problems and require specific methods with which to make a translated text understandable for the reader in the target language, while simultaneously reflecting the original character and unique features of the legal system of the source language country. These requirements force a translator to take great care with the constant connection of the translated text to the source language's culture, by using strategies such as borrowing original terms, naturalizing some specific terms into the target language, using language calques, or introducing descriptive translation, in which some explanations are mandatorily included. Sometimes it is enough to utilize equivalent terms that are used comparatively in the target and source languages, or, alternatively, the translator must localize some elements in order to make them understandable. To solve the problem of which strategies are dominant, comparable analyses of a number of legal texts written in Romanian and English have been carried out, leading to the conclusion that the most useful strategy is the ability to maintain the source culture's features and not deprive the texts of their specific character, although localization is sometimes necessary. Some terms also necessitate simple equivalent translation, as they function simultaneously in both language cultures.

To perform such a translation, a two-fold approach is necessary on the part of a translator. Firstly, he is obliged to decipher all of the meanings included in a source text through the detailed analysis of its contents. Such analysis will not only be of a linguistic nature, but it also necessitates some specialist legal knowledge of the text's contents if it is to be understood properly. This means that the translator must engage in the analysis of some of the legal bases of the text's meaning. The best way to do this is to either study the actual Acts and Regulations which govern the shape of a document, or find some other accessible information or credible consultants through which any possible doubts can be dispelled.

Following this, if the translator is sure about what each part of the source text exactly means, the next level of the translation can take place, namely seeking out the best vocabulary and linguistic structures with which to express the meanings in the source text. There are three ways to do this:

1. By retaining some cultural-specific elements, such as the names of institutions, the titles of officials, or actual legal regulations etc. In such circumstances, some translator's notes will be needed to explain the sense of ideas, particularly when the source information is left in the original language;
2. By localising common elements within the meaning that are different in form in the source and target language, such as different formats of dates, times, currencies, weights, measures, and more specific legal terms;

3. And, most easily, by the equivalent translation of content that is similar in form and meaning in both cultures.

Comparative analyses that utilize comparative corpora, term databases, glossaries, websites, etc. are of great help when carrying out the work mentioned in points 2 and 3 above. Yet the translator should always bear in mind the most common rule of translation of such culturally-rooted texts, namely first be faithful to the source language culture's principles. There is a further level to be included in the process of translation, which relates to its recipient. The kind of reception that the work receives is the final proof of how correct, or otherwise the translation is. Accordingly, obtaining such feedback information may be an additional factor of interest to the translator.

### **Case study**

The present work is addressed first of all to the juridical specialists being connected with the terminology in the domains of public and private law. It includes the English, American and European law terms of Latin origin because some of them do not have exact structural correspondences in the Romanian language, this leading to difficulties in finding an equivalent in the process of translation of the English juridical texts into Romanian.

This part is a practical approach on translation. Using a number of case studies (legal texts extracted from various documents and articles), the case study illustrates the diversity of situations which can arise as a result of translation errors and difficulties. This section is an analysis of the translations of economic texts and the errors that may occur in the attempt to give an accurate and correct translation of the original text.

Law as an abstract concept is universal as it is reflected in written laws and customary norms of conduct in different countries. Legal concepts, legal norms and application of laws differ in each individual society reflecting the differences in that society. Legal translation involves the translation from one legal system into another.

1. Working with a corpus of juridical texts we came across a big quantity of Latin juridical expressions. Latin being in the Middle Ages the language of law on the territory of Western Europe influenced immensely the formation of the juridical terminology of the majority of the European languages, not to speak about the fact that Latin was the basis of many Romance languages, and also the English language, because English was not an exception. All the possible languages borrowed both roots of Latin origin of words, word-combinations, winged expressions as well. Thus, a basic linguistic difficulty in legal translation is the absence of equivalent terminology across different languages. The English juridical vocabulary included such elements from Latin. In the domain of jurisprudence the so-called "Latin layer" or "the antique heredity" was very important, for example, *sub judice* – în cursul judecății; *subpoena ad testificandum* – citație adresată unui martor pentru a se prezenta și a depune mărturie; *salvo jur e* – fără prejudiciu, *bona fide* – bună credință; *mala fide* – rea credință, etc.

2. Another source of difficulties in legal translation is represented by cultural differences, "culture" being defined as a "semiotic system" and "a system of meanings" or information encoded in the behaviour potential of the members of the society. Translation involves trust on the side of the reader or user. The audience that does not know the original meaning of the terms of the text believes that the translation is a fair representation of it. Hence, the translator should be ready, whenever possible, with observance of all cultural details to translate the legal lexicon in the texts of legal documents.

3. Translation of words having equivalents in the Romanian language but specifying the realities not inherent for the Romanian legal culture. In such cases the literal translation demanding some notes or approximate translation when the specific term in the English language is translated by the patrimonial term in Romanian is possible. Anyhow, such units

demand either the use of the intra-linguistic compensation, i.e. a word is translated by the phrase, or intercultural compensation when a translation demands some commentary. A typical example is the use of such pair as jail-prison translated usually as *închisoare* or *penitenciar*. It is not necessary to define the difference between these two words in all contexts but the translator should know that jail is a place where people are kept during the process of investigation or the offenders, serving time punishments till 1 year for not severe crimes. Prison is an establishment of execution of punishments where the persons who have committed grave crimes and serving time punishments more than for 1 year are kept. It also should be noted that the modes of the maintenance of prisoners in establishments of these two types are various on severity degree, as well as on financing sources. In the English language there are some nouns with the meaning *infrațiune/delict/crimă* from which one, murder, is patrimonial, and others – specific terms: homicide (premeditated murder) and manslaughter (unpremeditated murder). The example of functioning of such words as crime – felony – misdemeanor is similar. The noun *crime* designates a crime in general (unlike an administrative offence), while misdemeanor (not severe crime) is punished with either the penalty, or serving a term of punishment in local prison (jail), and felony – the heavy criminal offence punishable with a long term of imprisonment in a state or federal prison.

4. The literal translation of word-combinations demanding detailed explanation on the part of a translator if, of course, the translator is competent to give such comment. Let's consider the translation of such word-combinations, as *limited divorce*, *indeterminate sentence*, *Index crimes*, *Crime index*, *sensibility training* and *verbal judo*. In all these cases, word-combinations designate the realities which do not exist in the practice of the Russian judicial-legal system and consequently demand to compensate objective discrepancy of translation with the cultural comment. So, *limited divorce* is *separație de corp*, *indeterminate sentence* is *sentință fără soluție/nerezolvată*. *Crime Index* is *clasificarea infracțiunilor*, a list from 8 of the most grave crimes, among which 4 types of crimes are against the person (murder, sexual assault, robbery, aggravated assault) and 4 – against the property (burglary, larceny, car theft, arson). Accordingly, *Index crimes* are the types of crimes listed above. Comprehension and equivalent translation of such word-combinations as sensibility training or verbal judo demand from the translator not only the linguistic competence, but penetration into the sphere of the professional culture of the police as well. We think that it is the most difficult case for the translator who is not a specialist in this area to find the equivalents in the target language. So, *sensibility training* is *pregătire pentru stărnirea emotivității* (negotiating with terrorists; interrogation of the victims who are in a condition of a psychological trauma, etc.). *Verbal Judo* often translated as *atac verbal*. The translator should know that it is a technique of application of certain language means with the purpose to achieve the results with the help of a dialogue.

5. When it comes to certificates and diplomas, with the cultural-specific elements widely used, the aim of which is the delivery of personal information, its recognition and application, the strategy is generally to retain original forms without cultural adaptation. This normally means using the simplest translation equivalents as suggested by dictionaries, glossaries, encyclopedias or other credible sources. Moreover, some elements must also be left untouched (e.g. addresses, names of people and places). Borrowings, calques, naturalizations or descriptive translations are commonly used because the first and most critical rule in the translation of such texts (apart from being communicative) is the retention of the source cultural elements. This is done with official names of countries, institutions, job titles, and the forenames of the holders of the documents. We also retain the sense (or names) of administrative units, the names of normative acts governing the formats of the documents if they are mentioned, and the references to all forms of proof of authenticity – stamps, watermarks etc. It is even possible to somehow adjust the format of the documents to assure the target reader that the document they are dealing with is the official one, albeit in a different language.

6. When it comes to the names of institutions, it is sometimes difficult to find a foreign language equivalent in accessible sources like dictionaries, glossaries, or corpora. If the institution itself does not suggest the officially established and acceptable version of its name, the only solution is to borrow the original name and add the translator's version of descriptive translation, or sometimes a calque (the only excuse for using the name of an equivalent institution in the target culture is the situation in which the functions of both institutions are similar and there is no better solution). However, we must remember that the translation is introduced after the first appearance of the original term for informative purposes, as the most appropriate strategy is still to use the original versions of such names.

7. There should be no doubt about the appropriate way of translating the official functions of the individuals referred to in the documents. Again the rule is to retain the sense and not to try to adapt the functions to the target culture's requirements. If the translator has doubts about choosing an equivalent for a function which does not correspond to the target culture, the best way forward is to read the actual legal regulations relating to the translated documents, which usually provide detailed information about the principles behind their usage, their contents and issues. For example, a British or Romanian translator, in whose countries there are comparable rules for the solemnization of a civil marriage, may wonder why we find such terms as judge or clerk and not registrar, in American marriage certificates (e.g. in the State of Illinois). But after the analysis of the contents of chapter 40, paragraph 209 of the "Illinois Marriage and Dissolution of Marriage Act" (750 ILCS 5/), which states that the marriage ceremony must proceed in the presence of a judge or a county clerk, the translator can be sure that the simplest non-adapted terms that are chosen according to the strategy of word-for-word translation, are the most appropriate, even if they may not correspond to the target culture. Having read the act referred to, the translator will have no doubts about the function of the certificate itself since its title, "Marriage License," does not directly suggest that the document is a marriage certificate. According to the laws in Illinois, the document acquires the power of a marriage certificate after being signed by an appointed individual in the space provided and sent to the institution responsible for keeping marriage records. When it comes to the title, it should be translated literally, possibly with some translator's notes, again to keep the source culture's rules.

Generally, as has already been stated, the translation process in the type of texts described should be reduced to an attempt to render the meaning of the source information within the target language, according to the principle that the strict correspondence of meaning is retained by word-for-word, literal or technical translation.

The main rule of translation should be the parallelism of terminology and using grammar and stylistic rules that are adequate to the target language's conventions. All of these will mainly be applied to the titles of documents, headings that refer to personal data, school subjects and some formulations of certification. A completely different strategy, based on cultural adjustments and the attempt to express the same ideas but in different ways, will be needed when the source and target languages differ in some aspects of cultural and linguistic traditions, but the ideas expressed are universal. This applies to elements such as dates, times, systems of measures and weights or some more detailed legal terms. In situations where the traditions differ and there is only minimal correspondence between culturally-rooted ideas, like with scales of school marks, scientific titles, currencies, it is better to leave the original versions untouched and add the translator's notes by way of explanation.

### **Conclusions**

The case study that we have accomplished gives us the possibility to make some conclusions:

- the principal group of Latin words which came into English has no analogies there. They represent "law" itself and present a certain linguistic interest.

- some Latin juridical words and word combinations are translated in a descriptive way;
- juridical terms have always only one meaning, are not polysemantic, their meanings do not depend on the context.

The proper equivalent translation of the legal texts requires from the translator a high level of his linguistic and cultural competence. As a rule to get a sufficient degree of completeness and accuracy the translator often uses the inter-language and intra-language compensations.

The greatest difficulty for the translator is caused not by the use of terms and phrases which are fixed in specialized dictionaries but the use of those linguistic units which are connected with the cultural aspects regularly used in legal texts. It is difficult to overestimate the importance of the translational notation which allows to provide complete understanding of the translated legal text, to fill lacks of the background knowledge of the reader of the target text and to resolve the conflict of cultures in the professional area.

As can be seen from the texts chosen, legal translation requires appropriate knowledge, skill and methodology. Bearing in mind how often such texts arise these days, and the inadequate number of properly qualified translators, it is obvious that the pedagogical contribution towards the development of those skills is a big challenge for the academic community. Also worth mentioning here is that translation is no longer a process exclusively based on traditional tools and methods. This should be borne in mind by scholars when dealing with scientific issues concerning the field. New opportunities are available as a result of developing technology. It is for this reason that attempts to facilitate the process of translation and unify its results, need to continue. The problem for future decades is how to ensure that there is awareness of these new translation tools and that they are more widely used.

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# COMPUTER-ASSISTED TRANSLATION RISKS AND THREATS IN LEGAL TEXTS

Georgiana, Mîndreci<sup>1</sup>

## Abstract:

*In a world in which IT is developing faster than ever, providing reliable solutions to all problems, regardless the field of interest, the issue of computer-assisted translation systems is more and more complex, offering both advantages and disadvantages. The field of translating legal texts from Romanian into English is deprived of a large number of specialists and this is one of the main reasons why more and more people resort to computer-assisted translations, especially Google translations when dealing with translating various texts (from Romanian into English or vice-versa), in this particular case legal texts.*

*Yet, although this field has immensely thrived recently, and is quite reliable for simple and very easy translations, the average English speaker runs huge risks of falling into traps that can lead to errors and misinterpretations. Thus, this article aims to identify the main theoretical approaches to computer-assisted theories and the major risks and threats that occur in this type of translation, focusing particularly on legal texts. There are important differences, not only of words, but also differences in the legal systems themselves, both theoretical and practical ones, which must be correctly dealt with –something which computer-assisted translation cannot do (yet).*

**Keywords:** *computer-assisted translation, legal texts, translation errors, threats and risks, misinterpretation.*

**JEL Classification:** K0

## Introduction

The field of Translation Studies, as we know it today, is a rather new discipline, developed hugely in the 20<sup>th</sup> century, especially due to the technological advances, to globalisation, to internationalisation, to the economic growth, in a word thanks to the entire system that makes up the world we are living in today. This field of study is no longer a single one, it is a multidisciplinary one, and thanks to this we can enjoy the results of this “boom” in the development of everything related to translation, whether technical, specialised, literary, scientific, economic, and so forth.

Whether we like it or not, we have to accept that the information technology progress has greatly influenced and changed the way translators do their job. This process is twofold, namely it has both advantages and disadvantages. In “the century of speed” everybody has to adapt to the new methods available and in the case of translation it is well known that it is a very lengthy process, depending on the type, level of difficulty, length of the Source Language (SL) text and also on the translator’s experience. For this reason the multitude of devices available nowadays—electronic dictionaries, glossaries, terminology databases, concordances, on-line bilingual texts and translation memories—ease the translator’s job by saving a lot of time which would have otherwise been spent on looking up words, phrases and expressions or explanations of different concepts in traditional dictionaries or books. Of course, this is not the only advantage, but the other ones will be later on discussed in this article.

At the opposite pole there is one of the greatest disadvantage, namely the unreliability of the “end-product” resulted from the computer-assisted translation (CAT) and hence the risks, the threats and the clumsiness of this type of translation vs. human translation. This is just one of the many disadvantages CAT has, but I believe it is just the foundation of what one day will turn into another advantage of this new type of translation since there is no way of turning back and since this is the only method of making progress: by analysing the mistakes and disadvantages and trying to improve them.

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## **Methods**

The main methods I have used in this article are the content analysis method of the reference sources and of the texts chosen to exemplify the case studies and examples in point, the comparative approach through qualitative research, and the observation method starting from empirical research in the field.

The main aim was to emphasise the need and the usefulness of analysing the translation of legal texts as done by computer softwares, especially by Google Translate, without the assistance of specialists, in order to underline the main threats and risks generated by this type of translation. This translation analysis can be thus seen as a way of allowing the researcher/translator to identify problems which would have otherwise gone unnoticed and to repair the mistakes.

The main strategy I have used was the practical act of comparing the Source Language (SL) text with its translation into the Target Language (TL) and discussing mainly the cases of misunderstandings and mistranslations, of problems of equivalence, of losses and gains, of linguistic untranslatability, of the translators' visibility or invisibility in the TT, on accuracy in translation, adaptability, fidelity and faithfulness or infidelity.

## **Background**

The task of finding a comprehensive definition for translation is not an effortless one, but this does not necessarily mean that there are no complete definitions of translation. From one point of view, the difficulty in defining translation can actually improve the quality of the yet unformulated theories about what should be understood by translation. How can such a thing be possible? In my opinion this would be possible by joining together all the essential elements from as many pertinent definitions as possible and then reunite them in the effort of creating a clear and comprehensive definition. Nevertheless, defining a concept—in our case that of translation—also refers, in my opinion, to the tasks a translation should perform. And this is when the difficulty of this process intensifies. Translation and the discipline of translation studies were rather newly formed disciplines as such (as we know them nowadays) and this indicates that there has not been much attention in this direction until the 20<sup>th</sup> century.

I feel it would be fair to say that starting with the second half of the last century there was a period of “boom” in the field of translation. All the new studies, theories, developments, new approaches and perspectives led to the creation of a new field of research and study, even to a revolution in how contemporary scientists approach and deal with translations nowadays. This so-called “boom” in translation theory can also be viewed as the result of the interdisciplinary character of the 20<sup>th</sup> century: all the new breakthroughs, the discovery and use of new tools in translation (new dictionaries, machine translations, Internet, memory databases, specialised and computerised programmes for translation, etc.), the new findings from inter-related disciplines: linguistics, psychology, literary studies, cultural studies, social studies, anthropology, philosophy, and so forth, all these new developments together with an increased interest in translation manifested by more and more scientists, researchers, translators, teachers and students finally led to an explosion of new ideas and theories in the field of translation. All these new findings affect both the way the process of translation is performed and the role and the tasks of translators nowadays. This newly rising discipline is developing faster than ever before and that is why more and more attention is being paid to this fascinating field of study and human interaction.

Lawrence Venuti believes that the last three decades of the 20<sup>th</sup> century represented the peak of translation studies as a new academic field of study at international level, a fact which was also due to the “proliferation of translator training programs worldwide” (1). The late 19<sup>th</sup> century and early 20<sup>th</sup> century brought on a change and a shift in the place and

status of translation and translators. The fact that translation was, for such a long time, confined to language teaching and learning can partly explain why academic circles considered it to be of secondary status (Munday 8).

In the process of translation (or as other critics divide it into translation-oriented analysis and translation-oriented interpretation) there are six major areas which are to be followed and respected by a translator in order to be able to render the adequacy of a text from the source language (SL) into the target language (TL): denotation, accentuation, modality, connotation, coherence and style. Professor L. Levițchi, in the *Foreword* to “*Limba Engleză-Manualul Traducătorului*” (English Language-The Translator’s Handbook) (2000), says that to translate means to paraphrase, to reproduce something using other words, to convey an idea from the SL into the TL. To translate well means to paraphrase well, to reproduce in the TL with the highest degree of accuracy the content of ideas, the logical and emotional structure of the original text so that the transposition can produce the same effect on the receiver as the original text; and the translation should not seem a translation (7). So the translator has to perfectly observe and render as such the original atmosphere of the text, by using the most appropriate associations of words and ideas in order to recreate the novel, but using his mother tongue. Professor L. Levițchi also said that everything can be translated, but only with extreme efforts, and thus the work of a translator is much harder than that of the writer’s. “A good translation must neither increase the difficulty of its comprehension (through an exaggerate encoding) nor ‘lighten’ it through an exaggerate decoding of some meanings and connections which the writer himself wished to maintain ambiguous” [my translation] (Bantaș and Croitoru 128).

Translation can also be defined from the point of view of linguistics. Thus, translation is a branch of applied linguistics, because in the process of translation the translator consistently makes any attempt to compare and contrast different aspects of two languages to find the equivalents (Karimi). A complete translation is the translation that reproduces as many meanings and values as possible from the foreign language into the mother tongue. The fruit of a translator’s work has to be a paper work of the same value as the original one—no more, no less—having the same power of conviction.

Literary translation has as aim or task to reproduce the original artistic images from the SL into another language, the TL, so that the reader of the translation can become aesthetically entertained by the text, just as the native reader is moved or touched by the original. Clifford E. Landers argues that, as most critics do, “a translation should affect its readers in the same way that the original affected its first readers” (27), in other words to have the same effect on the TL readers as the original text had on the SL readers. A SL text should be translated using the same type of language as the original, the same style; it does not matter if the text is 300 years old, at that time the language of the original was modern to the readers, to its contemporaries, and it should be rendered the same ways, “not using slangy or faddish English” (Landers 27). He also considers that “if the speech patterns in the SL text struck the reader as deliberately old-fashioned, stilted, facetious, jargon-ridden, sub-standard, or in any other way a departure from expected modes of expression, that too should be reflected in the translation” (27).

Antar S. Abdellah considers that translation is a science, an art, and a skill. The main reason why translation is considered to be a science is that, to a certain extent, it requires “complete knowledge of the structure and make-up of the two languages concerned.” The main reason for being considered an art is that it needs “artistic talent to reconstruct the original text in the form of a product that is presentable to the reader who is not supposed to be familiar with the original.” And, finally, it is considered to be a skill because it necessitates “the ability to smooth over any difficulty in the translation, and the ability to provide the translation of something that has no equal in the TL.” Antar S. Abdellah gave a definition of translation which focuses on the qualities of a good translation: a good translation has to carry all the ideas

of the original as well as its structural and cultural features; it has to be easily understood; to be fluent and smooth; to be idiomatic; to convey, to some extent, the literary subtleties of the original; to distinguish between the metaphorical and the literal; to reconstruct the cultural / historical context of the original; to make explicit what is implicit in abbreviations, and in allusions to sayings, songs, and nursery rhymes; and to convey, as much as possible, the meaning of the original text.

In general terms, numerous critics agree that not many things have drastically changed concerning translation. Translation cannot happen if there is not sound knowledge of both the source and the target languages, but there also has to be a thorough understanding of the topics dealt with in the text. Vicky Hartnack states that “one’s cultural baggage and open-mindedness about the other’s culture have always been decisive factors and the painstaking job of checking and rechecking one’s work has always made part of the conscientious translator’s routine” (59).

Thus, an important aspect of a complete translation must necessarily take into account a series of contexts, such as the linguistic, the social, the political and the cultural contexts in which the ST was produced and those in which the TT has to be reproduced, and even adapting the TT to such contexts if necessary.

Nowadays, thanks to the fast and huge development of IT we can talk about a new way of making translations and hence about two very different concepts: Computer-Assisted Translation (CAT) vs. human translation. But it is also necessary to have an idea about the very beginning of CAT:

It was not until the twentieth century that the idea of creating automatic dictionaries appeared as a solution to the problem of linguistic barriers. In the 1930s two researchers worked independently towards the same goal: the Franco-Armenian George Artsrouni and the Russian Petr Smirnov-Troyanskii. The latter was the more important of the two because he developed the idea that three stages are necessary for a system of automatic translation: first an editor who knows the source language analyzes the words and converts them into base forms according to their syntactic functions; then a machine organizes the base forms into equivalent sequences in the target language; finally, this rough version is corrected by a second editor, familiar with the target language. Despite the significance of Troyanskii’s work, it remained generally unknown until the late 1950s. (Craciunescu, O., C. Gerding-Salas and S. Stringer-O’Keeffe)

Computer-assisted or computer-aided translation (CAT) mainly refers to computer softwares that transfer strips of language or texts, but not without the help of specialists. Without their help such translations are not reliable, being also very poor in quality and generating huge mistakes, misunderstandings and mismatches which can go unnoticed if not revised by experts.

It is mandatory to correct the mistakes and improve the quality of the translation after using such translation tools and devices since they are only meant to help and ease the translator’s work, not to replace it altogether. Nevertheless, there are people (such as average users of English, beginner translators, specialists in a certain field of study but with poor knowledge of the English language, etc.) who use these translation tools and then see the result as the “end-product”. This is a big mistake since the text, regardless the field it belongs to, needs proofreading and post-editing done by expert and experienced translators.

The advantages of such systems are numerous for professional translators (and teachers) and the review of the literature in this field lists among the most important ones the following:

- Modules that provide complex sets of tools for CAT, but they might be expensive for the average users;
- Specialised terminology dictionaries creating thus customised dictionaries;
- Spell-checking (including word-processing softwares, add-on programmes, etc.);

- Grammar-checkers;
- Terminology managers, which allow the translator to manage his/her own terminology back in an electronic form, and there is a multitude of programmes and software packages;
- Electronic dictionaries, either unilingual or bilingual;
- Full-text search tools;
- Concordancers;
- Translation-memory tools or programmes – the basic principle for their functioning refers to storing previously translated source texts and their equivalent target texts in a database and retrieve related segments during the translation of new texts.

O. Craciunescu, C. Gerding-Salas and S. Stringer-O’Keeffe make a distinction between the two closely related and easily confusable terms: machine translation (MT) and computer-assisted translation (CAT). The distinction is important because the two technologies are the consequence of different approaches since they do not produce the same results and are used in distinct contexts.

MT aims at assembling all the information necessary for translation in one program so that a text can be translated without human intervention. It exploits the computer’s capacity to calculate in order to analyze the structure of a statement or sentence in the source language, break it down into easily translatable elements and then create a statement with the same structure in the target language. It uses huge plurilingual dictionaries, as well as corpora of texts that have already been translated. As mentioned, in the 1980s MT held great promises, but it has been steadily losing ground to computer-assisted translation because the latter responds more realistically to actual needs.

CAT uses a number of tools to help the translator work accurately and quickly, the most important of which are terminology databases and translation memories. In effect, the computer offers a new way of approaching text processing of both the source and target text. Working with a digital document gives us non-sequential access to information so that we can use it according to our needs. It becomes easy to analyze the sentences of the source text, to verify the context in which a word or a text is used, or to create an inventory of terms, for example. Likewise, any part of the target text can be modified at any moment and parallel versions can be produced for comparison and evaluation. All these aspects have profound implications for translation, especially in terms of assessing the results, since the translator can work in a more relaxed way because of the greater freedom to make changes at any time while the work is in progress.

Even though CAT has greatly developed and improved since the beginning of the 20<sup>th</sup> century and it can now save much time, be very useful for non-specialist English speakers, prove even profitable for companies that either produce and sell the software or for those that buy the programmes and thus save money which would have otherwise been paid to human translators, “automatic translation systems are not yet capable of producing an immediately useable text, as languages are highly dependant on context and on the different denotations and connotations of words and word combinations” (Craciunescu, O., C. Gerding-Salas and S. Stringer-O’Keeffe). CAT is definitely not “a replacement for human activity” (Craciunescu, O., C. Gerding-Salas and S. Stringer-O’Keeffe) and it requires post-editing done by a reliable and experienced translator or specialist if we want a highly qualified and reliable translation, otherwise the users of such “unfinished products” run huge risks of falling into traps and of presenting a bad translation which can have negative effects, as we shall see further.

### **Case study**

“The ongoing influx of new words in a language helps make it a rich field for investigation, despite the difficulty of defining precisely and accurately the vocabulary available to its speakers” (Chirilă C., Mîndreci G., 187). Thus the translation process is all

the more difficult and begins by determining the type and register of the work, as the choice of the vocabulary greatly depends on it to render the different nuances of the words. Thus, one of the paramount conditions for translating is, for example, the flawless mastering of the both the source and target languages, of the culture, of the history of a people, otherwise the translator risks distorting the features of the text. This, fortunately and unfortunately, can be done only by a human translator. Consequently, one of the most important achievements of an appropriate translation is the excellent knowledge of the two languages and cultures. The translator must always be very careful when choosing the equivalents. Two words may be equivalent in a bilingual dictionary, but they can always be used as equivalents in a translation and it is then when the translator must find a contextual equivalent. A translation, which is a creative process, must be distinguished from the translation theory, which is a special scientific discipline.

A translator's work is not at all an easy one; on the contrary it is a laborious one since a translator must work simultaneously with two different texts: the ST and the TT. This also means working with two different languages and in two different cultures at the same time. A translator must not only understand the ST, but must make that text understandable to people with a completely different linguistic and cultural background (Vilceanu 47).

In the case of legal texts we deal with a very delicate field since such texts are among the most difficult types of specialised texts to translate given the difficult task of rendering the unique features of the legal system of the source language country. Some of the strategies that translators can use when dealing with legal texts can be borrowing original terms, naturalising some specific terms into the TL, use of language calques or use of descriptive translation, which refers to explanations and/or explanatory circumlocutions or footnotes. Yet, such techniques are only available to human translators and the exclusive use of CAT leads to huge mistakes and misunderstandings that can go unnoticed if there is not any post-editing done by a reliable and experienced translator or specialist.

Here is a list of some selected mistakes and misunderstandings taken from different legal texts and compared with two types of translations: CAT, in this particular case the translation offered by the most popular and available translation programme, Google Translate, and a human translator.

#### Examples of CAT – Google translations:

Original text (Romanian)	Google translation (English)	Suggested translation/ Comment
Neagoe Basarab, Petru Cercel, Despot-Vodă, Nicolaus Olahus, Johannes Honterus etc.	Neagoe Peter Earring, Despot, Nicolaus Olahus, Johannes Honterus etc.	The ST must stay the same in the SL since we deal with people's names that cannot be translated
dintre care amintim cu titlu de exemplu	by way of example	of which we can mention as examples
Pravilniceasca Condiță	Conde Pravilniceasca	The ST must stay the same in the SL and a solution in this case of untranslatability would be the use of the explanatory footnotes
Alexandru Ipsilanti; Suplex Libellus Valachorum	Alexander Ypsilanti; Libellus Suplex Valachorum	The ST must stay the same in the SL since we deal with people's names that cannot be translated
Scarlat Callimachi	Scarlat Calli	The ST must stay the same in the SL since we deal with people's names that cannot be translated
Iorgovan, 1994	Lilac, 1994	The ST must stay the same in the SL since we deal with people's names that cannot be translated

Original text (Romanian)	Google translation (English)	Suggested translation/ Comment
(Chiriță, 2008).	(rent, 2008).	The ST must stay the same in the SL since we deal with people's names that cannot be translated
Dolul viciu de consimțământ potrivit noului Cod civil	Undue influence vice of consent under the new Civil Code	Wilful misconduct vice of consent according to the new Civil Code
Dolul constă în inducerea în eroare de către o persoană a unei alte persoane, prin folosirea unor mijloace viclene, pentru a o determina să încheie un act juridic, la care altfel aceasta nu ar fi consimțit.	Undue influence is to mislead by a person to another person by using cunning means to cause it to enter into a legal act which otherwise it would not have consented.	The wilful misconduct represents the misleading of a person by another person by using evil means to cause him/her to clinch a legal act to which he/she would not have consented otherwise.
Ca și eroarea, dolul falsifică realitatea, însă această falsă realitate este <i>provocată prin mijloace viclene</i> de către cealaltă parte contractantă. Unii autori definesc dolul ca fiind „o eroare provocată” de cealaltă parte contractantă.	As the error, the fraud falsify reality, but this false reality is caused by cunning means by the other party. Some authors define the fraud as "an error caused" the other Contracting Party.	Similarly to error, the wilful misconduct falsifies reality, but this false reality is <i>caused by evil means</i> by the other contracting party. Some authors define wilful misconduct as “ <i>an error caused</i> ” by the other contacting party.
Unele aprecieri privind fazele procesului penal în accepțiunea Noului Cod de procedură penală	Some considerations on the phases of the trial in the sense of the New Criminal Procedure Code	Certain assessments related to the stages of the criminal proceedings in the New Code of Criminal Procedure
Răspunderea civilă presupune existența unei conduite generatoare de pagubă. Această definire generică permite cuprinderea în sfera răspunderii juridice atât a răspunderii ce decurge din săvârșirea unei fapte ilicite numită <i>răspundere civilă delictuală</i> , cât și a răspunderii ce decurge din neexecutarea culpabilă sau executarea necorespunzătoare a unei obligații stabilită prin contract, denumită <i>răspundere contractuală</i> .	Civil liability presupposes a loss-generating behavior. This broad definition allows the inclusion in the scope of liability both legal liability arising from committing an illegal act called tort liability and responsibility arising from neexecutarea wrongful or improper performance of an obligation established by contract, called contractual liability.	Civil liability presupposes a loss-generating behaviour. This broad definition allows covering under the area of civil liability both the liability arising from committing an unlawful act called <i>civil liability in tort</i> and the liability arising from the wrongful non-performance or improper performance of an obligation established by contract, known as <i>contractual liability</i> .
De regulă, paza juridică revine proprietarului lucrului, precum și titularului unui dezmembrământ al dreptului de proprietate	Usually legal guard work rests with the owner and holder of a dismemberment of ownership	Usually, the legal safekeeping falls upon the owner, as well as on the titular holder of a dismembered right of ownership

## Conclusions

Although the translation activity was regarded as a secondary one, deserving little attention which has greatly hindered its development, everything changed in the 20<sup>th</sup> century with the emergence of translation studies, a discipline which helped translation gain its long-deserved and desired position in the academic field. The field of translation studies nowadays involves the multi- or interdisciplinary approach of translation studies, mainly based on the cultural background and context, the intercultural transfer, linguistic, social and political aspects involved in the translation process, activity, acquisition and reception of a translated text.

Any translator's work is very laborious since (s)he must work with (at least) two languages and cultures at the same time. The tasks of any translator also include the

importance that translators play, especially nowadays, but not only. A translator cannot be defined by just one adjective, a translator and his/her tasks are multiple and interrelated, they are like a chain, one conditions the well functioning of the other and the lack of one chain link can cause a complete failure in the translation process. That is why translators and their activity, role, tasks and contributions are so highly regarded nowadays and deserve so much attention and research. A translator's work is very far from being simple or comfortable, it requires many skills, a lot of experience, dedication and also talent, but also numerous risks and threats and that is why it should (and sometimes even is nowadays) highly appreciated and praised. It is obvious that a reliable translation, be it legal, scientific, literary, etc., cannot be achieved by CAT only, it must be at least post-edited by a specialist, if not even analysed and interpreted.

The conclusion is that a translator has to understand a text very well before embarking upon translating it, paying a lot of attention to the cultural context and everything it includes. Without the deep knowledge of both the source and target languages and cultures a translation cannot be produced. Furthermore, the lack of correctly understanding and rendering such key concepts can lead to bad translations or mistranslations which can greatly affect the reception of a ST by the TT readers. Avoiding such cases should be one of the main aims of CAT users and translators who wish to have a reliable translation.

Translation is science, art and skill at the same time and I also believe that it takes inborn talent, a special "ear" for it, a lot of hard work and dedication and that not anybody who speaks a foreign language and knows how to use a dictionary can become a translator and perform a translation.

Another important danger that must be taken into account and studied further is the issue of reliability in terms of data safety since all these "free of charge" programmes and softwares are not actually free and there are huge risks of the leak of information with CAT. This is possible since the database has access both to the SL text and to the TL one in order to perform the translation and even to memorise some phrases and expressions. Nevertheless, this has the advantage of raising attention to this threat and to making people who want highly reliable and safe translation to turn to human translators instead of CAT.

Consequently, it is very important for people and users of CAT to understand that such systems are only a tool for enabling faster translations, for helping authorised translators in their work, for saving time, etc. but they are definitely not "end products" that someone can trust or use without post-editing or proof-reading since they run the risk of falling into traps.

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# DIFFICULTIES AND STRATEGIES IN THE PROCESS OF LEGAL TEXTS TRANSLATION

Adela-Elena, Dumitrescu<sup>1</sup>

## Abstract:

*This article aims to identify the difficulties and find approaches in translating legal texts which involve a lot of different types of translation problems. The translator has the task to discover proper strategies to render the translated text comprehensible for the reader in the target language simultaneously reflecting the unique character of the legal system from the source language country. Some of the necessary strategies which the translator should take into account are: the borrowing of original terms, the naturalization of specific terms into the target language, the language calques usage, or the introduction of descriptive translation. Even if a translator tries to solve any difficulty when he translates a legal text, he must maintain the source culture characteristics and do not deprive the texts of their specific character.*

**Keywords:** legal terminology, equivalence, literate translation, literal translation, culture

## 1. English as an international language of legal communication

Globalisation and the growth of international organisations (e.g. UN, EU, NATO, WTO) have brought an increasing interest in legal documentation (e.g. legislation, regulations, agreements) using English as a common language. The importance of *legal English* lies expressively in its being the medium for international (including electronic) commerce. English is the standard language for many companies, for take-over bids, for international commercial contracts, for arbitration, for all cross border legal transactions and international legal issues in particular” despite all national language legislation.

English is the language of international law and multidisciplinary professional service firms. In addition, English may be either source or target language, even the medium or relay language between source and target languages.

Legal English is in course of conquering the world while the other major languages are incapable of posing a threat to the position of English as the “lawyer’s *lingua franca*.”

## 2. Cultural factors in producing and translating legal texts

These circumstances as thus described imply the necessity for meaningful communication of information and ideas. At the same time, increased global interaction means that the capacity to communicate interculturally in the world using a common means, in our case the English.

If the language is perceived as a social practice, culture becomes the fundamental principle of language teaching. The relationship between language and culture is both complex and elaborate; in addition communication problems may arise from cultural differences; moreover, these factors become particularly acute in professional setting when interacting parties use the same linguistic code (i.e. English), but not the same cultural style. Thus also English can be defined as a device for mutual understanding, it can also be discussed that English “can also act as a medium and subject of global misunderstanding.”<sup>2</sup>

In the legal context, these factors play a role, since language and law are closely related and are generated through social practices. Indeed, language is the core of the law, since the law is substantially formulated through language.

The development and status of both ordinary and legal language reveal the relatively autonomous development and status of legal cultures and legal systems. The

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<sup>2</sup> Spinchtinger, D., “The Spread of English and its Appropriation”, p. 66, Master’s Thesis: Vienna University. Available at <http://www.geocities.com/dspichtinger/dipl.htm> last visited 02 September 2014

result is that “the technical language of jurists is extremely system-bound. Since legal systems vary from state to state, each country has its own independent legal terminology.”<sup>1</sup>

Legal translation is often more difficult than other types of technical translation because of the system-bound nature of legal terminology. Unlike scientific or other technical terminology, each country has its own legal terminology (based on the particular legal *system* of that country), which will often be quite different even from the legal terminology of another country with the same language.

The system-bound nature of legal text means that successful translation into another language requires competency in at least three separate areas:

1. basic knowledge of the legal systems, both of the source and target languages;
2. familiarity with the relevant terminology;
3. competency in the specific legal writing style of the target language.

Without these skills, the translator’s interpretation will be a word-for-word translation that is often incomprehensible.

Personally, I find translation of legal documents to be one of the most interesting and challenging areas of translation, because they often require both a combination of the creativity of literary translations and the precision of technical translations.

Thus, the professional legal translator must be part linguist, part legal scholar and part detective, willing and able to search out and define legal concepts expressed in the source language of a document that may not even have an equivalent in the language or legal system of the target text. The translator must first *decode* the source text and reconstruct its meaning in the target text. In many cases, the translator is limited to finding a functional equivalent for a word or phrase or a parenthetical explanation because an exact translation is impossible.

Translation of legal documents tends to involve more culture-specific than universal components. In contrast to what happens with mathematics or chemistry, where there is an objective common knowledge base, legal terminology is based on the particular legal system of each country.

Each legal system has its own history, social values and political context, and has been designed to meet the needs of a particular nation, which obviously differ from one country to another. For instance, the Anglo-Saxon and Continental legal systems differ in many respects.

Due to this diversity of legal systems, one of the major difficulties faced by legal translators is finding exact terminological equivalents. A particular concept in the Romanian legal system may not necessarily exist within the framework of the English system, or, it may exist, but refer to a different concept.

In many other countries, public jury “trial” processes do not exist, but there are other judicial systems. In these situations, a literal translation of the word “trial” might mislead the reader.

Translators of legal texts must have a complete understanding of legal classification, legal processes and the systems of both of the source and target languages. Terminology mistakes in the translation of legal documents may have serious repercussions, such as losing a case or causing liability issues.

A good legal translator also knows that even within the legal field there are completely separate areas of law that require specific translation techniques: a contractual document has little in common with a will, an administrative certificate, a judicial decision or a statute, to name a few examples.

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<sup>1</sup> Mattila, H., *Comparative Legal Linguistics*, p. 106, Ashgate, 2006

The legal decoder knows that he or she must consult not only a monolingual legal<sup>1</sup> dictionary, but also an important documentation regarding the subject matter, and that bilingual dictionaries, while useful, should be used with caution.

When faced with international disputes involving different languages and legal systems, legal counsel and their clients would be well advised to obtain the services of translators able to successfully bridge the divide of legal systems, as well as language and culture, in order to provide *literate* rather than *literal* translation<sup>2</sup>

### 3. Legal Terminology & Style

Legal terminology and phraseology is the major concern for the legal translator as he/she may bring to a common two or more legal systems which are sometime extremely diverse and culture-bound. I have chosen **legal terminology** as point of this lecture because this is the key characteristic of language which actually connects a variety of legal genders and is one of the most important aspects in legal translation. Each legal language has its own specific and complex vocabulary, phrases, and denominations. This more than often faces the translator with the impossibility to find a correspondent in the target language, i.e. the problem of non-equivalence.

Legal languages differ greatly when it comes to using a specific terminology. For example, the lexicon of legal English, abundant in archaism, Latinism, terms of Norman and French origin, terms with flexible meanings, has traditionally been a source of wonder for the common people and at the same time the source of many debates concerning its demanded renewal among specialists in the legal and the linguistic fields: “Legal English [...] has traditionally been a special variety of English. Mysterious in form and expression, it is mixed with law Latin and Norman French, heavily dependent on the past and unashamedly archaic”<sup>3</sup>.

Comparing it to other legal languages, legal Romanian has a relatively restricted terminology. In the contemporary Romanian language, legal vocabulary is an organized body of terms, statistically characterized by restricted wealth and high concentration. The legal terminology used by the Romanian specialists includes a variety of neologisms, especially from French, as this language favoured the development of derivational process “by adapting an inventory of *neologic* affixes and *affixoids* from the classical languages”<sup>4</sup>

A generalized feature of all legal terminologies is the mixture of strictly legal terms with terms of belongings to other specialized fields. In community law, for example, one is likely to find terms pertaining to a variety of disciplines, ranging from medicine (the approval of a new drug for example) to agriculture (ex. Grant contracts for farmers specifying the type of crop, chemicals allowed and forbidden etc.) The example below is an excerpt from a European Council document.

Commission of the European Communities	Comisia Comunităților Europene
Brussels, 9.10.2009 COM(212)662 final Proposal for a COUNCIL DECISION on the conclusion of an Agreement in the form of Exchange of Letters between the European Community and Barbados, Belize, [...] on the	Bruxelles, 9.10.2012 COM(212)662 final Propunere de DECIZIE A CONSILIULUI privind încheierea unui accord sub forma unui schimb de scrisori între Comunitatea Europeană și Barbados, Belize, [...] privind prețurile garantate

<sup>2</sup> By the dychotomy of *literate translation* and *literal translation* we want to point out the difference between a *well-documented translation* and a *word-for-word translation*.

<sup>3</sup> Butt, P., Castle, R., *Modern Legal Drafting*, New York: Cambridge University Press, 2006, p. 1

<sup>4</sup> Cazan, O., *Procedee de formare a terminologiei juridice românești*, în revista “Philologica Romanica”, 9, p. 226 available online at <http://www.romaniaminor.net/ianua/Ianua09/09.pdf>

<p>guaranteed prices for cane sugar for the 2008/2009, 2009/2010, 2010/2011, and from first July 2011 to 30 September 2011 delivery periods and on the conclusion of the Agreement in the form of Exchange of Letters between the European Community and the Republic of India on the guaranteed prices for cane sugar for the same delivery periods.</p> <p>EXPLANATORY MEMORANDUM</p> <p>1. Protocol 3 on ACP sugar attached to Annex V to the ACP –EC Partnership Agreement, and the agreement on sugar between the European Community and the Republic of India provide for a Community undertaking to purchase and import at guaranteed prices cane sugar which the exporting countries concerned cannot market in the Community at prices equivalent to or higher than the guaranteed prices.</p>	<p>pentru zahărul din trestie pentru perioadele de livrare 2008/2009, 2009/2010, 2010/2011, și de la 1 iulie 2011 până la 30 septembrie 2011 și a unui accord sub formă de schimb de scrisori între Comunitatea Europeană și Republica India privind prețurile garantate pentru zahărul din trestie pentru aceleași perioade de livrare.</p> <p>EXPUNERE DE MOTIVE</p> <p>1. Protocol nr. 3 privind zahărul ACP atașat la anexa V la Acordul de parteneriat ACP –EC, și acordul privind zahărul încheiat între Comunitatea Economică Europeană și Republica India prevăd angajamentul Comunității de a cumpăra și a importa, la prețuri garantate zahăr din trestie pe care țările exportatoare în cauză nu îl pot comercializa în Comunitate la prețuri echivalente sau mai mari decât decât prețurile garantate.</p>
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As can be clearly seen from the example, legal terms and phrases like *decision*, *proposal*, *conclusion of an agreement*, *explanatory memorandum*, *guaranteed prices*, *delivery periods*, *to provide for* are used alongside economic terms like *to purchase* and *import*, exporting country, while the object of the decision is related to agriculture, more specifically, *cane sugar*.

The mixture of special-purpose language is another peculiarity of legal language which gives rise to many translation problems. The translator of legal documents must not only be familiar with the source and target languages, the two legal systems involved, but also with the subject matter of the document to be translated.

The fact that the audience of such legal texts is often the common person has been neglected in the choosing simpler terms, closer to common language. Nevertheless, legal terminology is shed from the major changes by the barrier of legal precision and accuracy. The next topic of our lecture will deal with aspects of legal language more likely to suffer changes in this era of communication and interaction.

Under the umbrella of style we can discuss all the other peculiarities of legal language which cannot be accounted for in the category of legal lexicon. The use of old-fashioned syntax, lengthy and complex sentences, the redundancy discourse, the overuse of performative verbs, conjoined phrases and lists of words, preference for impersonal constructions and so on. These are the most important features which allow us to distinguish legal style from the style of the common language or other LSP. One of the defining characteristics of legal style is the use of long sentences. Peter Tiersma concluded that the ground for the preference of complex and long sentences in English is the “desire to place all information on a particular topic into one self-contained unit”<sup>1</sup>. The author is nevertheless worry about choosing this approach in order to rid the language of the supposed ambiguity created by the use of separate sentences. The example below will support the author’s scepticism and stress the reverse of this motivation for the use of long sentences, i.e. the fact that the ambiguity is likely to arise particularly in such long and complex sentences. The excerpt chosen to illustrate this is taken from an agreement of distribution, drafted in bilingual versions Romanian and English:

La terminarea prezentului contract, Distribuitorul va proceda imediat, pe cheltuiala proprie la :	On termination of this Agreement the Distributor shall proceed, at his expense:
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<sup>1</sup> Tiersma, P., *Legal Language*, Chicago/London: The University of Chicago Press, 1999, p. 56

<p>a) întreruperea și scoaterea din uz și/sau expunere, directă sau indirectă, a oricărui nume, marcă de comercializare și a oricărui material tipărit, de reclamă și propagandă, care conține astfel de nume sau mărci;</p> <p>b) retragerea din utilizare și/sau expunere directă sau indirectă, a oricărui nume, marcă de comercializare, cuvânt ștanțat sau combinații de cuvinte asemănătoare numelor sau mărcilor de comercializare utilizate sau reclamate de către Exportator, care ar putea conduce la confuzii și nesiguranță inducând în eroare consumatorii și publicul, și care va deveni efectivă în cadrul unei perioade de timp rezonabile convenite între părți.</p>	<p>a) to cease or take out any direct or indirect display, the use of any name, trade mark, printed materials used as advertisement or for any other publicity purposes;</p> <p>b) to cease using or displaying either directly or indirectly any name, trade mark, stencilled words or word combinations similar to the names or trade marks utilized or advertised by the Exporter which might make confusion or uncertainty, thus misleading the consumers, this cease taking effect within a reasonable period agreed upon by the parties.</p>
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Both languages seem to adopt the same style when it comes to delimitating the chunks of information contained in this sample of legal discourse. The information is nevertheless divided into three main groups with the use of the colon and the two lettered paragraphs, but there is still no sign of formal marking at the end of the clause like a full stop and a capital letter for the first word of the next sentence.

The use of full stop is not the main problem when it comes to understanding this paragraph. The most striking feature, which probably led to adopting this laborious style of the two clauses, is the extensive use of conjoined prepositional phrases: “to cease using **or** displaying **either** directly **or** indirectly any name, trade mark, stencilled words **or** word combinations similar to the names **or** trade marks utilized **or** advertised by the exporter which might make confusion **or** uncertainty, thus misleading the consumers...”

The quest for precision is also behind the use of common names as proper names and the recurrence of some terms making the legal discourse so redundant.

The style of legal language and particularly the one used in written documents is therefore just as different as the systems of law differ from one country to another. Thus the legal translator must be aware of and familiar with these stylistic peculiarities of the legal language in general and with the stylistic features specific to each legal language (source and target) in order to be able to render a functional translation of the original text. The source text should obey the stylistic rules at use in the target language and not import the style of the source text.

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<p style="text-align: center;">Section IV</p> <p style="text-align: center;"><b>STRATEGIC MANAGEMENT AND ENTREPRENEURSHIP</b></p>
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**ECONOMIC GROWTH THEORIES, CONCEPTUAL ELEMENTS,  
CHARACTERISTICS\***

**Florina, Popa<sup>1</sup>**

**Abstract:**

*The approach of economic growth involves understanding the concept and growth factors, respectively, analysing the growth theories, their trend in the context of the development of economic and social life.*

*The economic growth signifies a process aimed at increasing activities in the national economy, expressed by macroeconomic indicators, respectively, the dynamics of the overall Gross Domestic Product or per inhabitant. It can appreciate that, in the short term, this process signifies phases of economic prosperity and on the long-term, expresses an upward trend, a consequence of the succession of increases and decreases.*

*The study presents some elements which outlines the concept of economic growth, that is, definitions, meanings and the main characteristics of the theories of growth, as well as some of its determinant factors.*

*Also, it gives a brief overview of the main theories of economic growth, as they have evolved over time, in line with the economic reality dynamics and the development of the instruments of economic analysis, starting from the classical theories to the new theories and models of economic growth of the modern age.*

**Keywords:** *economic growth, neoclassical theories, models.*

**JEL Classification:** E10, E12, E13, E19

**1. Introduction**

In the actual stage, the economic growth is, both economically and politically, an important objective of development, the main factor that can ensure the long-term economic success of a nation, one of the fundamental premises of poverty eradication efforts. In this respect, it is pointed out that the economic literature has expressed a special interest in the problems of growth and its determinants.

Regarding the methods of achieving economic growth, the theoreticians and economics decision-making factors offer different alternatives, some specialists emphasis being turned to the need for capital investments increase, the others being followers of measures for stimulating the activity of research and development and technical progress or, another category pays particular attention to the role of the workforce well prepared.

The theories of growth have seen a new incentive in the late '80s of the last century. Compared with the old theories, which considered about some of its determinants - active population increase, technical progress growth - as being exogenous, so growth didn't mean a self-sustained process, was not a cumulative process, the study of growth discrepancies among different areas of the world, has led to new views that no longer regarded growth, as natural phenomenon. In relation to these findings, other economists of the modern age, have founded the new theory of growth – the theory of endogenous growth - the main directions of which can be expressed synthetically through: the accumulation of knowledge and technological capital; the accumulation of human capital; public spending on infrastructure.

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## 2. Conceptual definitions

The characterization of economic growth can be tackled both in terms of production, respectively, of the evolution of GDP per inhabitant, but also from the perspective of increasing standard of living, so of the welfare of consumers.

The economic growth signifies a process targeted towards the development of the activities of national economy, expressed by macroeconomic indicators, respectively, the dynamics of Gross Domestic Product overall or per capita. About the economic growth, one can appreciate that, in the short term, it signifies phases of economic prosperity and in the long-term, expresses an up trend, a consequence of the succession of increases and decreases.

Considered from the perspective of a complex process which reflects the dynamics of the economic systems, also, can be cited the definitions of the authors:

"Increasing the capacity of a country to supply, in a growing measure, economic goods, through leading technologies and institutional and ideological arrangements" (Kuznets, cited in I. Imbrescu, 2008);

"The increase of income overall and per capita" (Arrow, cited in I. Imbrescu, 2008);

"Increasing the size of the national economy" (Perroux, cited in I. Imbrescu, 2008).

As a form of this process exhibit, it could occur:

- *zero* economic growth – where the GDP per inhabitant remains constant in the period, as a result of the existence of the same rate of growth in GDP and total population;
- *positive* economic growth - GDP per inhabitant increases in the period, as a result of experiencing a rate of growth of GDP upper to that of population growth;
- *negative* economic growth - an opposite occurrence situation to that set out above – GDP per inhabitant decreases during the analysed period.

The economic growth is characterized as a function of production at macroeconomic level, having a number of determinant factors, the following being, generally, accepted:

- **The human resources** (including the workforce and education) take into account the employed population; the offer of employment, employment dynamics of available labour resources, having consequences for the economic growth; the skill level and the motivation at work is reflected in the level of productivity, giving a measure of this indicator quality;
- **The material resources**, respectively, **the real capital** include the natural resources drawn in the economic circuit and the production equipments. The economic growth is influenced by the volume of the exploiting real capital, the funds allocated to the investments. The level of technical and technological performance of the production equipments, correlated with the degree of qualification of the human factor, determines the real capital productivity;
- **The informational-technological item** - the share of information in economic growth lies in relation to the potential of technical innovation, expressed by the proportion of investments for research and development in GDP and with the efficiency of research, the criterion being to maximize the competitive advantage.

As its *form*, the economic growth may refer to:

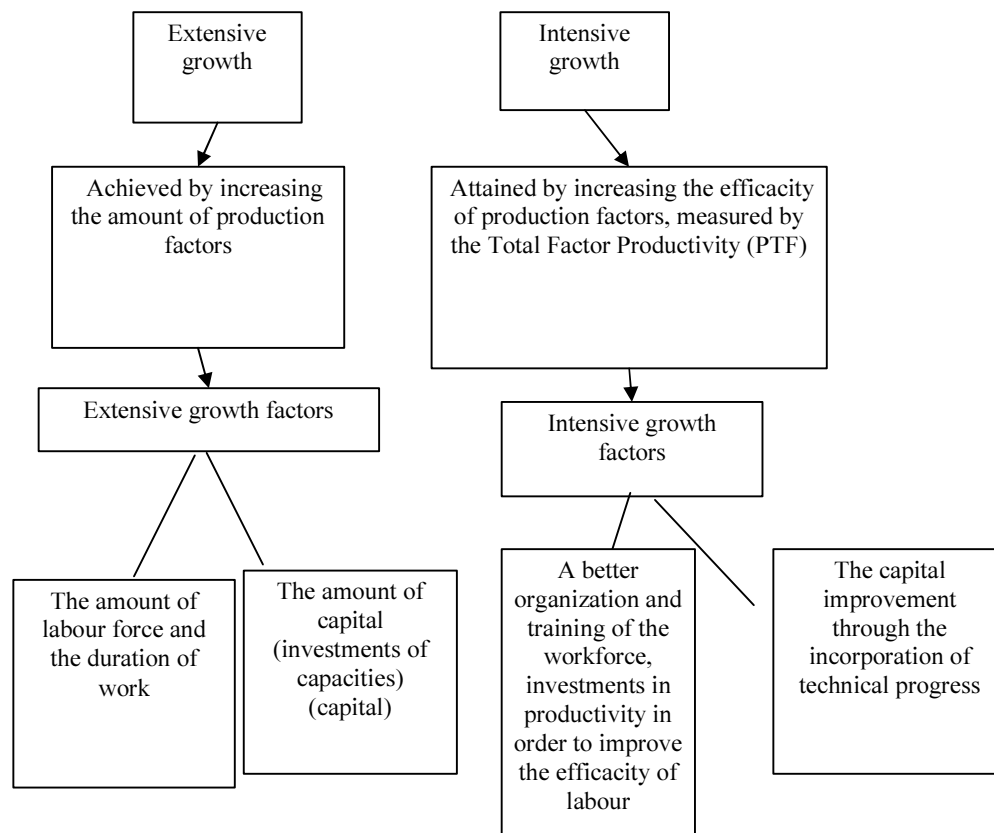
- **linear** – the Gross Domestic Product- has a regular growth;
- **exponential** – the growth of Gross Domestic Product is accelerated.

The economic growth may have a *character*:



- **extensive** - in which case the contribution to growth is given mostly by the quantitative growth of the production factors (the extensive use of the work factor, or of the capital factor).
- **intensive** - to economic growth, higher quality production factors contribute: labour productivity growth, the improvement of the existent capital exploitation.

The figure below expresses the elements which distinguish the two forms of growth, according to the contribution of production factors (figure no.1):



**Figure no. 1 Forms of growth**

Source: Quelles sont les Sources de la Croissance Économique ?,

<http://www.cours-seko.fr/resources/ECONOMIE/CROISSANCE/COURS-croissance-1.pdf>

The approach of economic growth implies understanding the concept and the factors of economic growth, respectively, the growth theories analysis, their evolution in the context of development of economic and social life.

Through the theories and models of economic growth it is aiming at the research of possibilities of steady growth, finding out the patterns in which future work can be influenced and forecast on the basis of current experience data, identify ways that can lead to a continuous growth.

The economic growth models are mathematical expression form, by functions and parameters, of the relationships involved among the factors of economic growth process by which there are highlighted its tendencies.

Defining models implies taking into account some representative elements, such as:

- *The macroeconomic models* that use macroeconomic indicators that reflects the structure and functionality of national economy on the whole.

- *The economic dynamics models*, expressing the change, over time, of the values of a few increasing-corresponding parameters, of correlations among them; the trajectory of economic growth expresses the succession of stages (achieved or perspective) on a given time horizon.

After *the degree of aggregation*, there are two different types of models: *single-sector* and *multi-sector*:

- *Single-sector models* are characterized by a high abstraction, the inputs and outputs do not differentiate by economic branches, combining the factors is on the economy as a whole.
- *Multi-sector models* are differentiated by branches, both the functions of transformation of growth factors in results and the contribution of each branch to the achievement of synthetic macroeconomic indicators.

The variables used refer, as a rule, to the Gross National Product per inhabitant, its dynamics, the rate of capital accumulation, the volume of capital and labor, the volume of investments etc.

### **3. A summary of growth theories evolution**

The evolution, over time, of growth theories and models was manifested in correlation with the dynamics of economic reality, with the evolution of instruments of economic analysis.

#### **3.1. The classical theory**

The first elements of the economic growth theory belong to classical authors A. Smith, Th. Malthus and D. Ricardo, who considered the evolution of the economy dependent on two factors: the land (with a limited character), and the labour force, respectively, population (increasing).

Adam Smith considers that the determinant element of production growth is the population growth, respectively, of the number of workers (the salary per worker remaining constant).

The population growth leads to supplement the number of workers on the same area (the land being limited), which means reducing the quantity of goods per worker, the decrease in the marginal product of labour, the decline in real wages.

In the Malthus's conception, the economic growth involves the reinvestment of the surplus but it is limited by the population growth. According to his theory, the economic equilibrium is reached when the salary is below the subsistence level, at which time, the job offer is no longer reproduced at the same level. As such, the economy is in a stationary state, there is no prospect of growth in per inhabitant production.

In the Ricardo's theory, the land is not a factor of accumulation, but also a source of rent for owners, the capital is a substitute for the labour force and not an element of productivity growth. The reinvestment of the surplus is limited by the decreasing yield of the land. For D. Ricardo, the effect of introduction of technical progress is jobs decrease.

Karl Marx considers that the origins of growth are in the accumulation of capital; the growth is limited in time, because of the tendency of the rate of profit to decrease.

The characteristics can be expressed as follows:

- decreasing yields to factors;
- the technical progress is ignored, as factor in the analysis of growth;
- the accumulation of capital is motivated to profit achievement, a source of investments financing.

### 3.2. The Keynesian and Neo-Keynesian theory

The economic and social distortions that affected the national economies at the beginning of the 20th century, led to the enhancement of research and their orientation towards new concepts to meet the needs of analysis of the dynamics of macroeconomic processes relevant to the adaptation of the economic science to the demands of the new society.

J.M. Keynes used new concepts concerning the theory of economic growth; the aim of the newly created model is a better understanding of the level of economic activity and of the relationship among its different variables.

Keynes takes into account two types of variables: endogenous and exogenous.

The most important **endogenous** variable for the functioning of the market economy is considered to be *the effective demand of goods*, of which depend on the other variables: the global income; final consumption; savings; the global investments and the volume of occupancy. Their mutual interdependence is influenced by the exogenous variables.

The **exogenous** variables consist in rates concerning the behaviour of the economic agents:

- as *consumers* – the consumption propensity;
- as *entrepreneurs* – the marginal efficiency of the capital (the percentage of the profit obtained to the last investment) and the rate of interest (paid for the loan capital).

The demand models are based on three functions:

*The consumption function*: take into account the consum, the marginal propensity to consume and the income;

*The investment function* depends on the marginal propensity to save;

*The liquidity function* explains the formation of the interest rate, which depends on the behaviour of the economic agents in relation to the saved proportion from the income;

Characteristic features of the Keynesian models:

- pursue the balanced economic growth in the short term;
- the economic system is in a steady state under employment; the employed labour force depends on the effective demand of goods (the returns from the sale of production), i.e. the solvent demand; when a part of production cannot be sold, the level of employment decreases, involuntary unemployment occurs;
- the effective demand of goods is the important endogenous variable for market economy functioning.

*The neokeynesian theories* have been developed in the postwar period, the starting item being the Harrod-Domar model that pursues three issues:

- the possibility of a sustained growth;
- the likelihood of a sustained growth in terms of full employment;
- the existence or not of the guaranteed rate of increase.

In the Harrod-Domar economic growth model there are involved both **endogenous** variables: income, investments, savings, capital, income growth rate and **exogenous** variables: the population growth, technical progress, labour productivity level - basic conditions of growth.

Trying to explain the instability of the market economy, the Harrod-Domar model and the corresponding growth theory distinguishes three types of growth rates:

- the **guaranteed rate** of economic growth – **G<sub>w</sub>** - meets the interests of entrepreneurs without the full use of the labour force, involves the existence of unemployment;
- the **natural rate** of economic growth – **G<sub>n</sub>** - ensures the use of all available factors of production, without guaranteeing the interests of entrepreneurs meeting;

- the **real rate** of growth -  $G$  - may be higher or lower than the guaranteed rate and, as a rule, lower than the natural rate. This drift toward guaranteed rate expresses the instability of the contemporary economy: if the real rate is below the level of the guaranteed rate ( $G < G_w$ ), it manifests the recession and, conversely, when the real rate is higher than the guaranteed rate, the economy is in expansion.

For correcting the market oscillations (excesses or insufficiency) concerning the demand of goods, the size of savings, interest rate, money flow on the market, Harrod considers the need of the State intervention in the economy, through the use of fiscal and monetary policy, in order to influence the behaviour of economic agents and to balance the divergent trends ("stop and go" policy).

The contribution brought by the theoreticians Harrod and Domar, in the macroeconomic analysis, asserts by highlighting the contradictions and possible encounter situations in the economy.

### 3.3. The neoclassical theory

In the second half of the last century, the theory of economic growth has become a component of the contemporary economic science, the new direction of research being generated by the economic context of the age.

The neoclassical growth theory – the modern analysis core - incorporates the capital accumulation, the neoclassical model explaining how capital accumulation and the technological changes constitute the leading force able to entail the economic growth.

The neoclassical models stand out through a series of characteristic features:

- the achievement of economic growth through the full employment of labour;
- the working assumptions refer to the perfect competition, price and wages flexibility, the substitution of production factors;
- the economic rate increase is in correlation with the growth rate of population;
- the dependence of investments on the level of saving, the relations between the two economic categories being balanced by the rate of interest;
- the balance of the economic system is reached at full employment, made possible by maintaining a certain level of wages;
- the capital exposes decreasing yields.

Significantly for the analysis of the economic growth process is the Sollow's neoclassical model. Along with the labour and capital, Sollow has integrated a third factor, to explain the process of growth on the long-term, respectively, the technical progress, but its role was considered exogenous.

The following guidelines issue from the Sollow model:

- the *economic growth* of a nation as well the standard of living of individuals depend on the level of saving and investment; if the investment per capita exceeds the depreciation increase of existent capital per capita, every worker will benefit from a more advanced equipment and it should be able to produce more;
- it is developed the *principle of decreasing yields*: the capital per capita increase leads to the production growth but not proportionally, the production will rise at a lower rate than the costs associated with, and the growth will cease over time;
- it allows explaining the convergence among some countries but also the emphasis in global inequalities between the rich and poor countries. The convergence of the late countries, as level of development, can be achieved through the efforts of investment in human capital and technical capital, that can recover the gap, benefiting from the production technique of some advanced countries, in the extent in which they dispose of well skilled labor;

- he introduced the technical progress, considered as **exogenous** factor, able to increase the productive efficacy of labour and capital factors – so, explaining the long-term growth.

Considering the growth rate over the long term, dependent on two exogenous variables – the rate of technical progress and the rate of demographic growth, the model does not explain the long-term growth, but only the possibility to avoid the stagnation of production, as a result of a technical progress generated by the positive external effects.

### **3.4. The new theories and models of economic growth**

The development of informational technologies has led to the emergence of some theories and models that have included new production factors, among them, the most important being the endogenous economic growth theory, also known as the new economic growth theory, developed by P. Romer and R. Lucas.

**The new theory of growth** brings new elements representing major changes beside the previous research:

- the technological progress is an endogenous factor, a product of economic activity, different from the previous theories, where it was of exogenous nature, produced by external forces, outside the market - the technology is internalized into a pattern of economy functioning;

- the new factors – the knowledge and technology – are characterized by increasing yields; by the reuse of the ideas, the process of growth can enhance indefinitely.

The economic growth models can be grouped in two categories:

- the AK type models - without research and development (R&D) - are those in which the economic growth is encouraged in the absence of technical progress; this has no concern in an explicit manner;

- the models in which the technical progress is the result of the economic activity undertaken in the research and development (R&D) sector of the economy:

- the sustained process of economic growth is possible if the newly-created ideas, applied in each step, are growing;

- the creation of new ideas is of endogenous nature because, to the extent that new creative ideas people, in the research and development, will be more numerous, their impact will be more significant, through the dissemination of these ideas.

Both in the neoclassical Solow's model and in the endogenous growth model, the engine of economic growth is the innovation – the growth ceases when the technical progress is no longer carried out.

### **4. Conclusions**

Over time, the economic growth theories and models have evolved, surprising the situations specific to processes development, in correlation with the dynamics of the economic realities, covering the stages of classical, neoclassical theories to the new theories and models of growth in the modern era.

The strategy, generally, the instruments of an economic continue growth are materialized in the substantial promotion of the activities that involve innovation and creativity, the permanent training of high-qualified labour force, result of a professionalized education, the existence of an infrastructure appropriate to requirements.

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# EFFICIENT MANAGEMENT OF NON-AGRICULTURAL ACTIVITIES FOR A SUSTAINABLE DEVELOPMENT OF RURAL ENTREPRENEURSHIP

Elena, Sima<sup>1</sup>

## Abstract:

*The non-agricultural economy (small and medium-sized enterprises in industry, services, rural tourism) has a low share in Romania's rural area. To start a business in the countryside can be both an advantage and a risk. The investments in the non-agricultural and food economy, while contributing to gross value added increase through the processing of agricultural and non-agricultural raw products from local resources, have another great advantage, by creating new jobs and by using and maintaining the local (rural) labour, revitalization of rural localities, mainly those in the less-favoured and remote rural areas. The paper presents aspects of the management of small and medium enterprises in agriculture and services, in order to create a concrete analysis framework for sustainable development in rural areas. The socio-economic analysis based on current data and future forecasts is the basis in drawing conclusions on the possibilities of encouraging a sustainable entrepreneurship in the less-developed regions and also for the economic revitalization.*

**Keywords:** management, entrepreneurship, non-agricultural activities, rural development.

**JEL Classification:** M10, L26, R33.

## 1. Introduction

The Romanian rural economy is mainly an agricultural economy, as the share of agricultural economy is 60.5% compared to 14.1% in EU. Most farmers practice part-time agriculture, insufficiently spending the working time on agricultural activities. In total Romanian rural area, the non-agricultural economy (SMEs in industry, services, rural tourism) has a low share, while the rural tourism, except for certain mountain zones and the Danube Delta is poorly developed.

The investments in the non-agricultural and food economy, while contributing to gross value added increase through the processing of agricultural and non-agricultural raw products from local resources, have another great advantage, by creating new jobs and by using and maintaining the local (rural) labour, revitalization of rural localities, mainly those in the less-favoured and remote rural areas.

Time occupancy is an imperative for development not only at part-time farm level, to which it could provide additional incomes, but also at the level of the entire national economy. This is a complex process, which presupposes, besides the diminution of the employed population in agriculture, through its attraction into other sectors, the pluriactivity development, the involvement of part-time farms into other non-agricultural activities (Popescu M., 2001).

The diversification of the rural activities and the creation of new alternative income sources or additional incomes represents the main possibility to increase the degree of real-time occupancy. By diversification we understand any activity generating incomes, which does not comprise any agricultural work, but it is linked to the farm. This one refers, among others, to: tourism, accomodation and other leisure time activities, folk crafts, processing of farm products, wood processing, aquaculture, energy production from renewable sources for the market, contracts for renting the working equipment (Feher A., Goşa V., 2011).

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Bppsting the investments in the rural area, for the development of the SME sector in the non-agricultural economy and in processing the primary agricultural products, should become a permanent activity of the local authorities; in this respect, under the process of economic decentralization and subsidiarity in decision-making, in the rural localities (or the rural areas), with labour surplus, certain industrial village micro-zones should be established, with financial support from the county or regional authorities, by equipping them with all the necessary utilities for the industrial activities (electric power, thermal energy, gas, water supply, sewerage networks, access and interior roads, telecommunications, etc.), similar to those that were created in the EU rural areas a long time ago (Otiman P.I. (coord), 2011).

The information and findings of this article were obtained through selective research-specific methods. The research followed the following process and stages: identification of the researched issue, research framework delimitation, information collection, data processing, analysis and interpretation, drawing up the conclusions. Secondary research and desk research played an important role in this article. This consisted, on one hand, in the identification of other studies and articles on the same subject, and in the processing of certain statistical data, on the other hand. Hence, the information sources used can be classified into governmental sources (statistic, ministerial and from research institutes), and non-governmental sources (independent publications).

## **2. The economic and social development of rural areas**

The development potential available in the case of Romania is an important one, which can be exploited by applying appropriate strategies in areas identified as being cost effective and yet underdeveloped until now. One such area is rural economy, where resources exist, but they are insufficiently known or used at their full potential.

Rural areas represent a resource that is not enough put into value, they cover 87% of the country, and approximately 45% of the total population. The general trend is a steady decrease in the number of inhabitants in rural areas and a still continuing expansion of the urban environment.

Labor force in agriculture and forestry, according to the latest data provided by the National Statistical Institute, totals about 19% of total employment, while in the other countries of the European Union much lower levels can be found: 4.7% on the average in EU and the rest ranging from 5.5% in Hungary to 14.7% in Bulgaria.

However, Romania's rural areas are characterized by a demographically aged population, and the educational level is much lower than in urban areas. Poverty is high and the vulnerability of these regions increases together with a decreasing income level, rising unemployment and population ageing.

The share of agriculture in the rural economy is about 60%, rural economy representing a primary one. As regards the share of agriculture in the gross value added, Romania has the highest value in this category among the EU-27 member states.

Official reports place this business in the category of the main provider of jobs and economic development. They are the ones that determine the level of competition on the market, as well as the strategic dynamic pricing, product quality or even promotional trends. From the total Romanian of small and medium-sized enterprises, the largest as number of entities remain those that belong to the sector of services. The agriculture and forestry sector is only on the last place in the overall ranking of SMEs.

The Romanian rural space is facing a series of drawbacks, in spite of its potential. These are reflected in all its components: rural economy, services, dwelling infrastructure and leisure infrastructure, training and education, administrative capacity, demographic capacity, health, schooling, culture, etc. The rural population is a decreasing population



(mainly among the young people) and ageing population, with a negative demographic trend and a high share of the rural population being under poverty or social exclusion risk.

The rural areas in Romania are affected by the significant lack of infrastructure and by its deficiencies, which adversely impacts both the economic development and the quality of life. The most important needs are related to: roads, drinking water supply, public sewerage system, waste management, electric power, thermal energy, access to internet, education and training, access to health services.

At the same time, a low graduation level of the primary education system can be noticed and a school abandonment trend in compulsory education, higher than in urban areas, mainly among the poor families and gypsy minorities, as well as a *weakly developed entrepreneurial culture*, characterized by the absence of basic managerial knowledge, which generates low labour productivity as well as low incomes per household (also due to the dependence of the rural population on subsistence farming).

The poverty level in the Romanian rural areas is high, being influenced by the very high share of the subsistence and semisubsistence farms, and also by the fact that most farmers on such of farms do not have other income sources. For the diminution of the poverty level and of the social exclusion risk, the development of *innovating strategies for the generation of jobs and prosperity in the rural and agriculture environment* is necessary.

### 3. Small and medium-size enterprises in the rural area

The analysis of SMEs (small and medium-sized enterprises) in the rural area reveals their low capacity to address the needs of supplying jobs for the rural population. Both the rural economy, in its entirety, and the agri-food economy, as important element of the rural economy, have extremely different structures in Romania compared to the European Union (not to speak about its absolute value) (Table 1).

**Table 1. % Rural economy structure, %**

	<b>Rumania</b>	<b>UE</b>
Agriculture	60.5	14.1
Food industry	15.8	20.5
Tabacco industry	1.7	3.2
Fisheries	0.1	2.5
<b>Agri-food economy</b>	<b>(78.1)</b>	<b>(40.3)</b>
<b>Forestry economy</b>	<b>(6.3)</b>	<b>(8.2)</b>
Extractive industry	2.6	4.1
Processing industry	3.1	5.2
<b>Industrial economy</b>	<b>(5.7)</b>	<b>(9.3)</b>
Agro-tourism services	0.1	4.4
Other services	9.8	37.8
<b>Economy of services</b>	<b>(9.9)</b>	<b>(42.2)</b>
<b>Non-agricultural economy</b>	<b>(21.9)</b>	<b>(59.7)</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Source: Otiman (coord.), 2011

Business development in Romania has great differences across regions, with regard to the small and medium-sized enterprises as well. Entrepreneurship is poorly developed in rural Romania, as a result of the insufficient operation of material resources, of the deficient education, of the low level of utilities, as well as of the massive migration to the urban areas and to foreign countries, mainly in the case of young population.

The analysis of SMEs in the rural areas reveals their relative low capacity to respond to the requirements related to the supply of jobs for the rural population.

**Out of total SMEs, more than 50% carry out trade activities.** The explanation for this strong orientation to trade activities is determined by the following: shorter period for investment recovery, lack of capacities and abilities, impossibility to carry out other production activities out of the lack of capital for advanced techniques and technologies. Thus, a need appears to support SMEs from other sectors, which can have a much more positive impact at the rural economy level, mainly in the agro-processing sector.

Processing of agricultural products by farmers in SMEs is needed in order to sell the agricultural production under increased economic efficiency.

#### **4. Support for non-agricultural activities**

At present, the rural people can diversify their activities by handicraft, services or other non-agricultural activities with funding allocated under the *National Rural Development Program 2007-2013*.

Measure 312 – “Support to the creation and development of micro enterprises” included in Axis 3 “Improving the quality of life in rural areas and rural economy diversification” gives rural people the possibility to make the following types of investments:

Investments in non-agricultural production activities such as:

- Light industry (leather goods, footwear, wool, furs, knitwear, household appliances, odorants, etc.);
- Industrial processing of wood products – starting from timber (e.g. furniture);
- Fine mechanics, machinery assembling, tools and household appliances, package manufacturing, etc.

Investments for the development of handicraft activities, cottage industry and other traditional non-agricultural activities with local specificity (iron, wool processing, pottery, embroidering, manufacturing of traditional musical instruments, etc.), as well as their marketing (small shops for selling own products obtained from these activities).

Services for the rural population, such as:

- Tailor’s shop, barber’s shop, shoemaker’s;
- Internet services;
- Mechanization, transport services (other than the procurement of transport means), phyto-sanitary protection, sanitary-veterinary services and artificial insemination of livestock;
- Machinery, tools and household appliances repair services.

Investments in renewable energy production by the procurement of renewable energy production equipment.

Measure 121 – “Modernization of agricultural holdings” under Axis 1 - “Improving the competitiveness of agricultural and forestry sector” also enables farmers to get financial support for the consolidation of agricultural holdings and increase their economic efficiency.

This measure has as a *general objective* the increase of the agricultural sector competitiveness by a better use of human resources and production factors and meeting the national and EU standards.

*The specific objectives* refer to:

1. Introduction and development of new technologies and procedures, production diversification, adjustment of production profile, quantity and quality to market requirements, to ecological products market included, as well as the production and use of energy from renewable sources;
2. Adapting the agricultural holdings to EU standards;
3. Increase of incomes on supported agricultural holdings;

4. Support to members of producers' groups or of other association forms in order to encourage the association phenomenon.

*The operational objectives* refer to the following: promoting investments on agricultural holdings in the crop and animal production sectors for new buildings and/or modernization of existing agricultural buildings on the territory of farms and of related utilities, procurement of new machinery and equipment, establishment of new plantations, etc.

The eligible investments under the measure are the following:

1. Construction and/or modernization of buildings used for the on-farm agricultural production, including those for environment protection;
2. Construction and/or modernization of internal or access road infrastructure in the agricultural sector, including utilities and fittings identified as necessary by the feasibility study or the justification report;
3. Construction and/or modernization of dairy farms;
4. Construction and/or modernization of glasshouses, of heating stations and irrigation works, ensuring the necessary utilities having in view the respect of environmental conditions;
5. Buying or procurement under leasing conditions of new tractors, harvesting combines, machinery, equipment, installations, tools and implements, specialized equipment and software, identified as necessary in the feasibility study or justification report;
6. Buying or procurement under leasing conditions of new specialized means of transport, needed in the production activity, identified as necessary in the feasibility study or justification report;
7. Replacement of the noble vine plantations at the end of the biological production cycle (minimum 40 years) that are not included in the vine plantation restructuring/reconversion system supported through the European Agricultural Guarantee Fund (EAGF) within the Common Market Organization and establishment of table grape plantations;
8. Establishment of fruit tree, shrub and strawberry plantations;
9. Establishment of vine nurseries, fruit tree and shrub nurseries, other tree nurseries;
10. Investments for the production and sustainable use of energy from renewable sources on the farm;
11. Investments for the establishment of crops of forestry species with short production cycle and vegetative regeneration, for the purpose of renewable energy production;
12. Investments in apiculture, except for those made under the National Apiculture Program;
13. Investments for on-farm processing of agricultural products, comprising equipment for their sale, storage and cooling, etc.;
14. The general costs of the project, according to Art. no.55 of the (EC) Regulation no.1974/2006, such as: fees for architects, engineers and consultants, feasibility studies, fees for issuing the necessary certificates, approvals and authorizations for project implementation, as they are mentioned in national legislation, the procurement of patents and licenses (maximum 8% of the total eligible value of project, if constructions are provided for in the project, and maximum 3% in the case when the project does not provide for carrying out construction works);
15. Necessary investments for adapting the farms for organic farming practice;
16. Investments necessary for reaching conformity with EU standards.

Among the non-agricultural active SMEs at national level, only 18.1% were inscribed in the rural area at the level of the year 2011, which shows a *low share of rural SMEs involved in the development of the non-agricultural activities (industry, services and rural tourism)*. Although in the period 2005-2011, the number of SMEs with non-agricultural activities in the rural area increased by 16%, the effects of the economic crisis

were felt in the last three investigated years, when these units decreased 7492, to reach 77,315 non-agricultural SMEs (secondary and tertiary sectors) in 2011. At the same time, the *density of SMEs per 1,000 inhabitants in the rural area is lower* compared to the national level (9.64 compared to 23.66 in the year 2011).

*The access of SMEs to finance* remains a problem. From the territoriality point of view, the financing services are, generally, less accessible to the enterprises in the rural area and to those involved in agricultural activities (mainly small farms) and have higher crediting costs. In 2010, the level of the credits granted for agriculture were under 3% of the total credits volume for the non-governmental sector in the economy. In the previous programming period, although the financial mechanisms (guarantee schemes) existed, some of the beneficiaries who signed financing contracts did not succeed in accessing investments credits.

The agricultural cooperative sector is not sufficiently developed comparatively to that of the other EU member states, and the trend is decreasing. In the year 2005, the number of the cooperative units reached 108, down to 68 in 2010. Unlike the European cooperatives, the Romanian cooperatives develop their activity in the production sphere and not in the processing or marketing field. As regards, the practice of traditional activities (crafts, folk crafts) by self-employed craftsmen or organized into handicraft associations or cooperatives, in the year 2010, out of 2017 cooperatives, 42.5% were handicraft cooperatives.

The investments in the non-agricultural and food economy in the rural area, besides providing for the gross value added increase through the processing of the raw agricultural and non-agricultural products from local resources, have another great advantage, both in the periods of crisis and recession and in the periods of economic growth, in the sense of creating new jobs, through the use and stabilization of the local rural labour, the revival of the rural localities, especially the revitalization of the rural localities, mainly those in the less-favoured and peripheral areas .

*The National Rural Development Program* developed **M6 – “Development of farms and enterprises 2014-2020”** policy that supports the non-agricultural enterprises in the rural area.

This measure has two sub-measures:

- 6.2 “Support for the establishment of non-agricultural activities in the rural areas”;
- 6.4 “Investments in the creation and development of non-agricultural activities”.

The goal of the support provided under measure M6 is to stimulate the business environment in the rural area, contributing to the increase in number of the non-agricultural activities, the creation of jobs, and the increase of the rural population incomes. The farmers or the members of the agricultural farms who wish to diversify their economic activities by practicing non-agricultural activities in order to increase their incomes and the creation of occupational alternatives are also had in view.

Sub-measure **6.2 “Support for the establishment of non-agricultural activities in the rural areas”** has in view the following: *diversification of the rural economy* through the increase of the number of micro enterprises and small enterprises in the non-agricultural sector, *development of services and creation of jobs* in the rural area and fostering the maintenance and development of traditional activities.

Under sub-measure **6.4. “Investments in the creation and development of non-agricultural activities”** support is granted for micro enterprises and small enterprises in the rural area, creating or developing new activities in the rural space.

By the diversification of on-farm activities, a balance could be reached between the agricultural activity, other forms of rural development and the preservation of the natural resources, while the multi-functional role of farmers could get new dimensions - food producers or non-food producers, service suppliers, rural entrepreneurs (Popescu, M., 2001).

## 5. Conclusions

After 1990, the Romanian villages, which had already been subject to transformations and country planning of communist type, continued their degradation process; this process also continues at present, despite Romania being a EU Member State since 2007.

The disappearance of the Romanian village as traditional organization form, with its own specificity, will result in the loss of the Romanian people's identity, and of our identity as nation.

The manifestation of the globalization phenomenon, as well as of the economic crisis effects also lead to the degradation of the Romanian countryside, as the peasant producers tend to become consumer peasants in the large supermarkets..

The rural economy has significant differences across regions, by specific demographic, social and economic characteristics. This differentiation is noticeable mainly as regards the low level of incomes in the Romanian rural area, reflected by the low living standard of the population and the lack of alternative incomes.

The statistical data reveal that agriculture, food industry and forestry are of primordial importance for the rural economy.

The presence of non-agricultural activities, related to the primary sector, and mainly to the exploitation of natural resources and their processing, are not significant in economic terms.

Agriculture restructuring will have a particular impact upon rural economy in general, having in view that agriculture continues to remain the most important activity in the rural area and a main income source on the rural households.

The active population in the rural area, i.e. 46.3% of total rural population, can contribute to the economic growth in the countryside, if adequate stimulating means are identified, calling for the creation of jobs in the non-agricultural sectors, which can absorb the labour force released from agriculture.

In the period 2007-2013 Romania benefits from financial support provided by the European Union through its policy, which is worth over 8 billion euro for investments in agriculture and rural development.

The purpose of rural development programs is mainly to create jobs in the rural area, in agro-processing units, SMEs or in other non-agricultural activities.

At present, in Romania, the economic functions of the rural zones depend almost entirely on the existence of the agricultural activities. This situation explains the need for creating new, alternative jobs, mainly for the orientation of the small farmers or of the family members to non-agricultural and productive activities and for the development of services in the rural space.

The SME analysis in the rural area reveals the low capacity to respond to the need to supply new jobs for the population in the countryside. The small-scale business development is well-known as the most important source of jobs or obtaining incomes in the rural space, both for the already developed economies, and for the developing ones.

In most rural communes, the entrepreneurial needs are weakly represented. This situation severely constrains the capacity of the rural areas to develop according to the existing potential. In an attractive socio-economic context, the creation and promotion of entrepreneurship initiatives addressed to the young people will put into motion a viable mechanism for the development of rural communities.

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# MAIN NATURAL RESOURCES SUSTAINABLE MANAGEMENT OF AGRICULTURE

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## Abstract:

*In the process of agricultural production we are using natural resources, human resources and capital. Responsible management of natural resources will allow the development of sustainable agriculture with the possibility of agricultural products to satisfy both quantitatively and qualitatively food requirements of the population. Natural resources that are irreplaceable in agricultural production are soil and water and now must be taken global measures for slowing and stopping global warming and climate change, which could jeopardize the attainment of agricultural production. In the paper reference is made to the quality of agricultural soils of Romania, the existence of water resources and measures to be taken to preserve soil fertility and combating drought.*

**Keywords:** *agricultural production, natural resources, agricultural land, arable land, soil quality, water resources for irrigation.*

**JEL Classification:** Q01, Q24, Q25

## 1. Romanian agriculture in the current international context

Since the early twentieth century, but especially after World War II, agriculture has become increasingly complex activity, of which development contributed many of the gains of science and technology. Genetics together plant and animal breeding have contributed to obtain plant varieties and animal breeds more efficient, while production technologies have changed by introducing mechanization, the widespread use of chemical fertilizers, disease, weed and pest control products, as well as veterinary products, etc. All this made possible global food production to grow at a rate greater than population growth. Progress highest were recorded especially in developed countries, while in many areas of the planet is still practiced a rudimentary agriculture, based on animal traction, great consumption of manual labor and low yields.

It is clear that to meet such an increase in population, with a greater need for food, housing, clothing, transportation, etc, took great resource mobilization, some of which, such as fossil fuels, significantly decreased.

The many methods that have created this abundance of agricultural products in developed countries, such as industrial growth and intensive farming of animals using chemicals, have degraded production capacity of natural systems. Pressures on agricultural productivity growth through excessive and irrational exploitation of natural resources inevitably lead to negative consequences for sustainable development of agriculture.

Farmers will practice agriculture in the future will have to produce more food without having the advantage of cheap energy, abundant water and stable climate conditions. Global warming, along with the changing frequency of rains and storm, will reduce global food production while the demand is increasing.

Romania is considered a country with a high agricultural potential due to large agricultural area: 14,731 thousand ha of which 9,434 thousand hectares is arable land. Agriculture is one of the key sectors of the Romanian economy and has an intake of around 6% of GDP.

However, a long period of time (1991-2012), the foreign trade balance for food products was unbalanced, imports had usually much higher than exports. Balancing the scales took place only in 2013 and the favorable trend continues in 2014.

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Within the European Union, in the year 2012, Romania occupies leading positions in several elements: 10th for number of cattle; 7th place for dairy cows; 9th place for number of the pigs; 4th in the number of sheep and goats ; 9th place in the laying hens and other poultry; 8th for the value of animal production; same place for value crop production and gross value added agri-food industry; 5th place in the area cultivated with cereals and wheat; 5th in production of cereals and wheat; 1st and 2nd places for cultivated area with sunflower respectively production. In most cases, however, the productivity per hectare or per animal is lower than in countries with advanced agriculture.

## **2. The main natural resources of agriculture**

To produce and sell goods and services, the agri-food chain operators are using a number of resources or inputs (raw materials, capital, labor, etc.). Combining these factors as a well-defined technology, each producer will obtain a range of products or provide certain services.

In agriculture is estimated that in the category of resources are three essential components: land, labor and capital, which some authors add on the fourth category - leadership - management. Production factors can be divided into three categories:

- Natural factors (land, forests, water, climate);
- Employment (directly productive workers, professionals, managers);
- Capital (machinery, utilities, construction, raw materials).

Each resource has a decisive role in achieving the final result.

In this paper we discuss only the role of natural factors in agricultural production and the measures to be considered for the proper conservation of these factors so that they will produce crops for an unlimited period of time.

Natural capital of agriculture mainly consists of agricultural land (soil), water, biodiversity and climate factors. Land resources are the total area of land used in agriculture, both quantitatively and qualitatively. Soil has an important role by ensuring food security and environmental security. It also has a role in purification, filtration and water conservation, carbon sequestration, economic and social welfare, maintenance and development of biodiversity. For agricultural production, soil is indispensable.

Soil is the most important natural resource, being considered as the most important renewable natural wealth of the country. Romania, in terms of total agricultural land occupies seventh place in the EU; for agricultural area and arable land per capita, Romania is the 5th and respectively 6th in the EU.

The land suitable to obtain crops, whether or not cultivated, are frame in agricultural land. Some areas are worked annually, more regularly, while others, such as pasture or hay fields are not subject to agricultural work, but being a fodder base, forming part of the agricultural land.

The land use category means how some land is used. We distinguish five categories of use:

- *Agricultural land*;
- *Land for forestry*;
- *Land permanently under water*;
- *Urban land (covering rural and urban)*;
- *Special purpose land (for roads, rails, airports, etc.)*.

In the category of "agricultural land" fits surfaces arable land, pastures, meadows, vineyards and orchards.

The category "arable land" includes any land that can be plowed (including land on the slopes with an incline of up to 30% if it is not covered with forest vegetation) and sown with various plants. Land cultivated with vines and trees, theoretical can plowed (at least between the lines) but, by convention, it is not part of the arable land. The category



"arable" is the most important part of the agricultural land, as plants that are grown in this area are essential in human nutrition, animal feed or for different industries. In Romania, by law, is prohibited removal of arable land for other agricultural or non-agricultural uses.

Romania has about 14.8 million ha of agricultural land, of which 62% (9.4 million ha) is arable (table 1). Agricultural land per capita is 0.65 ha of which 0.41 ha is arable, close to the world average. Of this area, only 0.18 ha is the quality I and II. Resources for growth are limited for arable land (about 400,000 ha) and can be: cultivating floodplain meadows, after a preliminary damming (solution now rejected by many scientists, especially ecologists) and saturated sandy land improvement, cultivation of pastures and meadows situated on flat land but give far smaller productions .

**Table 1. The situation in Romania on land uses**

The use of surface	Area		The use of surface	Area	
	Thousand ha	%		Thousand ha	%
Arable	9383	39.4	Forest	6681	28.0
Pastures	3331	14.0	Waters, marshes	893	3.7
Hay fields	1471	6.1	Roads	394	1.7
Vines	299	1.2	Courts, construction	631	2.7
Orchards	307	1.3	Unproductive land	449	1.9
Agricultural land- total	14,791	62.0	Non-agricultural land	9048	38.0
<b>Total area of country</b>				<b>23 839</b>	<b>100</b>

Source : Ministry of Agriculture, Forests and Rural Development, 2013 data

Evaluation of fertility level are most important to base agricultural strategy. Romanian soils are perceived by many people as having high natural fertility. Even if this is true to some extent, in reality things are a little more different. In very good suitability class falls actually only a small part of the total agricultural area, while nearly a quarter are good quality soils, and most fall into the category of medium or low quality.

In terms of soil quality, Romanian soils can be grouped into five quality classes. There are several classifications of evaluation of soil quality or soil that regard texture, slope inclination, degree of supply of organic matter and minerals, groundwater depth, etc.

The national strategy for sustainable development of the agri-food sector and rural areas in the period 2014-2020-2030 considered appropriate classification made by the authors of Agricultural Atlas of Romania. According to this classification (table 2), in terms of favorability agricultural land (arable land, natural grasslands, plantations), about half (48.3 %; 7.17 mil . ha) has good fertility and medium and more than half (51.7 % ; 7.68 mil . ha) has low fertility. However, in terms of the most important agricultural land, the arable distribution favorability classes is much more balanced: favorability good and very good - 39.3 % (3.67 mil. ha), medium - 25.5 % (2.37 mil. ha) and low - 35.2 % (3.28 mil. ha). Natural factor limiting crop of Romania is the water, which, together with the permanent shortage of capital, determined to obtain for two decades (1990-2010), a vegetable production compared to the EU15 average of only 40%. To practice a differentiated agriculture, need to be considered and other information; for example in Romania, 2.571 million hectares of arable land are located on steep gradients above 5% ; 1.985 million ha are podzolic soils (high acidity); 306,000 ha are salinity; 3.2 million hectares are equipped for irrigation, although its irrigation - actual practiced on a much smaller area. The 3.1 million ha were made desiccation and drainage works and the 2.3 million ha of soil erosion control works.

**Table 2. Distribution favorability classes for agricultural and arable farmland in Romania**

Favorability classes	Categories of use			
	Agricultural land		Arable land	
	thousand ha	%	thousand ha	%
First class, of which	4079	27.5	3665	39.3
- Very good	414	2.8	357	3.8
- Good	3665	24.7	3308	35.5
Second class				
- Medium	3092	20.8	2373	25.5
Categoria I+II	7171	48.3	6038	64.8
Third class, of which.	7683	51.7	3283	35.2
- Low	3628	24.4	1726	18.5
- Very low	4055	27.3	1557	16.7
Total (I+II+III)	14854	100	9321	100

Source: Agricultural Atlas of Romania ( D. Davidescu , N. Florea et al. )

On the other hand, the supply of nutrients to the soil is deficient in many areas. It is estimated that of the total arable area is well supplied only 10 % with nitrogen, 25% with phosphorus and only 71% with potassium. The Romanian agriculture reduced fertilizer use, which is reflected in lower average yields compared to those from where they are based agriculture inputs higher (table 3). For comparison, we present in table 4 nitrogenous fertilizer consumption in Romania, compared with three other European Union countries. In Romania although the production of nitrogen fertilizers has increased in recent years, we are still far from consumption per hectare of developed agricultural countries.

With respect to phosphorus fertilization, things are worse that the areas that apply such fertilizers are too low. Normally, it should be where it is not possible to apply chemical fertilizers to be applied in compensation manure, and in this respect things have evolved unsatisfactory. Factor that led to this situation is the high price of chemical fertilizers. All forecasts indicate a growth trend of price, but increases will be differentiated from one product to another. In our country, the price of chemical fertilizers has increased enormously, leading to 1,700 ron/t of ammonium nitrate and 2,380 ron/t of 15:15:15 NPK complex.

**Table 3. The use of chemical fertilizers in agriculture Romania**

Year	Fertilisers used (to s.a.)				NPK (kg/ha)	
	N	P <sub>2</sub> O <sub>5</sub>	K <sub>2</sub> O	Total	Arable	Agricultural
1986	706,934	387,375	200,990	1,295,299	129.9	86.4
1990	656,094	313,108	133,875	1,103,075	117.0	74.8
1995	305,800	149,600	1,700	470,100	49.7	31.8
2000	239,300	88,300	14,600	342,200	36.5	23.0
2005	299,000	138,000	24,000	461,000	48.9	31.2
2006	252,000	94,000	17,000	363,000	38.5	24.6
2007	265,000	103,000	19,000	387,000	41.1	26.3
2008	280,000	102,000	16,000	398,000	42.2	27.0
2009	296,000	100,000	30,000	426,000	45.2	28.9

Source: Dumitru M., Session NURC Agriculture where? May 13, 2010

**Table 4. Nitrogenous fertilizer consumption in Romania compared to other European countries**

Country	Year 2003 tons	Year 2010 tons	tons in 2010 compared to 2003 -%	Consumption per ha in 2010 - kg
France	2,375,400	2,050,015	-14%	73.6
Netherlands	290,559	217,959	-25%	116.4
Poland	895,000	1,294,223	44%	89.6
Romania	252,139	305,757	21%	23.0

As a result of this situation the main soil characteristics were negatively evolve (table 5), and average yields per hectare reflects this situation (table 6).

**Table 5. The evolution of soil characteristics during 1990 – 2000 years**

Characteristics of soil	Area(ha) in 1990	Area(ha) in 2000	%
Small and very small reserves of humus	4,876,000	7,485,000	35
Poor nitrogen ensured	3,448,000	5,110,000	35
Weak and poorly supplied with mobile P	4,473,000	6,330,000	29
Weak and poorly supplied with mobile K	498,000	785,000	37
Highly and moderately acidic soils	2,369,000	3,424,000	31

Source: Dumitru M., Session NURC Agriculture where? May 13, 2010

**Table 6. Average yield ( kg / ha) hectare for main crops**

Period	Mais	Wheat	Barley	Sunflower	Sugar beet	Potato
Average 1980-1990	3082	2937	3515	1564	21 574	13 665
Average 1991-2001	3011	2495	2595	1158	19 646	11 194
Differences%	-2,4	-15,0	-26,2	-26,0	-10,0	-18,1

Source: Data taken after Yearbook

It should be noted that the same surface can be affected by two or more cumulative limiting factors (frequency drought, nitrogen deficiency, erosion, etc.).

For illustration we present the state of fertility of soils in greenhouses planted with vegetables during the period 2002-2012. The Agrochemical Laboratory of Research Institute for Vegetable Growing Vidra, Ilfov county analyzed 493 soil samples from 11 counties and Bucharest. Situation of agrochemical main indicators is presented in Table 7. We can observe a decrease in soil fertility after 2009. These decreases in content of organic matter and N, P and K in soils of plastic tunnels, is due to the economic crisis that affected purchasing power of farmers and increase solarium areas, which meant taking into service of new lands with low fertility to crop needs .

**Table 7. The dynamics of the average values of the main indicators of fertility momentary soil in greenhouses in the period 2002-2012**

Year	MO	N-NO3	P	K	Ca	Mg	Na
	%	ppm					
2002	12,50	923	24,6	78	204	107	127
2003	8,00	50	23,0	75	134	67	147
2004	8,81	95	26,1	112	177	69	104
2005	8,96	85	10,9	82	211	68	120
2006	9,14	80	9,4	71	180	68	87
2007	8,80	176	11,1	174	260	107	176
2008	9,57	134	14,1	157	220	115	78
2009	8,52	114	20,7	122	200	110	153
2010	8,06	42	17,9	48	188	46	78

Year	MO	N-NO3	P	K	Ca	Mg	Na
	%	ppm					
2011	7,86	139	23,8	179	219	150	167
2012	6,69	26	8,5	42	48	44	84

Source: Analysis performed by V. Lăcătuș in RIVFG Vidra

Based on the average situation of soil fertility status of our greenhouses planted with vegetables, from the structure of culture, total consumption of major elements and coefficients average use of fertilizers, we calculated a necessary indicative of active substance:

- Partially fermented stable manure with an average dose of 40 t /h /year;
- N: an average consumption of 286 kg/ha/year;
- P2O5: with an average consumption of 190 kg/ha/year;
- K2O: with an average consumption of 595 kg/ha/year.

### 3. Climate change and the provision of water needed for agriculture

A big problem is awaiting solving global temperature increase that correlate with multiplying extreme weather. Destructive storms, hurricanes, cyclones, occur more frequently than in other historical periods. Effects on the atmosphere is manifested by increased water evaporation, precipitation and the number of storms. As in other European countries, such phenomena occur frequently in Romania.

Increase in average temperature, scoring heat days in summer and installation of longer periods of drought, increase the risk of desertification of large areas of land. It is estimated that desertification threatened area in our country is 2,449 million ha or 16.6 % of total agricultural area.

Important effects occur and the hydrosphere. The average age of Arctic ice has decreased in the period 1988 - 2005 from 6 to 3 years, and the average ice thickness has decreased by 40 % in the period 1993-1997, compared to the period 1958 - 1976. Melting glaciers terrestrial phenomena and continuously reducing their volume, weight of snow and ice narrowing in the main alpine areas of the planet: the Rockies, Andes, Alps and Himalayas. As a result, more rain will fall in the rainy season and less snow will melt to feed rivers in the dry season, which would affect the water supply of about one billion people. In this case, it will restrict water resources for irrigation in summer, and the water supply of cities will suffer.

One of the effects of global warming is rising sea levels, an effect which has two causes:

- increasing water by volume expansion after heating;
- addition of melt water ice in the polar caps and glaciers terrestrial.

Rising sea levels lead to serious problems of flooding, especially low-lying areas such as the Netherlands, Bangladesh and some areas of the US coast.

Global warming causes raising soil temperature, which leads to drying and favoring forest fires.

Environmental imbalances lead to lower rivers during hot periods, and some rivers come to be drained completely. Water levels are dropping due to faster melting of snow in mountainous areas, high water consumption for irrigation and industrial uses or long periods of drought. For this reason, in many areas of the world population faces water shortages. Other environmental imbalances with implications for agricultural production are stepping acid rain and destruction of ozone in the troposphere, both phenomena with a negative impact on life forms on Earth. Due to more intense exploitation of natural resources of the planet, is affected biological basis, complex phenomenon often materialized in the following aspects:

- fisheries areas, forests and grasslands reach collapse due to resource exploitation at a rate higher than the natural capacity for regeneration, or in some cases due to adverse climatic conditions, pollution, the impact of acid rain, etc.;
- soil erosion due to deforestation, lack of vegetation on slopes or as a result of irrational agricultural works;
- the disappearance of a large number of species of flora and fauna is the expression of all of these disequilibrium, as we have seen, following anthropogenic activity;
- intensifying droughts.

Drought is a natural phenomenon resulting from lowering average rainfall, which produces major hydrological imbalances, negatively affecting production systems.

Drought differs from other phenomena in that it develops slowly, it may take months or years and affect large geographical areas. Drought has a significant impact on the economic, social and natural regionally and nationally. Drought causes may be:

- natural - caused by low rainfall, accompanied by a high rate of evapotranspiration over a long period of time;

- anthropogenic - that increase the impact of drought. They are due to: population growth (2020 planet is expected to have 7.9 billion inhabitants, 50% more than in 1990 - so food and water requirements greater; land use and degradation of land, reduction of vegetation cover, reducing water infiltration into underground reservoirs; degradation of water quality - reduces resource available for use; growing demand for water; legislation and inadequate management may exacerbate water scarcity.

Areas south of the Romanian Plain, Moldova Plateau, Northern Dobrogea Plateau and the western Piedmont Plateau (Oltenia Plain) are affected primarily by moisture deficit, frequently interspersed with flooding, such as in spring and summer this year. If the phenomenon becomes permanent, causing dryness, as a first step in installing a dry climate and subsequent desertification, which is identified by the sharp decrease in water availability by reducing agricultural production, biomass required as feed material and wood biomass and by extending the sandy areas. For Romania, dry periods are characterized by the lack of rain for a period of at least 14 consecutive days within the year cold (October-March) and at least 10 days during the warm period.

To mitigate the effects of drought in agriculture using irrigation, cultivation of drought resistant plant species and using different agrosystems that reduce water loss from the soil. Drought tolerance expresses the degree of adaptation of plants to drought or arid areas and is a genetically controlled mechanism. The discovery of the genes responsible for drought tolerance will allow biotechnology to obtain plants resistant to drought.

Losses due to drought and salinity risk crop production to fall by 50% by 2050, so drought tolerance should be a priority for research programs in biotechnology.

Strategies to combat drought on the following:

- a) avoidance of drought by growing early varieties;
- b) selection of plant for increasing the thickness of the cuticle, roots deeper and smaller leaf area, stomatal conductance decreased, reducing evapotranspiration, reducing albedo, reducing CO<sub>2</sub> content, etc.
- c) drought tolerance introduced by genetic methods: the use or handling of genes that protect and maintain the functions and structure of the cell under conditions of abiotic stress.

Global warming affecting our country shows a clear trend of desertification on an area of three million hectares in the south of Moldova and the south and south-eastern Romania, of which 2.8 million ha of arable agricultural land (20 % Romania's agricultural land).

Of land improvement are complex and agropedoameliorative hydraulic works aimed at preventing and eliminating risk factors - drought, excess water, soil erosion, floods, pollution - land at any destination.

Provision of water for irrigation is a major priority at least for some of the areas most exposed to drought. Some irrigation systems are made and must be restored, others are in progress or on the work of designers. Thus, to the south, marked one of the most important facilities in the country irrigation: Irrigation System " Sadova - Corabia".

Area Siret - Ialomita, part of the Romanian Plain, with an agricultural area of 500,000 ha (of which 68% of the agricultural area falls within first class fertility) due to prolonged droughts (between 10 and 120 days/year) the frequency of high winds that overlap with periods of drought, agricultural production is unsatisfactory. Economical solution to provide water to irrigation land in the area is achieving Bypass Channel Siret – Bărgan. Works are begun, but takes place in a very slow pace. Irrigation complex in south eastern Dobrogea, generically called "Carasu" is one of the largest in the country (197,300 ha) is located in the area with the greatest water scarcity - Dobrogea Plateau, with maximum agro-economic requirements, having consider the sea coast .

Complex Carasu water source is masterly Channel Danube - Black Sea, including the branch represented by the Channel Midia - Năvodari . Other irrigation systems use water from the Danube or the accumulation of the interior rivers.

Water Potential of Romania amounts to 127 bn. M<sup>3</sup>/year, contributing about 40 bn. M<sup>3</sup>/year from interior rivers and Danube with approx, 87 bn. M<sup>3</sup>/year, while groundwater potential is estimated at approx. 10 bn. M<sup>3</sup>/year. One must also consider that there is a significant interannual variability and spatial (in most dry years, water resource decreased to about 20 bn. M<sup>3</sup>/year). Therefore, measures should be taken in water storage reservoirs on the rivers inland.

Average water availability in Romania is about 2,000 M<sup>3</sup>/year/person, compared to the average for Europe, which is 4,500 M<sup>3</sup>/year/person. However, experts consider that a good management of this potential, could provide for the full range of water uses.

Current water consumption amounts to 6.59 billion M<sup>3</sup>/year (2013) of which 69% industry, 16% agriculture and 15% of the population. Consumption of water intended for irrigation of agricultural land has decreased significantly from 1980 to 1990 decade. Irrigated area in Romania decreased from about 2 mil. Ha in the early 1990s to about 300,000 ha in the last five years, and the corresponding water requirement was reduced from 8 to 1 billion M<sup>3</sup>/year .

Over the years, human activities have affected the quality of surface water and underground. Only 57.5% of the total river length monitored, water quality are able to be used to power the water supply. Of the total potential resources, only 45.5% are technically usable, especially due to the contamination of resources.

Interior rivers are supplied mostly from rain and snow, less of springs groundwater, leading to a high degree dependent on the conditions and vulnerability to seasonal climate.

On medium and long term, water demand for household, industry, agriculture and other uses in Romania is not possible without the development of large hydraulic works, which accumulate during heavy precipitation and redistribute water resources in time and space ( dams, reservoirs , temporary reservoirs, inter-basin flow ) .

### **Conclusions**

- Climate change in recent years, the frequency of increasingly sharp dry periods and drought, temperature extremes, determined the emergence and expansion of high-risk areas (12%) and medium (35%) of desertification, which requires the development/ rehabilitation of irrigation in drought affected areas;

- Unbalanced distribution of green coverage of Romania and the need for restraint and conservation of rainwater, the snow and wind strength reduction, requires realization of protective forest in the Romanian Plain (Bărăgan), Southern Moldova, and in a lesser extent in West Plain of Romania.
- food security can be achieved, especially in this period with changing global climate, only through proper use of natural resources that Romanian agriculture has, superior resources of many EU countries;
- maintaining soil quality and avoiding its degradation through: measures to avoid erosion, restitution by fertilizers of any kind (mineral, organic) nutrients with nitrogen, phosphorus, potassium and others, extracted with crops;
- performing minimal work and good quality;
- Water is a scarce resource, which quantitatively will become increasingly reduced, so that the national strategy must provide for: speed improvements for irrigation, new techniques and technologies leading to substantial reduction of water losses and to obtain a bigger increase crop per cubic meter of water used in irrigation;
- Organization of protective forests ;
- Maintenance of biodiversity; plant, animal, microbial, through measures to prevent and combat losses of species.

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# INNOVATIVE BEHAVIOR OF SMALL AND MEDIUM ENTERPRISES DURING THE ECONOMIC CRISIS

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## Abstract:

*Innovation is an area increasingly attractive to most companies. During and after the crisis, more and more companies are trying to expand their business horizons, to change the organization to discover new products and services in order to maintain operational status, and this can be done only through innovation. The business environment in Romania was heavily influenced by the global crisis in the period 2008-2013: entrepreneurship has become vulnerable due to uncertainty of the economic environment and many SMEs have left the market. In order to survive in these conditions, many companies have had to change the way have worked, and was one of the means innovation. The European Union has undertaken studies that examined this issue for each country, as well as comparisons with other countries. This paper identifies the empirical relationship between innovation (both technological and organizational one) based on published outcomes of European Union-Directorate for Research and Innovation and SMEs in Romania results in this period. Hypothesis that released this paper is that innovation was one of the means by which companies remained in operation during the period 2008-2013. To verify this hypothesis, I will check the results of innovation indicators in Romania in the period 2008-2013 and will check which business organizations remain in operation during this period, based on my correlation between innovation, economic performance and entrepreneurial performance.*

**Keywords:** innovation, economic vulnerability, competitiveness, technological innovation, non-technological innovation

**JEL Classification:** R12

## 1. Introduction

Innovation is an area increasingly attractive to most companies. During and after the crisis, more and more companies are trying to expand their business horizons, to change the organization to discover new products and services in order to maintain operational status, and this can be done only through innovation. To track results, the European Union conducted a survey called "Innovation Union Scoreboard" which were determined points which can be called innovation within a company, the dimensions of innovation and divided them into three broad categories "enablers" ("openers" - points that capture the main drivers of innovation performance external to the firm and the differences between three dimensions of innovation) and include "human resources", "research systems open, excellent and attractive" and "Finance and Support".

The second largest category is "Firm activities" ("The activities of the company" - captures the innovative efforts of the company and difference between the three dimensions of innovation) that includes "investment company", "Links and entrepreneurship" and "intellectual assets".

The third category is the "Outputs" ("Results" - captures the effects of innovative company) and includes "innovators" and "Economic Effects". Thus, based on these indicators, the European Union created the rankings and points each indicates improved state, in the annual publication "Research and Innovation Performance - Country Profile"

## 2. Methodology and data

The analysis in this article has been divided, in terms of methodology, the two distinct sides.

The first part outlines an innovative character analysis of companies in Romania and how its outcomes. For this, we used the results of the study undertaken by the

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European Commission - Directorate General for Research and Innovation study called "Research and Innovation Performance in Romania - Country profiles". I also used the research that underpins the analysis of innovation in Europe "Innovation Union Scoreboard 2013" issued by the European Commission all. Thus, this part outlines a methodology to collect and interpret the results.

To analyze companies that have survived have created a database of all active companies in 2008, at unique CUI using public data from the Registry of Commerce and Ministry of Finance. Then I checked how many of these companies have survived the end of the period. The definitions and indicators used in the statistical analysis of small business behaviour are those recommended by the OECD-Eurostat methodology (OECD-Eurostat, 2008). Active enterprises are all enterprises that had either turnover or employment at any time during the reference period. Employer enterprises are enterprises with at least one employee. In order to analyze the survival behavior of firms, we used several specific indicators for the business demography. The n-year survival rate for a particular year (t) refers to the number of n-year survival enterprises as a percentage of all enterprises with at least one employee for the first time in year (t-n). Enterprise birth rates are newly born enterprises as proportion of all active enterprises, while enterprise death rates are enterprise death as proportion of all active enterprises.

To make the analysis I needed a database as close as the real numbers as possible. The two sources for official numbers at the Tax Code level are the National Trade Register Office and Ministry of Finance.

So, I started by gather information from the National Trade Register Office. I kept only those who had declared a state of operation "operation" in the second column on the portal of the National Trade Register Office. These data are public, official, free in the limit of an account and are updated at every submission of supporting documents. I excluded those who had declared: "radiant", "temporary interruption of work", "liquidation", "dissolution", "is subject to Law no. 85/2006", "bankruptcy", "insolvency", "reorganization", "prosecution", "partial division", "open procedure open for Law no. 64/1995 republished", "closing procedure cf. Article 117 of Law no. 64/1995", "insolvent", "covered law no. 359/2004", "criminal conviction", "total spin", "mother company insolvency", "mother company in dissolution", "registration rejected". The data are of the latest information available. Thus, for 2008 resulted in 771,829 active companies in Romania. Each company I identified based on unique TAX CODE.

Then, to check conditions for SME companies, I had to check the number of employees and turnover. For this, I used public information of the Ministry of Finance. Thus, for each previously selected TAX CODE we could find the average number of employees and turnover officially declared in the annual balance sheet. This information I have accumulated for the period 2008-2011, the entire period for which statements were made.

I repeated the steps for all the years: 2008, 2009, 2010, 2011, 2012, 2013.

At this point, I joined all the information into a database unique identifier based on Tax Code, whose head table is:

**Table 1. Head table of database**

Tax Code	Nr of Employees	Turnover (EUR)	Status 2008	Status 2009	Status 2010	Status 2011	Status 2012	County	Region NTSU2
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Source: Own processing of the information from The National Office of Trade Register

I have added information on function indicator for each year at the Tax Code level and I have established how many of the companies with the status "running" in 2008 kept the same status in the years ahead, the resulting information like:

**Table 2. Head table of database and example of data**

Tax Code	Nr of employees	Turn-over (EUR)	Status 2008	Status 2009	Status 2010	Status 2011	Status 2012	County	Region NTSU2
612	1	1520	function	function	function	function	function	Bucuresti	Bucharest -Ilfov
1715	1	612	function	function	closed	closed	closed	Bucuresti	Bucharest -Ilfov

Source: Own processing of the information from The National Office of Trade Register

And concatenated, only those who had considered active status "function" and the rest statuses described above as "closed", the result created the results tables.

In addition to this database and various other information I got from the same sources (number of employees, turnover, industry, county headquarters, operating status) in order to determine size of companies, region of origin, industry in which it operates.

Then I used the method "n year survival rate" to determine how many companies remain active in successive years.

Analysis we repeated it for each year: 2008, 2009, 2010, 2011, 2012. Finally we checked whether these outcomes are consistent with the results of the Scoreboard.

### 3. Results of innovation in Romania during the crisis

In 2008, at the trade registry was registered 771,829 active companies. Out of these, remained active at this time 449,335 (58.2%). Most were closed by radiation(145271- 19%), temporary out of service (101816 - 13%) and dissolution (29368 - 4%).

We can see that there are big differences of the procent of survival between the regions of Romania:

**Table 3. Split of active companies by regions, 2018-2013**

Region	Active Companies 2008	Active Companies 2013	Percent survival
BUCHAREST-ILFOV	188444	120893	64.2%
CENTER	91261	51705	56.7%
NORD-EAST	85663	46172	53.9%
NORD-WEST	107932	60387	55.9%
SOUTH MUNTENIA	81559	49170	60.3%
SOUTH-EAST	87695	48066	54.8%
SOUTH-WEST OLTENIA	55630	30544	54.9%
WEST	73645	42398	57.6%
Grand Total	771829	449335	58.2%

Source: Own processing of the information from The National Office of Trade Register

There are regions over the average (Bucharest-Ilfov with a high concentration of population and a big university center and South Muntenia with big companies and investments) and regions with the lowest number of survival companies (Nors-East, South-East and South-West Oltenia, regions with lack of big investments and low industrialized). Small business is stimulated by dynamic industries, highly competitive medium.

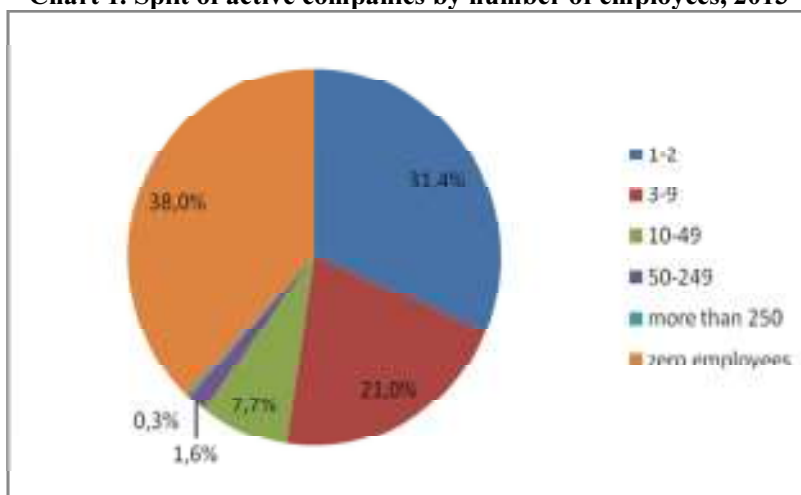
Almost all the companies are SME's with less than 250 employees (447921 companies – 99,7 %). The analyses of the number of employees shows that companies with many employees have a bigger chance of survival than the companies with a small number of employees or with no employees.

**Table 4. Split of active companies by number of employees, 2018-2013**

Number of employees	Active Companies 2008	Active Companies 2013	Percent survival
1-2	215461	141148	65.5%
3-9	127827	94187	73.7%
10-49	46596	34818	74.7%
50-249	9513	6972	73.3%
more than 250	1840	1414	76.8%
zero employees	370592	170796	46.1%
Grand Total	771829	449335	58.2%

Source: Own processing of the information from The National Office of Trade Register

From the survival companies, most of the companies are small (1-9 employees) or medium companies (10-49 companies). These companies have many advantages from the government and the European Union who help them with grants and European funds.

**Chart 1. Split of active companies by number of employees, 2013**

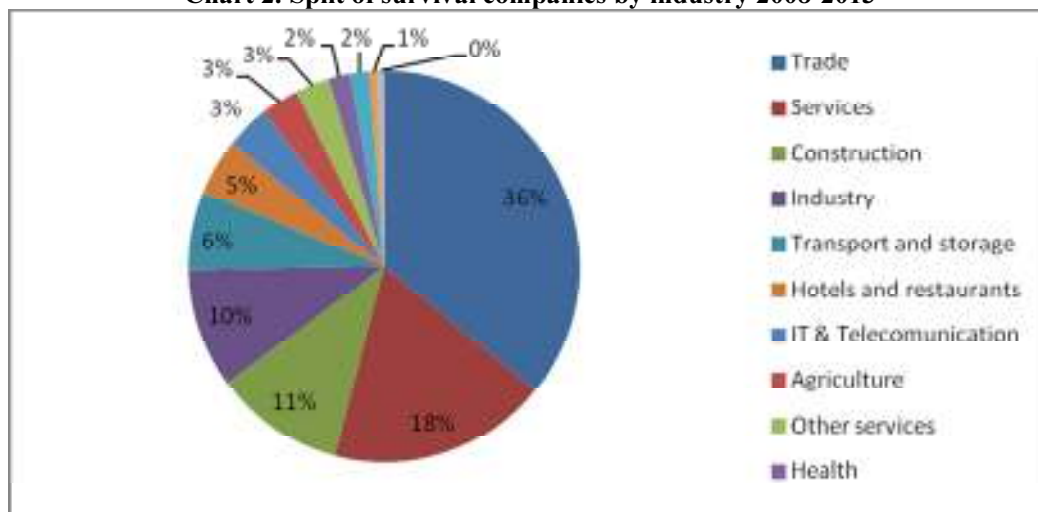
Source: Own processing of the information from The National Office of Trade Register

The activity of the survival companies is very important for their survival. An activity that is improving continuously helps the company to have constant clients and a positive revenue. In analysis, I observed that most of the companies survived from the Trade industry (34.5%), an industry that covers commerce and all the trades. Next important industry for the survival of the companies are Services (17.4%) an industry in progress in Romania, Construction (10.3%) and Industry (9.5%)

According to the National Institute of Statistics, in the report "Innovation in industry and services during 2008- 2010", in the analyzed period, the service sector was more innovative than the industry, the share of innovative enterprises that have their main activity in the services was 31.7%, while the share of innovative enterprises with main activity in industry was 30.1%, 1.6 percentage points less.

Compared with 2006-2008, the services sector has remained about the same share of 31.3% in 2006-2008 and 31.7% in 2008-2010, while in 2008-2010 the industry was a decrease of 4.6 percentage points compared with 2006-2008.

**Chart 2. Split of survival companies by industry 2008-2013**



Source: Own processing of the information from The National Office of Trade Register

Manufacture of basic pharmaceutical products and pharmaceutical preparations was the most innovative sector of the industry 60.6%, and the activities of insurance, reinsurance and pension funding (except compulsory social security system) was the activity the most innovative in the services 60.0%.

In the same report states that in 2010, more than half of the turnover of enterprises or 58.5% was achieved by innovative companies. The turnover of enterprises with new or significantly improved products was 14.3%. The share of new products for business enterprises was 9.8% and that of firms with new products to market was 4.5%. The innovative companies operating half of employees in enterprises 50.2% respectively. Thus, one can see a direct link between innovation and economic performance. Industries in which innovation was the majority survived the crisis better than other industries. Also, it also mentions that non-technological innovators are those companies that in 2008-2010, introduced and implemented new methods of organization, such as new business practices, new ways of organizing responsibilities at work new methods of organizing external relations or that have introduced new methods of marketing such as significant changes in the aesthetic appearance or packaging of a good or service, a new way of advertising and product promotion techniques, new methods of product placement or methods new pricing goods and services. Non-technological innovators can be simultaneously and technological innovators, ie products or processes can introduce new or significantly improved.

According to a study by the National Institute for Statistics, results of research on innovation in the period 2008-2010 showed that of all enterprises, 26.5% were non-technological innovators, regardless of their product or process innovations.

Share of enterprises with innovation marketing was 19.2% exceeding 0.8 percentage points that of firms have introduced new ways of organizing the business of 18.4%. The share of non-technological innovators is higher in services 28.4%, compared with the industry, where the share is 25.0%.

According with European Commission, Directorate General for Research and Innovation, in the report Research and Innovation performance in Romania - Country Profile 2013" the economic impact of the innovation index is lower than the EU average, but higher than the reference group of countries with similar economic profile and research. Even if this value must be considered in its evolution in time and limited to a single year, it highlights a real economic concern for transforming knowledge and technology in economic competitiveness. Facilitate the creation of innovative businesses

with high development represents a major strategy, which requires the following three structural changes: 1) development of an excellent research focused on those sectors where Romania has a good performance compared with international benchmarks and there are potential to attract investment in economic activities; 2) stimulating entrepreneurship in order to disseminate and encourage research and innovation in the economy; and 3) the development of appropriate framework conditions for innovation, based on a comprehensive strategy, supported by stakeholders.

The factors most problematic in terms of business activity have been identified as tax rates, inefficient state bureaucracy, policy instability, access to finance and corruption.

#### **4. Conclusions**

Limited performance of Romania innovation is reflected in its economic structure, the application of knowledge is weak and culture of innovation is underdeveloped.

The analysis shows a strong link between innovation (both technological and process) on the one hand and economic growth in certain sectors and / or in certain regions, on the other hand, by comparing of result National Institute of Statistics and the data processing companies in the Trade Register and the Ministry of Finance. However, the paper does not present arguments sufficient to demonstrate that innovation is the decisive reason for the economic result.

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# COMMUNICATION – CENTRAL VECTOR IN KNOWLEDGE MANAGEMENT\*

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## Abstract:

*As a key concept in modern management, the knowledge management among the knowledge administration, development and transfer between the members of an organization, it also involves the knowledge stimulation to obtain the competitive advantage and the innovations. The association between communication and knowledge is normal; the knowledge without communication is sterile, even useless. The communication's role in the knowledge management is both normal and valuable, because the knowledge, which is a good value, must be transferred so it can be exploited to maximum, and the knowledge transfer is possible only through communication. The managerial decisions, strategies, plans, explanations must be communicated to the organization's members so they know how, where and why it must be acted to assure its success. In turn, the organization's members hold a personal luggage of knowledge that can be developed and putted in the interests of the organization so it can become a collective source that generates new values. The present article presents the results of a research that had as purpose to identify in which way the communication is used to implement the knowledge management.*

**Keywords:** Communication, Knowledge, Knowledge Management, Informations.

**JEL Classification:** D830

## Introduction

The roots of knowledge management are found in a philosophical paper work [Polanyi, 2002 (1958)] which introduces the term of silent knowledge (who's meaning is that each of us can know more than we realize) and in which we can make difference regarding the explicit knowledge. Starting from this, in the management domain, appears the idea that encouraging the exchange of idea and sharing the knowledge of the organization's members is a new resource (Drucker, 1988; 1992) that must be explored in the interest of the organization and it involves the creation of conditions for innovation (Nonaka, 1991; Nonaka, Takeuchi, 1995). Lately, it will be clarified the distinction between knowledge and information, it will be defined the organization concept which learns and there will be recognized two research directions in the knowledge management, a direction oriented through creation in knowledge, and the other one oriented to the knowledge transfer that already exists in the organization (Davenport, Prusak, 1998).

Long time studied in the domain literature, this concept didn't obtain a totally accepted definition (Tsui, 2000:11), existing a point of view that is large spread, according to which the knowledge management collects and disseminates the knowledge in the interest of the organization and of its members (Lueg, 2001:151).

Is easily observed that we are talking about intangible values (knowledge) that depend of the social and behaving factors, the ones that are mostly ignored in organizations (Hendriks, 2001:57).

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One of the problems that can appear inside the organizations that practice the knowledge management is the one that the employees can choose to keep their own knowledge, without sharing with the organization (Bryman, Bell, 2011:9) and that would put in danger the coordination of the organizational activity and of the taken decision's quality (Eppler, 2006).

On the other hand the decisions, strategies, plans, explanations, must be communicated to the organization's members so they can know how, where and why it must be acted to assure its success, and all these are probable through communication and dialog. The dialog is a teaching way of acceptance and synthetizing the other's opinions (Nonaka, Toyama, 2005:425-426) is a social interaction through which is made the exchange and creation of knowledge (Lehtonen, 2009:41).

### Knowledge backgrounds

The knowledge management can't exist without sharing the knowledge and this involves, besides the extended learning processes, the communication (Cummings, 2003) through which is realized and the creation of organizational knowledge (Dieng et al., 1999:574), but it also involves the communication between the persons that come from different environments (Mäkelä et al., 2007).

The literature treats predominantly the communication technologies, according less attention to the communication and communicating relations, the existing studies revealing only the use of a big variety of the communication practices (Mohr, 2007:216). To realize the exchange of knowledge is also important and a good projection of the communication process (Mohamed et al., 2006:109) which through the communication forms and instrument assures the creation of the knowing and the dissemination of the knowledge (Klein, 2008:42).

Starting from the knowing creation model of Nonaka and Takeuchi (1995), which makes the distinction between the tacit knowing and the explicit one, it had been proposed a communication model in the knowing management (fig. 1), (Tingoy, Kurt, 2009:48) in which all the communication types are very important for the knowing flow achievement in the organizational context.



**Fig. 1 - The model of the communication importance in the knowledge creation and dissemination**

Source: Tingoy Özhan, Kurt Özlem Efiloğlu, (2009), Communication in knowledge management practices: a survey from Turkey, Problems and Perspectives in Management, vol. 7, issue 2, p. 48



The communication is a social binder (Greenberg, Baron, 2003:317) especially if it is based on transparency, trust and on the opened door policy regarding the employees (Bhirud et al, 2005). On the other hand, it must not be forgotten that the transformation of the tacit knowledge in explicit ones and their broadcast is possible only with the help of the communication (Lehr, Rice, 2002).

One of the most important aspects of the communication in the knowing management is the efficient communication (Crawford, Stronhkirch, 2006) especially that this is the heart of any modern organization (Thomas et al, 2001: 870) through which it is influenced the attitude regarding the organization. Another important aspect is the communication style (Gumus, Onsekiz, 2007) through which are created feature expectations (Coeling, Cukr, 2000:65).

A study regarding the communicational abilities in managing the knowledge revealed that to create knowing, extremely important is the attitude through which the experience is communicated and the way it is shared (Treem\*, 2012). That is why the organization's leaders must put themselves as partners of the organization, to be stimulated to use their aptitudes (Kalkan, 2008) to create and transfer the knowing. The relational aspects of the communication underlines even more the complexity of the making of the communication efficiency and of the knowledge transfer specific to a named context.

The knowing creation is a social-organizational and cultural problem that needs approaches from the organizational communication and learning area for the communication and know-how transfer (Allix, 2003). In the learning process inside the organizations, the critical factors are the organizational culture of the company (Yang et al., 2008), the strategy's characteristics, the communication processes and structures, the linguistic competent (Brannen et al., 2014) or the leaders' intercultural skills (Welch & Welch, 2008).

The communication of the professional knowledge became crucial for the well function of an organization (Epler, 2007), either it is made through interpersonal communication or through group conversations (Gratton, Goshal, 2002), but the social interaction is a must and is a result of the communication (Treem\*\*, 2012). It can be defined as being a deliberated activity of know-how, know-why, know-what and know-who transfer through direct or mediated communication (Epler, 2007:291). In the knowing communication, thanks to the nature of the human factor, can also appear serious and hard to pass problems, such as:

- The information excess – too many complex information must be assimilated and fast interpreted (Eppler, Mengis, 2004:277);
- The defensive routine – the new knowledge is ejected so the effort to understand complex problems is extremely low (Argyris, 1990:101);
- The false consensus – we assume that others have the same perceptions and the same interpretations of the received information (Manzoni, Barsoux, 2007);
- Preference for outsiders → the valorization trend of the knowing that came from outside of the organization (Menon, Pfeffer, 2003);
- The hostile exchange of knowledge – reluctance in sharing the knowing because of the hoarding policy of the knowing, of the fear regarding the "knowledge parasites" or to avoid the exposure (Husted, Michailova, 2002:66).

### **The research based on questionnaire, regarding the identification of the communication's role in the implementation of the knowing management.**

#### *Context*

For an organization to survive the fierce competition, characteristic of the globalized economy and of the informational era, must continuous upgrade its management.

The solution is the promote of the flexibility, of the transparency, of the organizational learning, the improving of the efficiency and efficacy, the permanent



instruction of the organization's members, the reevaluation and adaptation of the working methods for the development of an open organizational knowing – more exactly, the practice of the knowing management.

Either we refer to the internal communication or to the external one, the advantages brought by the use of an open, explicit communication, make the adoption of this communication form to be imperative.

The new communicational technologies support the knowing management practice, and the mode in which the organization's management chooses to use them or not, can bring or not services to the organization's interests.

The identified problem that made us proceed to a research theme is the low grade of implementation of the knowledge management inside the organizations from our country.

The quantitative empirical research presented in this article represents a part of a more ample research, which results will be included in the doctoral dissertation that I prepare.

### **The research methodology**

*The subject of our research* is the identification of the communication's role in the implementation of the knowing management.

*The purpose* of this research is to determinate the measure in which the managers understand the importance of the knowing management practice and the communication's role in the implementation and practicing of this type of management.

The study had as *objectives*:

- The analyze of the knowing the communication's role and its use as main vector in the knowing management;
- The identification of the knowledge level and of the interest to the knowing management

The *hypotheses of our research* are:

- The communication is understood as a central vector in the practice of the knowing management, especially by the organization's managers;
- The implementation of the knowing management is the managers' preoccupation;
- The organization's management is preoccupied with the assurance of the communication strategy used for practicing the knowing management.

The research method was the sociological investigation, made through surveys. The data have been collected through interview, using as an investigation technique, the face to face investigation.

*The data collecting data instrument* was the questionnaire, which beside the identification data, contained a number of 12 questions.

For the research it was used the semantics differential, the five steps way.

*The processing of the collected data* was made with the help of Excel program.

To obtain a more exact image regarding the communication situation in the knowing situation, the questions have been grouped in three *analyze domains*, as it follows:

- 1 – The communication with the help of the new technology;
- 2 – The organizational communication based on the human resource stimulation;
- 3 – The communication with other organizations through the cooperation network.

*The sample* used for our analysis was represented by 242 managers of an organization from the south of Romania.

*The observation unit* is represented by the organization no matter of the activity domain.

*The study unit* is established as being the person with a lead function, no matter of the gender.

*The period of the data collection* was between 07/12/2014 and 08/30/2014.

The study was made using a simple, random sample scheme.

The appreciations for each answering version to the questions contained by the questionnaire were evidenced by calculating the medium score after the weighted average formula:

$$\bar{X} = \frac{\sum x_i * n_i}{\sum z_i} \quad \text{where: } x_i = \text{is relative frequency,}$$

$n_i$  = is the grade given to the answer and

$z_i$  = is the total answers to the analyzed question.

There have been applied 300 questionnaires, from which 242 were validated. To establish the size of the representative sample regarding the obtaining some significant statistical data, it has been used the Taro Yamane formula, a method that starts from the total population's volume, without calculating the population's characteristics and it is recommended for small collectivities. The total number of the persons with leading functions inside the studied organizations is 308.

$$M_E = \frac{N}{(1 + N * e^2)}$$

unde:  $e$  = is the maximum admitted error,  
 $N$  = researched community size

$$M_E = \frac{308}{(1 + 308 * 0.03^2)} \cong 241$$

The maximum admitted error degree is 3%.

The medium obtained scores after the analysis of the obtained answers from the respondents represent the values on which we made the interpretations of the received answers from the questioned sample in this study.

The average score and the global score, obtained after analyzing the received answers from the respondents, represent the values on which base we made the interpretations of the received answers from the questioned sample in this study.

### **The results of the research**

Grouping the contained questions in the sample, the study followed to analyze of the following interest domains:

- the evaluation of the interest for communication with the help of the new technologies;
- the management's preoccupation for the organizational communication based on the human resource stimulation;
- the evaluation of the communication's situation with other organization through the cooperation networks.

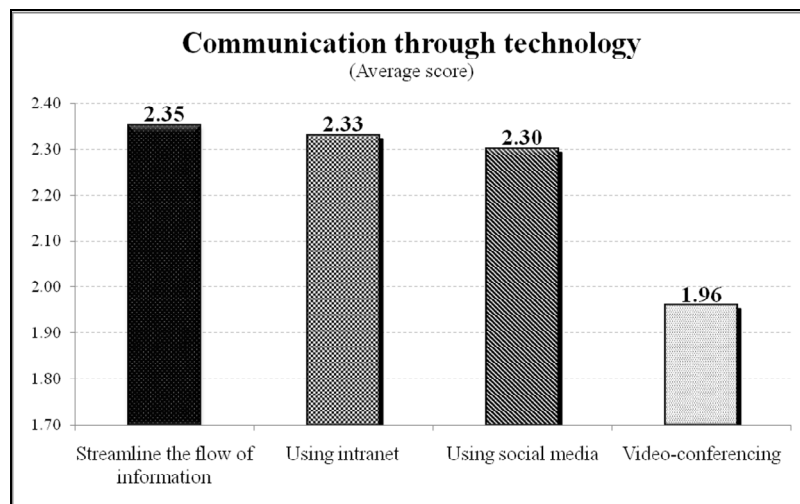
#### **1. *The interest's evaluation for the communication with the help of the new technology***

The technological revolution and the new technologies based on communication are the base on which it is build the society based on knowing. The relation between science and technology produced deep transformations from which result the immaterial economy whose principal resource represents the knowledge that can produce economical growth.

The communication, appliance, use and development of the knowing capital are the result of the way the leaders of an organization succeed to mobilize and stimulate the organization's members in practicing the knowing management.

This supposes the use of the technologies that are loved by the organization's members, but it also means the stimulation of the use of proper technologies for the organizational activity.

Inside our study we let the respondents to appreciate which of the communication ways with the help of the new technology are more important in the implementation and practice of the knowing management (fig.2).



**Fig. 2 - Source: own projection**

The obtained results after the evaluation position the average score of each knowledge transfer instrument presented by us, at a distance between two and 4 hundredths, from 1.96 for video conferences, to 2.35 for an efficient informational flow. Inside this interval is situated and the communication with the help of social media and the communication by intranet, each of them offering the possibility of live communication, including through interpersonal communication, for an almost unlimited number of users.

The expressed opinions of the questioned managers show that no matter of the type of communication technology that got their attention, these consider it unimportant.

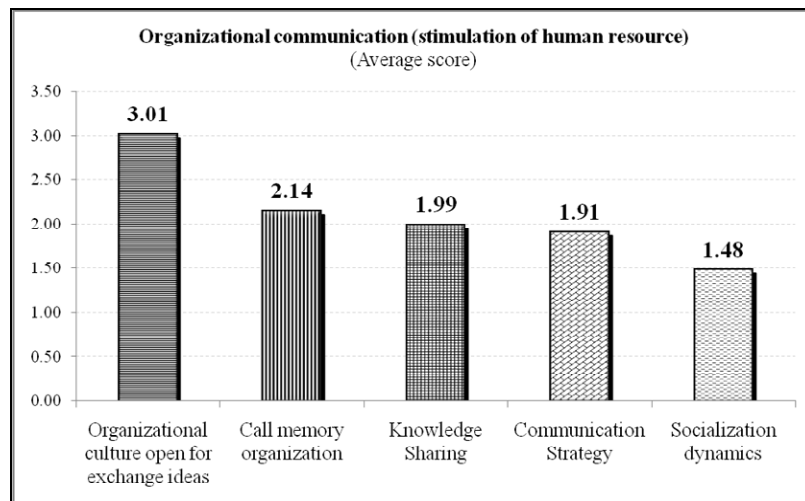
## ***2. The management's preoccupation for the organizational communication based on the human resource stimulation***

Inside the most of the organization it is few known about the human resource, about the tacit knowing level of the personnel or about the organization's memory and these are the reasons that make them not be exploited, stimulated and developed to give the organization the chance to learn and to adapt to the working environment.

From this point of view we can say that the knowing resource socked in each member of the organization represents the strategic development capital of the organization through which it can be optimized the adopting process of some decisions, there can be reintegrated corporative experienced, can grow the number of innovative processes that can transform the information in knowledge and to obtain new knowledge.

The organizational communication axed on the stimulation of the human resource to implement and practice the knowing management, must reach few aspects considered by us essential, which we submitted to the respondents' appreciation, with the purpose of finding which of these are more important for their organization's activity.

According to the obtained average scores, the respondents' interest for the human resource stimulation by practicing a communication that facilitates the innovation is positioned from the lack of interest to the incertitude (fig.3).



**Fig. 3 - Source: own projection**

The stimulation of the socialization dynamic by communication is considered out of importance (average score - 1.48).

Unimportant are appreciated as being and the calls to the organization's memory (average score - 2.14), the knowing dissemination (average score - 1.99) and the communication strategy (average score - 1.91).

The questioned managers, are uncertain about the importance of the development and consolidation of an organizational culture favorable to the idea exchange, this aspect obtaining a average score of 3.01.

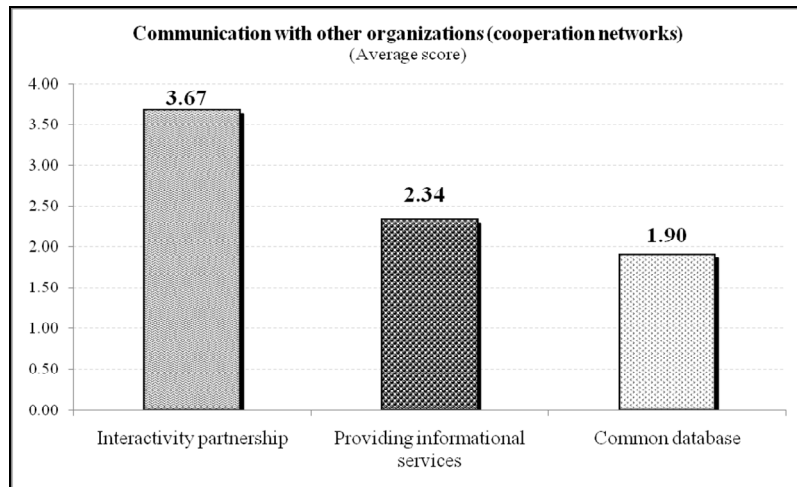
### **3. *The evaluation of the communication's situation with other organizations through the cooperation networks***

For the productive use of the human knowing is necessary the organization in cooperation/ partnership networks, which by applying the information and the knowing will generate new knowledge, will be able to process information and develop advanced communication instruments that can support the learning, research and the innovation. The partnership programs' projection, insertion and management with other organizations are actions needed to stimulate the scientific cooperation, to value the potential of the information and communications' technology to contribute to the development of the strategies and activities used in the cooperation with other organizations. The communication by partnerships/ networks, the involvement in international research programs, and the development of some modern applications for their actions, for the interconnection of all the departments, will increase the quality of the developed actions, of the products/ services that these offer.

In our study we wanted to find out what is the managers' opinion, from the evaluated sample, about the importance they give to the communication and to the knowing's dissemination through the cooperation/ partnership networks with other organizations.

The received answers show that the respondents consider for the communication inside the knowing management as being not important the common data base (average score - 1.90) and the providing of informational services (average score - 2.34).

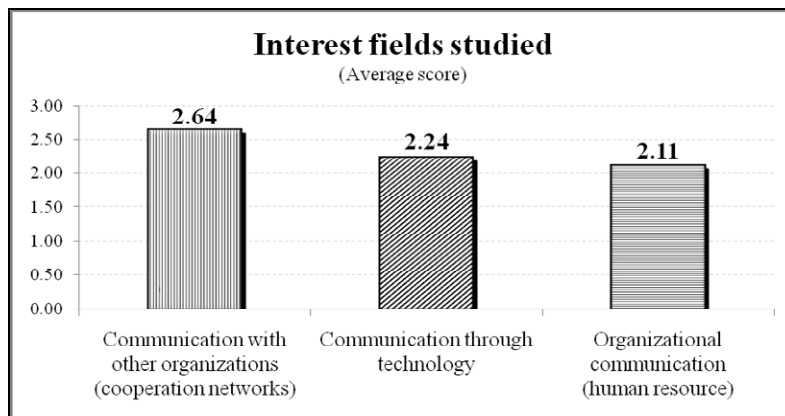
Surprising was to find out that these give importance to the partnership interactivity, which average score is 3.67 (fig.4).



**Fig. 4 - Source: own projection**

*The respondents' interest regarding the domains of this study*

The medium obtained scores by the checked interest domains and which are between 2.11 and 2.24, show that our study's subject is unimportant for the respondents (fig.5).



**Fig. 5 - Source: own projection**

The average score obtained by one aspect, 2.64 – the communication with other organizations (the cooperation networks), succeeded to bring the respondents in the situation of being undecided.

Over all, the all three interest domains targeted by the made study, that obtained a global score of 2.33, proved to be for our respondents, unimportant.

### **Conclusions**

The main conclusion that imposed after this study, is that there is no interest for practicing the knowing management and nor for the communication's role in the implementation and practice of this type of management.

The study reached its objectives by making an analyze of knowing the role of the communication and of its use as a main vector in the knowing management and through the identification of the knowledge level and of the interest regarding the knowing management

Regarding the hypothesis from which we started in making this study, we can say that:

*The first hypothesis - the communication is understood as a main vector in the practice of the knowing management, especially by the organization's managers – refutes.*

The received answers prove that the persons with leading functions from the organizations that formed our sample, are far away of our expectations.

In proportion of 91.9%, the respondents don't understand the role and importance of the communication in the implementation and practice of the knowing management, their answers being between lack of importance (8.33%), unimportant (75%) and so and so (8.33%).

These persons that have leading functions, have no manager talent and more than sure neither the required studies, proofing that they rather remain stationed in a world they knew and don't want to leave even if the reality crossed those temporary borders.

*The second hypothesis – the implementation of the knowing management is the managers' preoccupation – refutes.*

Considering that the most of the respondents don't understand the concept of knowing management and it doesn't even represent the smallest interest, it is obvious that from this reasons, its implementation isn't a part of their preoccupations.

For the managers from our sample, the partnership interactivity is the only important aspect regarding the communication with other organizations, even if this aspect represents only 8.33% of the received answers.

*The third hypothesis – the organization's management is preoccupied with the assurance of the communication's strategy for practicing the knowing management - refutes.*

The studied organizations' management, not being preoccupied of the implementation of the knowing management, can't be preoccupied of the assurance of the communication strategy for its practice.

Overall, the preoccupations of the persons with leading functions inside the organizations from our study, regards anything else but the interests of the organization from which they are part of and upgrading in real time and to the economic conditions in which their organizations develop their activity.

Following our efforts to obtain an image as clear as possible of the actual situation regarding the communication as a central vector in the knowing management, we discovered that the real situation is not at all encouraging and it determined us to offer some proposals:

- It is necessary a sustained preoccupation for the identification of the internal knowing resources and of the development of a communication strategy that stimulates the knowing creation and innovation.

Unfortunately, this preoccupation is not present, and that shows a deficit of knowledge or interest. There is still a lot to work in the direction of communication activity consolidation, to understand that it is one of the most important managerial instruments through which knowing management is implemented and practiced.

- The existence of a specialist in communication or the collaboration with a communication specialized agent, can bring big advantages to the organization.
- Is necessary the existence of a sustained preoccupation to identify and develop the unique abilities inside the organization, by encouraging the opened expression stimulation in any situation.

In the end of this study we can conclude that as we know for a long time, it takes a profound modification of the way which we report to the knowledge universe, to its use in the current activities, to become the best ones in the domain that we activate.

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# ENTREPRENEURIAL UNIVERSITY: DEVELOPING AND INTEGRATING THE THIRD MISSION IN HIGHER EDUCATION INSTITUTIONS

Mihaela, Diaconu<sup>1</sup>  
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## Abstract:

*The modern university which activates in a highly competitive market and is mostly assisted and not financially supported by the state must find tools with which to be competitive and prestigious. It is necessary to identify the managerial and scientific opportunities with which to build the best resources in order to fulfill its mission. This study presents the role of the university in the economic and social environment supported by the mission undertaken by three components: teaching, scientific research and the social function and to what extent the third mission of the modern university is seen as a necessity in the context of current economic and social context by the universities of Romania. The method used was the content analysis of the mission of universities in Romania presented in the University Charter and its correlation with the analysis models on entrepreneurship and academic entrepreneurial management offered by the specialized literature.*

*The conclusion is that more than 60% of universities in Romania formulated their mission by considering the three components and that understanding and building entrepreneurial culture is a condition of the successful fulfillment of the mission of the modern university.*

**Keywords:** *entrepreneurial university, the third mission of the modern university, entrepreneurial culture, entrepreneurial management*

**JEL Classification:** I23, I25, M14

## 1. Modern University and the entrepreneurial approach

The university, the oldest modern, traditionalist institution, holder of strong cores of knowledge and innovation, is now placed in a position to identify solutions to the many facing problems. University stakeholder expectations are changing rapidly as a result of structural changes in the economic and social environment. The business environment and the industrial sector require graduates who have a complex set of qualifications and skills. Students are placed in a position to acquire a large volume of knowledge and have high expectations related to the insertion in the labor market both during their studies and after graduation. The society expects solutions from the academic environment to the complex problems faced in conditions in which the government supports less financially the universities.

Today modern university is called to fulfill several functions, namely the teaching, scientific research and more recently, the social function and to contribute to economic development. Successful performance of the functions of modern university requires its approach of the entrepreneurial orientation. Achieving the third function will ensure, as recent studies claim, the competitiveness and prestige of higher education. Whereas now, public higher education tends to be assisted rather than supported by the government, fulfilling the third mission involves the identification and use of tools designed to highlight the results of scientific research and providing the necessary financial resources for research and development activities in universities, involved staff motivation, increase the prestige of the university in the local community.

According to British researchers Molas-Gallart & al. (2002), accomplishing the third mission of the university requires implementing the following activities: technology trading, entrepreneurial activities, advisory councils, marketing facilities, research based on contract, non-academic collaboration for scientific research, mobilities of teaching staff

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and industry, placements of students and other links with the labor market, activities of non-traditional education and training, aligning curricula to social needs, dissemination of research results in nonacademic environments.

The entrepreneurial university should not be understood literally as a Ltd., but as an organization in which is recognized the importance of business culture and entrepreneurial management. To better understand this concept, Scarlat & al. (2012, p.675) propose two approaches to basic management: administrative management, in which the objectives, strategy and organizational management are set according to available resources and entrepreneurial management, in which the university strategy is oriented to opportunities regardless of resources available at the time. According to Scarlat & Brustureanu (2009, 2012), the traditional university promotes the administrative management and the entrepreneurial university implements the entrepreneurial management which seeks managerial and scientific opportunities in order to meet the mission.

Studies completed with some models on entrepreneurship and entrepreneurial management vs administrative management belong to the following researchers: Brustureanu (2002), Scarlat (2003), Scarlat & Simion (2003), Scarlat & colab. (2005), Scarlat & Brustureanu (2009, 2012), Scarlat, Brustureanu, Borangic, Popescu (2012). Howard Stevenson realized the entrepreneurship model centered on the core concept of opportunity (Stevenson, 1983, Stevenson & Gumpert, 1985; Stevenson & Jarillo, 1986, 1990), and Burton Clark (1998) and made studies on entrepreneurial universities. Clark (2000) describes the work of entrepreneurial university as a flexible activity using existing creative resources to engage in economic and social development of the region and to adapt to the demands of the business environment by considering the corresponding parameters of collections and costs.

Burton Clark (1998), the author of the entrepreneurial university model, in a research conducted over a period of three years (1994-1997) in five Western European universities identified five key elements of the process of institutional transformation of university in the turbulent market conditions with a focus on university entrepreneurship, namely:

- (i) the strengthened steering core;
- (ii) the expanded developmental periphery;
- (iii) the diversified funding base;
- (iv) the stimulated academic heartland;
- (v) the integrated entrepreneurial culture.

Mintzberg believes that in the entrepreneurial school case, the strategy is the outcome of the identification of opportunities. "In the entrepreneurial mode, strategy making is dominated by the active search for new opportunities" (Mintzberg, 1998, p. 133).

The concept of opportunity in the business world defined by Stevenson (1983) is a key element also in the scientific research area because the applied research is effectively oriented to opportunity, the research results reaching in the market. Stevenson (1985) believes that the entrepreneurial approach is correlated with the size of the organization in the sense that a well managed, developed business is often accompanied by a reduced capacity to identify and capitalize an opportunity.

The entrepreneurial model of an organization based on the concept of opportunity developed by Stevenson (1990, p 23-25) is based on six components:

- an organization is entrepreneurial in the extent in which it seeks the identification of opportunities regardless the resources which are currently held;
- the entrepreneurship in the organization depends on the attitude of individuals within it regardless of the organizational pyramid level;
- entrepreneurial behavior of the organization is positive to the extent that employees are keen to identify opportunities, are prepared to undertake this task and are rewarded for it;

- organizations who make conscious effort to mitigate the negative consequences of a failure when pursuing a particular opportunity will present a greater degree of entrepreneurial behavior;

- success rate and entrepreneurial behavior of employees will empower employees to exploit opportunities;

- organizations facilitating the emergence of internal and external informal networks progressive allocation and sharing of resources will have a higher level of entrepreneurial behavior.

Allen Gibb (2005) sets out a model of integration of entrepreneurship in higher education in which can be found the followings:

- understating at the level of the entire university the importance of entrepreneurship and the adoption of such activity as an activity that meets the university's mission;

- setting up the logistics required to implement the entrepreneurship with emphasis on the establishment of a technology transfer office or center;

- encouraging innovativeness in scientific research field in each university department in accordance with the specific of the managed activity;

- supporting a professional environment for research and development excellence by identifying research topics, the allocation of free time of staff researcher who wants to get involved in the activity of trading the intellectual property, rewarding the research and development activity;

- undertaking activities leading to the generation of ideas, research topics and to organize joint university-stakeholder activities, investment in academic associations, activities to acquire practical skills by teachers as a result of working visits conducted within private organizations;

- staff engagement in activities of entrepreneurship teaching courses.

## **2. What can be done for the university to meet the third mission?**

Starting from the literature studied, namely the models built by Clark, Stevenson, Gibb, Brustureanu (2002), Scarlat (2003), Scarlat & Simion (2003), Scarlat & colab. (2005), Scarlat & Brustureanu, (2009, 2012), Scarlat, Brustureanu, Borangic, Popescu (2012), some relevant aspects that may come off on how modern universities should consider restructuring the university management to successfully complete the third mission are:

- transition from administrative management to entrepreneurial management, in which the university's strategy is oriented towards managerial and scientific opportunities regardless of the resources available at that time;
- motivating the teaching and research staff to identify the scientific opportunities and support the development of entrepreneurial behavior at the university level;
- create a professional environment for research and development excellence;
- developing entrepreneurial culture as the foundation of competitiveness and prestige of the university;
- initiating construction of internal and external informal networks progressive allocation of resources and sharing of resources with university stakeholders;
- identifying research opportunities able to highlight the internal resources of the university and leading to local and regional economic development as a result of insertion of intellectual property in the industrial environment;
- creating the necessary logistics for transferring academic research results to industrial environment.

### 3. Do the universities from Romania assume the third mission of the modern university?

In this study we aimed to examine whether the third mission of the modern university is seen as a necessity in the current socio-economic context of the universities in Romania. For this purpose we started from the classification of universities according to the provisions of art. 193 p. (3) and art. 193 p. (6) from the Education Law no. 1/2011 on the three categories: advanced research and education universities, education and scientific research universities, and universities focused on education and we analyzed the contents of this mission undertaken by the University Charter.

In the case of **the 12 universities of advanced research and education** from the first category of universities in Romania there were the following aspects:

- Most universities have stated in the undertaken mission structure specific elements of the third mission of the modern university namely supporting the local, regional and national community by building a culture of action based on systematic and innovative knowledge, on proactive attitude and participation, on scientific and technological competence, organizational competence, on lifelong learning and innovative culture, on culture of personal development.

- It is also used the concept of innovative university as a synonym for entrepreneurial university with an emphasis on human capital, on producing knowledge scientific research, on technological innovations and adaptations which determines the economic growth of the country. Technical and medical universities assume responsibility through specific activities of creation, innovative exploitation of knowledge and its transfer to society, scientific research activities, exploitation and dissemination of their results, development, innovation and technology transfer designed to facilitate economic, social and cultural technological progress.

- In the mission statement, most of the universities in this category, by achieving goals, put in the forefront the scientific research activity and its valorification according to community needs, then the activity of supporting the academic community.

- There are universities that have made the mission from the need to train specialists in their fields of activity, and the mission related to scientific research and sustainable relationship with the community is made without purpose pinpoint.

- The technological transfer, entrepreneurial university management tool, is found in the mission statement of some technical and medical universities in this category.

In the case of **the 22 universities of education and scientific research** in the second category of universities in Romania there were the following aspects:

- The share of universities which stated in mission structure specific elements of the third mission of the modern university is less than the share of universities from the first category.

- The relevant elements which emphasize the attributes of the third mission of the modern university are training and education in the spirit of flexibility and innovation, transparency and legality, academic and professional performance, adaptability to changing labor market area, partnership, cooperation and communication with civil society, training human resources so as to be able to generate and transfer knowledge to society, provide services in the profile of skills for the own community and society.

- There are universities that took into account in formulating the mission all three components: training of specialists able to quickly integrate in the competitive environment, scientific research in the areas of interest at contemporary performance level, transforming the university in the middle of education resource center and services offered to community.

In the case of the universities from the category of those focused on education, we have noticed that most of them, although they were not classified in the category of focused on research universities, they included in the mission all three relevant aspects of modern university mission.

#### 4. Conclusions

In the conditions of competitive market specific to higher education, ensuring the competitiveness and increasing the prestige of the university are only obtained by assuming by the academic management the complex mission of modern university with particular emphasis on the third mission, the social and the contributing to local, regional economic development as a corollary of the other two missions of teaching-learning and scientific research.

The fulfillment of the third mission involves accepting the change in the functioning of mechanisms specific to university environment, the transition from traditional university with an administrative management to a modern, innovative and entrepreneurial one, with a new culture, the entrepreneurial culture. The awareness and acceptance of entrepreneurial spirit at the individual level and at the level of the entire functional system of the university, recognizing the importance of entrepreneurial culture are the first steps towards increasing the expected results through the assumed mission.

Although most universities in Romania took into account relevant aspects of the modern university mission, there are discrepancies between the mission and results as only a small part of the possible tools which can ensure competitiveness of the university are used. The activities of disseminating the results of scientific research, consultancy, research on contract are prevailed activities partly responsible for stakeholder expectations of the university.

The commercialization of scientific research results specific to the academic environment, a source of income to support the activity of research and development in universities and means to ensure the growth of competitiveness of the economic agents from the industrial environment is an activity very little present in the portfolio of activities with which the university meets the third mission. The number of technology transfer centers, technology information centers, business and technology incubators belonging to universities is very low compared to the number of existing universities in the higher education market today. It requires a rethinking of the university management through accepting in a greater extent the entrepreneurial approach to all today's existing tools to the reach of universities.

Enhancing individual and collective creativity, the passion to work effectively for the good of society, the ability to anticipate and to approve the change, entrepreneurship, combining rigorous academic study with the enthusiasm of innovation are just some strengths identified in the mission made by prestigious universities worldwide that can be considered as starting points for Romanian universities in building the approach to competitive modern universities.

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# WOMEN ENTREPRENEURSHIP - A SOLUTION FOR ROMANIAN ECONOMY DEVELOPMENT

Florentina-Georgiana, Cojocaru<sup>1</sup>

## Abstract:

*Entrepreneurship is not only equivalent with a way of increasing national revenue or a source of new jobs, but represents also an important vector of economic growth by forming a bridge between innovation and market. The spectacular evolution and modification of family life as well as professional activity led to the increasing of women in business in the last 25 years, but this growth has brought with it the birth rate decrease. Women have become more important in the global market, not just as an employee, but also as a consumer, entrepreneur, manager and investor.*

*The article aims to capture the difficulties that women entrepreneurship is facing, gender differences and gender diversity in business, but also its impact on the economy. By approaching the theme we intend to highlight the problems faced by women both in terms of concepts, and education by analyzing employment rate by age, status, education level, gender and region, and also an analysis of the statistics on the discouraged people in finding a job by age and sex, and so on. Using the data collected and analyzed we will try to estimate the impact of female entrepreneurship on the Romanian economy.*

**Keywords:** *entrepreneurship, women entrepreneurship, entrepreneurship gender barriers, economic development, employment rate*

**JEL Classification:** M13 and O10

## 1. Introduction

Female entrepreneurship is a complex phenomenon and an important challenge in modern economies, given that the result of a business is given by entrepreneur footprint. We live in the age of entrepreneurship, which should be supported both by educational institutions, government entities and corporations.

In the last three decades, in the context of economic development, the positive impact of entrepreneurial activity was felt in all sectors after which the number of women entrepreneurs has increased considerably. However, there is very little information available to teach us how to drive change and how to capitalize this potential, considering the fact that women are considered essential for prosperity and global economic growth.

According to the data recorded at the National Trade Register Office, 36.23% of the shareholders and associations of local companies, and 39.65% of freelancers category are women.

Women entrepreneurs have a major impact on the economy through the number of businesses that are able to create, but also by their ability to create companies with prospects to grow and develop. After studies it was shown that women are a minority of those who launch new businesses, are self employed or managers, owners of small businesses. It is obvious that this economic source has not yet been explored successfully, and sometimes even remained untouched. Specific barriers standing in the way of female entrepreneurship are related to the type of education, lack of role models in entrepreneurship, entrepreneurship based on gender, weak marital status, competing demands regarding the time and access to finance.

Female identity, especially in developed countries is no longer refers only to domestic and reproductive activities. An essential component of its identity consists in remunerated work as a key condition that ensures equality and autonomy. The women are those who, regardless of other characteristics such as race, social class, place of residence, level of education continue to carry the burden of reconciliation between work and family, and also "care" for other family members besides children, parents, elders, relatives. These

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differences between men and women in taking "double role" demonstrates that in the new working conditions these two sexes do not take part in the labor market in terms of equality, as long as the conditions are different in both supply and demand in their market labor.

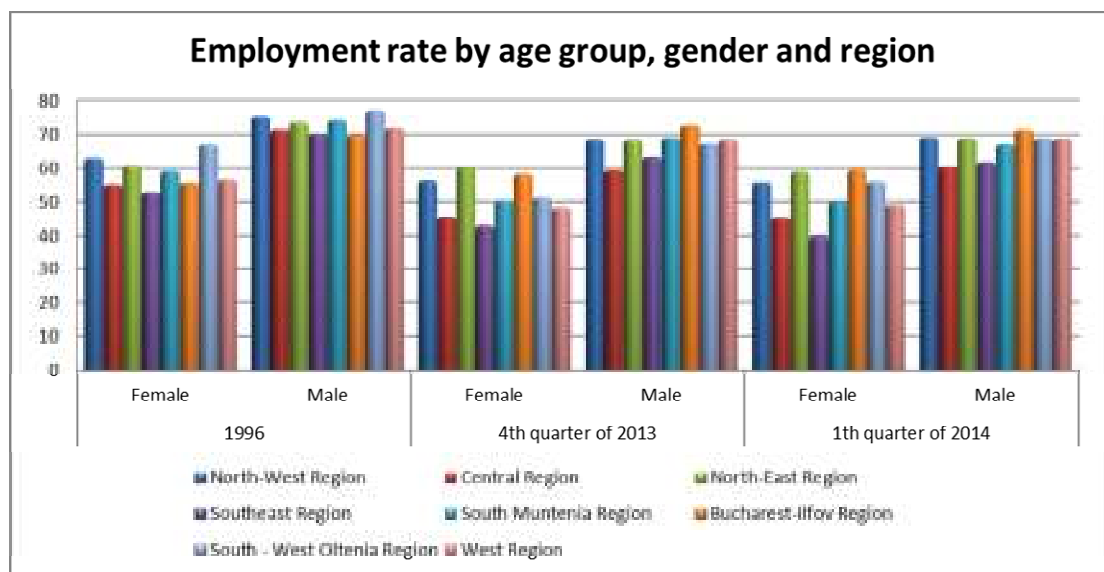
Female entrepreneurship should be examined both at individual (choice to become self-employed) and at company level (performance of driven and owned companies by women) to fully understand the differences between women and men entrepreneurs. In addition, female entrepreneurship depends on the situation of women in society and the role of entrepreneurship in the society. The factors which affect the gender dimension, as well as factors that affect entrepreneurship in society are involved in this context.

The issue of this paper thus focuses on the comprehension and analysis of the barriers and challenges that business women in Romania are supposed to.

## 2. Barriers and challenges of business women on the Romanian labour market

Historical transition, by a major complexity, in which Romania is committed had as central axis transition from a socialist economy characterized until 1989 by an aberrant bureaucracy, to a market economy.

In a market economy, in former communist countries now members of the European Union, competition, competence, and work vision raise from obscurity a new category of people: business women.



**Fig. no. 1 Employment rate by age group, gender and region**

Source: National Institute of Statistics

The economic success of the transition depends mainly on the speed of development of a new management culture that would facilitate the transition and development of a functional economy. Before 1989, equality between men and women played an important role in setting policy objectives. The transition to a market economy seems to have had a negative impact on women's representation in the labor market and the possibilities of obtaining their rights (Fig. No. 1).

Women entrepreneurs suffer from a large number of preconceptions, similar to those of women in the labor market, they are perceived as not able to face competition in the face of political pressure, but also economic and social.

For a proper representation of these impediments we have divided into three categories, as follows: contextual barriers, financial barriers and soft-skills barriers.



**a. Contextual barriers** refer to educational choices, stereotypes and women traditional principles, the field of business development, as well as vertical and horizontal occupational segregation.

The real value of a business man is appreciated according to the results and the type of relationships with others and not according to its gender. From this perspective, the future of women as managers, is provided.

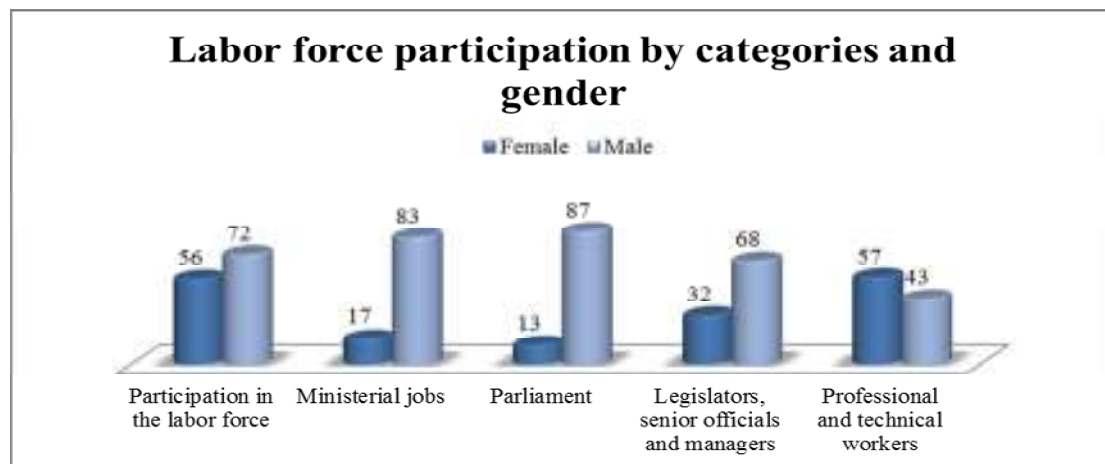
The way women entrepreneurs are perceived brings an injury to their image, so, men, suppliers, customers sometimes see in the women a weak character and they do not give much credibility when it comes to business. Therefore women have to work harder, to insist more on applying knowledge and skills to overcome these obstacles.

Regarding the traditional role of women, the reality is that they have difficulty balancing personal and professional life. Women entrepreneurs have a life characterized by connections (family, work, community) and relationships than through typical man's autonomy and logic, they also manage their work and family life in a simultaneous manner, tending to involve the husband and children in their businesses.

Another obstacle which women entrepreneurs, and not only encounter it relates to occupational segregation, which refers to the concentration of women and men in different professions. Occupational segregation is divided into horizontal and vertical segregation. Through horizontal segregation distinction is made between "masculine" and "feminine" professions, and leads to exclusion of women from certain professions and their concentration in low-paid occupations, representing an obstacle in reducing unemployment.

In the case of vertical segregation it was shown that despite the changes in the labor market, by the massive penetration of women in certain occupational areas in the hierarchy of qualifications and positions that were previously excluded women entry in the higher levels is still limited even in typically female professions.

Labor force participation is presented in figure no. 2. Data analysis shows a low representation of women in high positions in the hierarchy and administrative level, in decision-making positions, policy development and government posts.



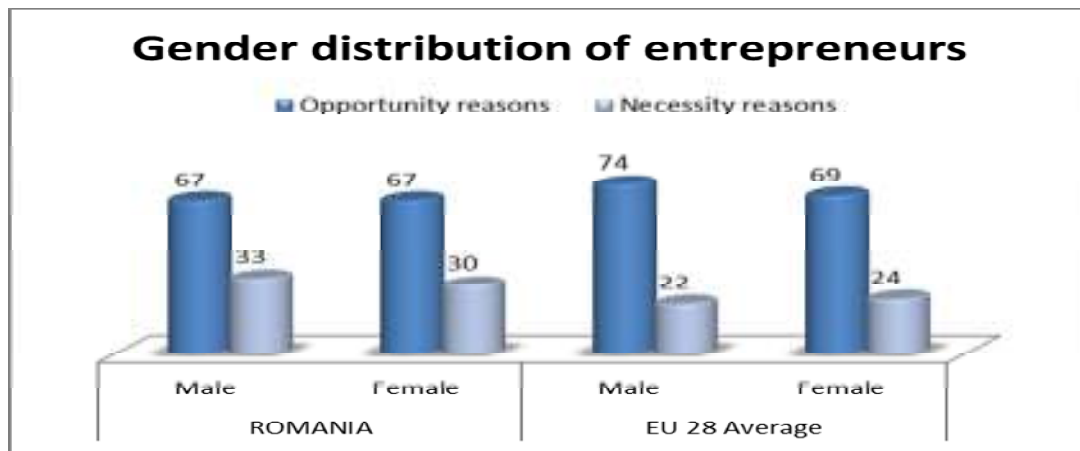
**Fig. no. 2 Labor force participation by categories and gender**

Source: The Global Gender Gap Report 2013

Based on the analysis, we see that women have a higher percentage than men just as professional and technical workers, especially in services.

In our country, women have proved that they can start their own businesses and take full responsibility in managing their specific activities as immediate practical reasons, the economic need to maintain single family or to contribute to the family budget.

Representation of the gender distribution according to the motivation of entrepreneurs is presented in figure no. 3. Here we see that both men and women were motivated by certain opportunities when they decided to open a business. Regarding the case of Romania, it is below the EU average, which is a problem for the country's economy.



**Fig. no. 3 Gender distribution of entrepreneurs**

Source: Global Entrepreneurship Monitor 2013 – Global Report, Romania

Many women have decided to work on their own considering that unemployment has risen dramatically and previous work situation no longer complies with financial terms for family maintenance.

Most entrepreneurs have the tendency to get involved in sales and develop products and services, mainly oriented on women, they are also powerful in dealing with staff.

#### **b. Economic barriers**

Financial constraints have the largest share in all analyzed difficulties for entrepreneurs in general and especially for women entrepreneurs. For women entrepreneurs it is very difficult to obtain capital in order to set up or develop a company the causes are primarily focused on the distrust of the banks.

These difficulties faced by women lead to a slower development or in the development of smaller companies, evolution which leads to the impossibility of contracting funds.

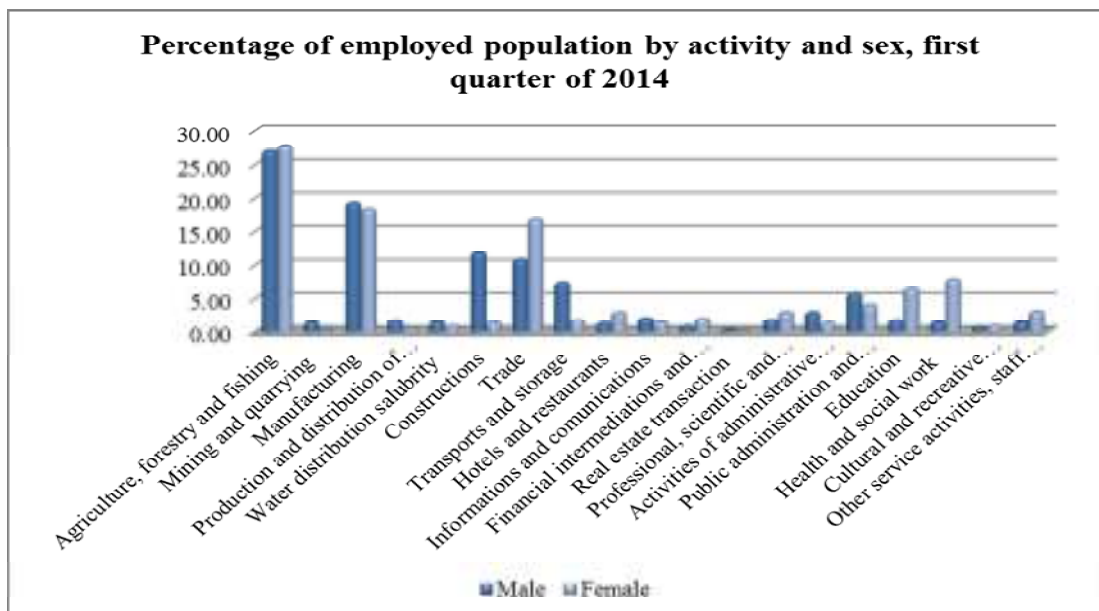
A World Bank study concluded that there are fewer loans underperforming for women, they save more and assume less risk, even so the banks refuse to finance the business, or if the business plan is accepted the contracted amount is smaller but with higher interest rates.

In Romania, in the shareholders and members level, 33,33% of SMEs are owned by women.

Another economic barrier refers to the existing wage differences between men and women. Although currently there is a legal framework that provides equal pay, the problem persists and gets worse with the increase of the age.

Wage discrepancies are coming largely because of qualitative characteristics of women employment and their concentration in certain sectors. From the data analyzed it can be observed that women hold the largest share in agriculture. Also, their percentage exceeds men share in areas such as education, health, commerce, insurance. (Fig. No. 4).

Women remuneration is less than men for the same work by about 12%. Also, we have to note that there are currently job offers, especially managerial positions which although it requires knowledge and skills higher towards average, are not followed by an appropriate salary. Even if in Romania has been an improvement in terms of women's wages to those of men, the differences are still present.



**Fig. no. 4 Percentage of employed population by activity and sex, first quarter of 2014**

Source: National Institute of Statistics

Another obstacle encountered refers to the current economic climate which is not favorable for start-ups. Bureaucracy, taxes are just two issues faced by entrepreneurs in general, and especially women entrepreneurs.

### c. Soft-skills barriers

Besides the barriers listed above, the last category refers to the skills and competencies of entrepreneurs.

Women entrepreneurs must have a certain psychological profile, carefully tailored, entrepreneurship is an original characteristic. In order to access social networks and to initiate and maintain contact with partners, woman entrepreneur must be responsible, to know to do, to be flexible, to adapt, and not least to possess power of decision. Also, the entrepreneurial spirit can be acquired through experience, by desire.

The absence entrepreneurial training lead to a reduction of development opportunities. Many women entrepreneurs who run a small business, tend to isolate themselves from the rest of the business and focus on its segment.

### 3. Women entrepreneurship models

Entrepreneurship and success have no gender. Whether you are male or female, matters only vision, passion, skills and the way you act. However, entrepreneurship is a relatively new field for women, the number of men entrepreneur being significantly higher.

Today, the fair sex representatives show us through many successful examples that a brilliant career is build only with ambition and inner resources of each of us.

**Rucsandra Hurezeanu**, is Ivatherm company founder. It all started in 2005, when, after a decade in pharma field decided to build its own business. Ivatherm is the first Romanian dermo-cosmetic company, whose products are made with thermal water from Herculane, but "made in" France, which is the country with the greatest expertise in cosmetics.

The founder, major shareholder within Ivatherm decided that the research and manufacturing be realized in France, because the local industry hasn't the same expertise. The Ivatherm creams are produced in two small factories from southern France, and then packaged and sold on the Romanian market, and more.

She launched the business helped by the mother, pharmacist with experience in business, after an investment of several hundreds of thousands euros, own funds, and after two years has depreciated investment.

After eight years of existence, Ivatherm is one of the top five producers of cosmetic dermatology in the country, and its creams reach on the shelves of almost 1,000 pharmacies in the local market, but also on the shelves of pharmacies in Ukraine, Egypt, Hong Kong, and also Japan and Taiwan.

In 2013, Ivatherm recorded a turnover of 6.5 million RON, with 5.31% less than the previous year. In 2013, the company reported a net profit of 759,897 RON, with a total of 30 employees.

**Camelia Sucu** is one of the Mobexpert company founders, one of the most respected furniture retailers, the current owner of the Class Living furniture retailer, owner of a portfolio of diverse businesses in areas such as design, lifestyle, nutrition and agriculture.

She graduated the Faculty of Medicine "Carol Davila" from Bucharest and worked as a doctor for three years, at the Victor Babes Hospital in Bucharest, and in 1993 he founded with his old husband Mobexpert society.

Camelia and Dan Sucu started their business by opening a store in Unirea shopping center, where they had offered for sale imported furniture. In 1994 the group opened its first factory where office chairs were produced, followed by sofas and modern furniture melamine.

Year 1995 meant for the company the start of the development program of its own network of stores and the introduction of imported products from famous European manufacturers.

Later it began to acquire shares at Samus Dej (in 1996), Ilefor Targu Mures and Suceava Mobstrat so the company began to produce. In 2009, the company had 3,000 employees, of which 1,900 factories and 1,100 in retail and services.

Luxury furniture brand Class Living, operated by Class Mob, has recorded in 2013 a turnover of approximately 3.2 million RON and also, a losses of over 3 million Ron.

Even though the owned business has recorded losses, Camelia Sucu did not lost its confidence and continued to invest in furniture, and more. Thus, it has chosen to invest almost 5 million euros in a wholesale market in Bucharest, later rebranded Abundia. Also, she purchased some land, a vegetable farm and has plans to open two cow farms.

It also started to sell fresh juices from fruit and vegetable (Iconic Juices & Detox), and menu-products based on salads and soups, efficient for weight loss and detoxification.

Currently, Camelia Sucu is the entrepreneur who opened all the luxury furniture drawers, fresh agricultural investor, and mentor for young people in business.

**Bibiana Stanciulov** is one of the most powerful women in Romania, being associated with the brand of Topoloveni jams, the only Romanian traditional products protected by the European Union and awarded with the distinction "Superior Taste Award" for two consecutive years, her company being provider for the Royal House of Romania.

A sociologist by profession and ex radio women, she decided to make business immediately after 1989, going first in conserve trading, delivering this type of products, mainly to the Army, and after a damaging contract signed randomly, she decided to build his own factory.

The beginning was very hard, for almost eight years, up to 90% of product has been exported in Austria and Germany, in barrels of 250 pounds, the Germans putting it in jars with their own label and sugar beyond measure. Thus, it has decided to do something about it, and after a lot of scientific research succeeded to convince everyone that Topoloveni jam have no sugar, other preservatives, only plums.

Upgrading the factory investment was over 550,000 euros and was achieved in almost 10 years.

Currently, the largest market of Topoloveni jam is Bucharest, the company have contracts with several supermarkets and herbal stores.

According to the data from the Ministry of Finance, the company led by Bibiana Stanciulov recorded in 2013 a turnover of 3.3 million RON, with a profit of only 18,828 RON. But, this international brand owner continues to invest in the factory from Arges county, developing business up to production of jams, tomato paste and even vegetable stew, all made on the same concept, no sugar, no preservatives.

**Cristina Batlan**, known as "Lady Musette" is one of the few Romanian entrepreneurs in footwear area who managed to sell in New York or Paris shoes made in Huși.

She decided to become entrepreneur about two decades ago at 18 years, while she was student of Law Faculty. For her Musette shoes and handbags business success, it decided to abandon the university in order to focus its attention on the company which today is present in the fashion capitals and has revenues of nearly eight million euros.

Initially, the business was texture one, and after about 10 years has been made the transition to a new stage, a leather dressing production factory. Currently, Musette owns in Romania two production units, which are producing over 60,000 shoes and bags in each collection.

Cristina Bâtlan, Musette company founder, had in 2013, 375 employees and a turnover of almost 10 million euros. The products are made in Romania and are sold in 27 stores, both local market and abroad in USA, France, Hungary, Luxembourg, Israel, Mongolia, Bulgaria, and also, Lebanon and France.

**Iulia Dobrin**, is another well-known name of female entrepreneurship which has succeeded in Romania. This young lingerie designer, had the courage to dream and dare to venture, at 25 years to buy an 55 years old lingerie factory in Bucharest to produce elegant pieces for exquisite women. Thus, in 1992, was born I.D. SARRIERI company brand.

It all started from the desire to create more than practical lingerie, rather than white, black or beige pieces. The importance given to the "hand made" details, to the original models, France and Italy materials, the quality of the products transformed the Bucharest factory, with a 55 years in the lingerie area history, in I.D. Sarrieri, one of the most trendy fashion lingerie brands in the world ([http://ro.wikipedia.org/wiki/ID\\_Sarrieri](http://ro.wikipedia.org/wiki/ID_Sarrieri)).

I.D. Sarrieri brand, is more than lingerie. The inspiration comes from vintage lingerie pieces, from exclusive haute couture and pret-a-porter trends. Special Corsets, new forms of bras or push-up triangle, girdles, slips "Marilyn Monroe", I.D. Sarrieri design is always high-fashion.

I.D. Sarrieri creations are present in over 35 countries worldwide, collections are sold in the finest lingerie boutiques and department stores like Henri Bendel, Neiman Marcus, Saks Fifth Avenue, Printemps, Selfridges, 10 Corso Como, Breuninger, Takashimaya and the most famous Ginza shopping avenues in the world, Faubourg Saint-Honore, Bond Street, Fifth Avenue ([http://ro.wikipedia.org/wiki/ID\\_Sarrieri](http://ro.wikipedia.org/wiki/ID_Sarrieri)).

In 2013, I.D. Sarrieri company had a turnover of approximately RON 7 million, registering a loss of almost RON 750,000. According to the data from the website of the Ministry of Finance, the company reported loss also in 2012, but in 2013 the company had 95 employees, an increase compared with previous years.

These are just a few examples of powerful women in world business, which demonstrates that any representative of the so-called "weaker sex" can be a successful model.

Female entrepreneurs mentioned above have brought over the years many benefits to our country, from job creation up to increase exports, and more.

We observe that women entrepreneurs lead successful businesses in our country and the number of businesses started by women business becomes increasingly larger.

Women entrepreneurs outlined above have encountered many obstacles in their evolution, but passion, ambition to do something, to leave something behind gave these women the strength to continue.

#### **4. Conclusion**

Female entrepreneurship in Romania represents a subject acclaimed, censured, desirable or marginalized. The contribution of women entrepreneurs in the Romanian economy is growing, but they face political, social and economic barriers in creating healthy companies.

The models listed above have reached the top through what is very important for an entrepreneur, namely hard work, from a small business started as a student up to an international brand.

The transactions made by these women helped Romanian economy, the businesses initiated increased the exports, and automatically to GDP increase.

We live in a country where politics is the boss, with an economy that encourages consumption, not production. Loans interest increasing and the long and difficult process in order to obtain EU funds are only two barriers that female entrepreneurship have to face today.

For a healthy economy, we need a fiscal measures package that encourage investments, we need preferential interest for the entrepreneurs who just start the business, and a fair tax system, a tax collection accurate instead of their growth, are just two of concrete measures for business support.

Business environment is very tough, who reinforce the women, therefore it is necessary a balance that allow it to face demands. Thus, in Romanian business environment, many things can be changed, for example: "too big" red tape, the payment of VAT on invoicing and not on collection, social security reduction, as well as the implementation of some preferential conditions for the newly women businesses and lower taxes.

There are many Romanian women who make profit in troubled times, through work, perseverance and courage. All these are necessary qualities of an entrepreneur. There remains, however, finding and getting funding.

In order to have a growing economy and creation of new jobs, Romania needs more women entrepreneur and state support for them.

We need a unified economic society, balanced and developed under the dome of some consistent and proactive fiscal policies.

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# YOUNG ENTREPRENEURS - PROMOTERS OF ECONOMIC DEVELOPMENT

Florentina-Georgiana, Cojocaru<sup>1</sup>

## Abstract:

*Entrepreneurship in Romania is no longer an unfamiliar concept, but we can assert that it is a journey full of obstacles. Bureaucracy, the lack of fiscal predictability as well as the absence of an entrepreneurial culture often lead entrepreneurs to bankruptcy. A country develops itself with the help of strong economic policies dictated by the economic environment and not by the political one. The entrepreneur's policy is to make profit which has significant effects in all areas: social, educational, economic. Sustaining entrepreneurship is a solution to be taken into consideration for weighting youth unemployment, given the level reached in the second quarter of 2014 of 23.90%.*

*This article aims to capture aspects of the current situation of entrepreneurship in Romania among young people. Based on data collected, we will analyze the unemployment rate among young people at education level and county-level compared to the number of companies founded by students, with the rate of workforce occupancy. The contribution of young entrepreneurs to economic growth can be achieved in two phases, as more companies are founded, number of employees increases, as a consequence, more young people will become entrepreneurs, so the unemployment rate among them will thus decrease.*

**Keywords:** entrepreneurship, innovation, economic development, SMEs, youth unemployment

**JEL Classification:** M13 and O10

## 1. Introduction

In the contemporary economy, entrepreneurial spirit and activities plays an increasingly important role. Once its accession to the European space in 2007, entrepreneurship began to grow in Romania.

The process of globalization and the global crisis of recent years have encouraged a number of structural changes felt deeply in the entrepreneurial plan. Competitive pressure increased at enterprise level, which caused an increase of productivity by using new technologies and process innovation. In addition, developments in the information and communication field led to the creation of new markets, which have revolutionized production processes in many sectors of the economy: industry and, in particular, the one of services. Advanced technology and the reduced costs of remotely communication, have contributed to easier access of entrepreneurs to knowledge and cooperation networks enabling them to operate on an international scale. The new opportunities have stimulated entrepreneurial initiative and creativity, which are considered the engines of economic development in 2020 (Post-Privatisation Foundation report on the SME sector in Romania, edition 2013).

Entrepreneurship is one of the main drivers of innovation, competitiveness and economic and social development (Carree and Thurik, 2003; van Stel et al., 2005; Wennekers and Thurik, 1999; Wennekers et al, 2005). Entrepreneurship makes creativity and innovation enter on the existing markets, having as prime scope the change in introducing innovative elements or even the creation of other markets, technologies, products and industries, raising capital resources which would lead to economic development and creation of new jobs. Thus, we can say that entrepreneurship is a key factor in economic and social development.

"The entrepreneur is the intermediary between capital and labor" (Cantillon, 1755). This is supposed to be the first published definition of entrepreneurship in the first treaty of modern economy "Essay sur la Nature du Commerce en General". Entrepreneurship can not be defined precisely, some authors believing that entrepreneurship is a specific activity

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(Schumpeter, 1934), others have emphasized the discovery of new opportunities (Kirzner, 1979), others have focused on the creation of new enterprises (Gartner, 1985 ) or on generating new innovative projects (Casson, 1982). In general terms, entrepreneurship involves analysis, evaluation and exploitation of opportunities, even the creation of new companies (Shane and Venkataraman, 2000).

Following a study conducted on Romanians, the result is that 79% of Romanian young people under 30 years have a positive attitude towards self-employment, in addition, 3 out of 4 young Romanians believe that in 10 years entrepreneurship will be more important or at least as important as today, while 3 out of 10 Romanians can be seen opening their own business (the Economist Magazine, The entrepreneur, The Unknown Hero of the economy. A fight's market, so you fight!, 2013).

A first finding on the the above data refers to the obstacles that young people encounter in setting up their own business, and not only, given that the unemployment rate among young people far exceeds the EU average - 28. The major obstacles for young people, collective characterized through creativity, innovation, entrepreneurship and adventurous spirit, low aversion to risk and a greater sensitivity to technological changes, are the lack of opening capital, and also their uncertain economic situation.

We live in a world full of opportunities and so often we hear names like Mark Zuckerberg (Facebook founder, 26 years), Blake Ross (Founder Mozilla Firefox, 25 years) Talpes Florin and Radu Georgescu (BitDefender). These last ones come from different countries, but what unites them is that they have done business from their hearts and did not miss the opportunity to develop their managerial qualities of youth, in this way becoming the world most famous entrepreneurs. Despite their fame, nowadays very few young people are trying to follow their foot steps. Their success stories, as reflected in capitalist charts can have a significant impact on young people, the persons listed before can perform the function of mentors in entrepreneurship.

Due to financial crisis, but also to the political one, it is very difficult for young people to start a business and this initiative is destroyed right from the start, so the idea of entrepreneurship has no powers to be developed in the imagination of our future business men and women.

The lack of entrepreneurial subjects in higher education with which imagination and innovation can be stimulated and the cultivation of managerial qualities as well as the absence of funds for educational programs, lead to lack of knowledge regarding how to launch and manage businesses by young people. Persistent young people who overcome these barriers encountered others such as corruption, lack of transparency, protectionism but also problems in finding and attracting financial resources for the company's activity.

The first step in the development of the study was an analysis of Romanian entrepreneurial ecosystem using the data contained in the Global Entrepreneurship Monitor in order to provide an overview on the current situation, on the evolution of Romanian perceptions on entrepreneurship, as well as on the entrepreneurial activity in Romania. The next step in the study was the identification of factors that have the potential to positively or negatively influence the ecosystem of entrepreneurship among young people in Romania at county level, following a carefully review on the occupancy rate, unemployment rate, but also on the companies founded by people between 18-24 years, especially students. The results obtained were analyzed to understand the current situation of entrepreneurship among young people in Romania and which are the measures to be taken to increase it.



## 2. Romanian entrepreneurial ecosystem – where to?

"Small businesses are the main catalyst of economic growth (P. Drucker)". Small businesses contributes largely to achieving the fundamental objectives of any national economy.

Small and medium enterprises have become more important in the economy of Romania as workforce providers, as well as key to the local and regional community wellbeing. Entrepreneurial environment in which these businesses develops require special skills such as responsibility, spontaneity, adaptability, foresight, initiative and management skills.

Declining trend of the SMEs places Romania among the last Member States from this category with major repercussions on workforce. Currently, small and medium enterprises provide approximately 2/3 of all jobs. Moreover, this decrease leads to gaps in entrepreneurial development which is measured mainly through the number of active SMEs per 1,000 inhabitants, which currently worth 24 companies per 1,000 inhabitants.

Surprisingly, statistics show that Romania is the first country in the EU in terms of entrepreneurial intentions, 23.70% of the Romanian population is willing to own their own business.

Table no. 1 shows the evolution of individual perceptions recorded in Romania in 2007-2013. Looking at this table, it can be observed, first, that Romania registered in the analyzed period, values greater than the EU average. That means that the Romanian population have a strong interest in entrepreneurship, business development, for a status in the society.

**Table no. 1 Evolution of individual perceptions in 2007-2013 (%)**

Individual perceptions	2007	2008	2009	2010	2011	2012	2013	EU-28 Average
Fear of failure	28.3	41.5	50.4	45.99	43.05	45.05	37.3	39.8
Perceived capabilities	29.4	23.8	27.3	38.18	41.63	38.34	45.9	42.3
Entrepreneurial intentions	41.6	37.9	35.5	39.05	29.36	30.36	23.7	13.5
High status to successful entrepreneurs	46.6	48.8	49.3	57.32	59.37	68.63	72.6	65.5
Perceived opportunities	26.2	25.8	13.8	17.52	36.06	36.73	28.9	28.7
Entrepreneurship as a good career choice	62.5	68.5	67.2	65.5	69.42	71.15	73.6	56.9
Media attention to successful entrepreneurs	50.4	56.2	47.4	46.92	56.74	55.24	61.3	49

Source: Global Entrepreneurship Monitor 2013 – Global Report, Romania 2007-2013

During the global financial crisis, the fear for failure increased significantly, but for 2013, it recorded a lower value even as the EU-28, showing that the Romanians began to gain confidence in themselves, in their own strengths and ideas. Also, Romania is the second country in the EU Member States - 28, where 73.60% of the population believes that entrepreneurship is an excellent career alternative. All member states, including Romania, considers that entrepreneurship offers a privileged status in the society.

A significant development for the economy of our country is the perception of people who believe that in the next six months good opportunities will appear for starting a business in the environment in which they live. As we can see, Romanians perceptions on entrepreneurship are encouraging, but the data on the number of SMEs shows the opposite.

Marius Ghenea, a Romanian success entrepreneur, states in a first book about Romanian entrepreneurship: "Romanian entrepreneurs are in the majority, convinced that no one can understand, lead, coordinate and restructure their business better than themselves". However, we see that taking the decision intuitively is not enough for sustainable development of small and medium enterprises.

There are sufficient reasons for choosing to carry out entrepreneurial activities on our own, instead of having an employee status. Most often, entrepreneurship is viewed as an

opportunity or as a means of living in the absence of an alternative or because of the fear of becoming unemployed in a future perspective. As opportunities shall be declared desire for independence and financial gain higher than as an employee.

Regarding the rate of entrepreneurial activity in Romania, the highest levels can be found in the rates of entrepreneurial activity motivated by opportunity and necessity. Also we see that early stage entrepreneurial activity rate in 2013 is 10.1% higher than that measured in 2012 (9.22%). At the same time, is observed an increase in the owners of new companies, as well as, on the entrepreneurs in training (Table no. 2). Unfortunately, these rates are among the lowest in the efficiency-driven economies.

We observe that, besides the absence of a cultural heritage, Romanian entrepreneurs have a lack on the entrepreneurial models and methods.

**Table No. 2 Rates of entrepreneurial activity in Romania (%)**

<b>Entrepreneurial activity</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Eu-28 Average</b>
Discontinuation of businesses	9.4	10.65	7.71	3.78	4.3	2.9
Nascent entrepreneur-ship rate	2.79	3.2	5.56	5.51	6.2	4.8
New business ownership rate	2.3	1.09	4.51	3.83	4.2	3.3
Early-stage entrepreneurial activity	5.02	4.29	9.89	9.22	10.1	8
Established business ownership rate	3.38	2.08	4.57	3.91	5.3	6.4
Improvement-driven opportunity	2.76	2.94	5.68	6.94	31.6	22.7
Necessity-driven	1.71	1.27	4.09	2.23	31.6	47

Source: Global Entrepreneurship Monitor 2013 – Global Report, Romania 2009-2013

"It's very hard to create business models in only 20 years of democratic development and market economy. And the few existing models are rarely presented to the public interested in entrepreneurship because of media tabloidization and the fact that the business journalism (the only that shows these models) have a niche audience "(Ghenea M.).

Also, from the data collected, it resulted that Romania is ranked among the countries with very poor representation of young people in business and granting them some opportunities to launch and use their abilities to the benefit of the country should be seen as an investment with a good chance for success.

Young people with entrepreneurial education develop business skills, as well as attitudes and essential skills, including creativity, initiative spirit, tenacity, team work abilities, risk assessment and responsibility.

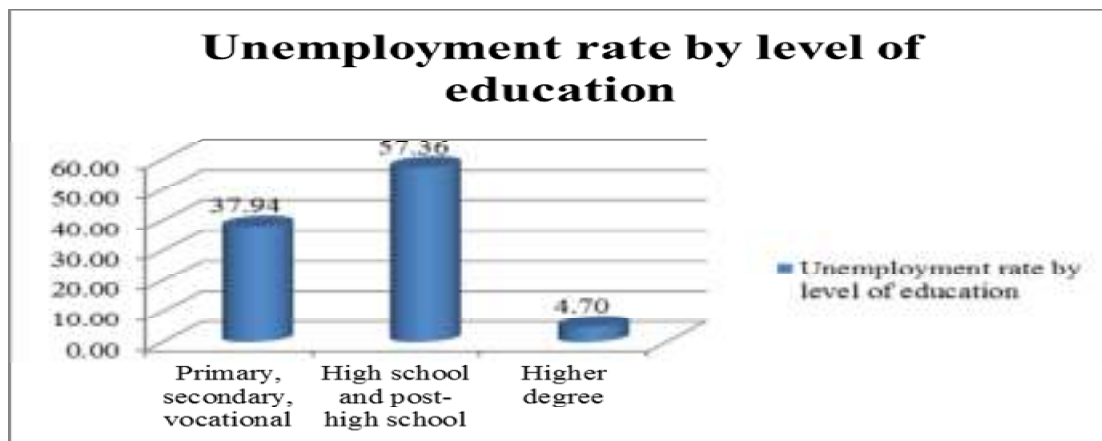
### **3. Youth unemployment - their only chance being the entrepreneurship**

Supporting entrepreneurship is a solution to take into account for the problem of youth unemployment. Young entrepreneurs, known as "the generation of ideas", have proved that they have advanced knowledge in the field of IT and in conjunction with their participation in social networks lead to the establishment of a successful business which decreases the level of unemployment, contributing thus to economic growth and innovation.

Because of the lack of experience and a limited number of skills compared to most adults already integrated into the workforce, young people often have difficulties in finding jobs.

The issue of youth labor market classification has become a serious one because, in the last years, it was recorded a critical unemployment rate among young people in Romania. Given the above, I will try to analyze the current situation of unemployment rate both, by level of education of young people with ages between 18-24 years, as well as at county level, of the activity rate and occupancy rate showed among youth.

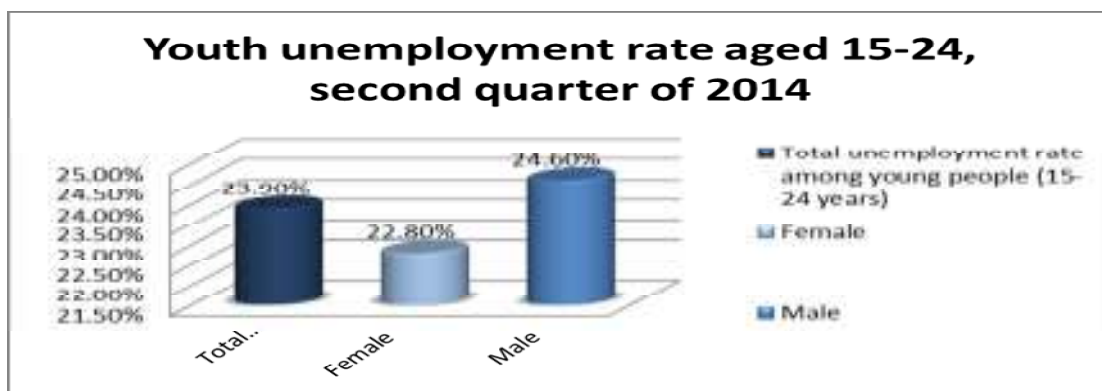
Following the studies developed in this regard it emerged that 74% of young Romanians with higher education have a positive attitude towards entrepreneurship visible aspect through the youth unemployment rate by level of education.



**Fig. no. 1 Unemployment rate by level of education**  
Source: The National Employment Agency, June 2014

I find it relevant that the representation of unemployment rate among young people, taking into account the large number of unemployed persons, based on the education level, representation shown in Fig. No. 1. We notice that young unemployed persons with high school and post-high school education, but also those with primary, secondary and professional education have the largest share in the total of young unemployed persons up to 25 years.

In the second quarter of 2014, from the data collected, it appears that the unemployment rate among young people has reached a level of 23.90% (Fig. No. 2). Youth unemployment causes long-term effects on both the income and the stability at the workplace since young people affected by unemployment have lower levels of credibility and they are not as confident and flexible when comes the opportunity thus, professionally growing harder.

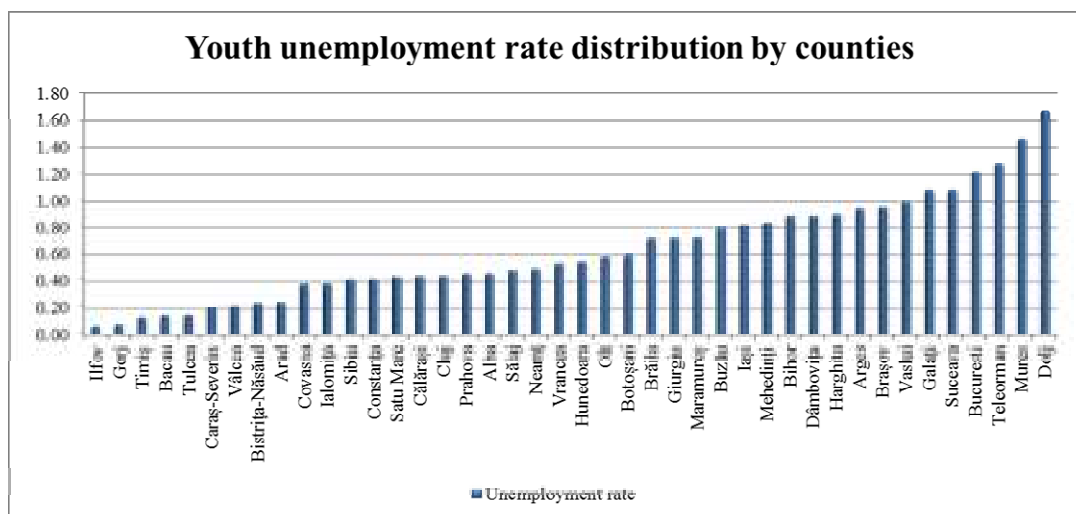


**Fig. no. 2 Youth unemployment rate aged 15-24, second quarter of 2014**  
Source: National Institute of Statistics, second quarter of 2014

The increase of unemployment rate among young people can be seen also through the school abandonment rate which in Romania is currently growing, as well as the educational system. It was discovered that young people renounces school mainly because of personal or family problems, learning difficulties or unfavorable socio-economic situation, but also because of the structure of the education system and school environment.

For the development of dynamic companies is essential to improve education for entrepreneurs to be able to gain in universities, especially those with technical and scientific guidance, which should play a key role in supporting the development and outsourcing in the field of commercialization new technologies that are based on innovation and research.

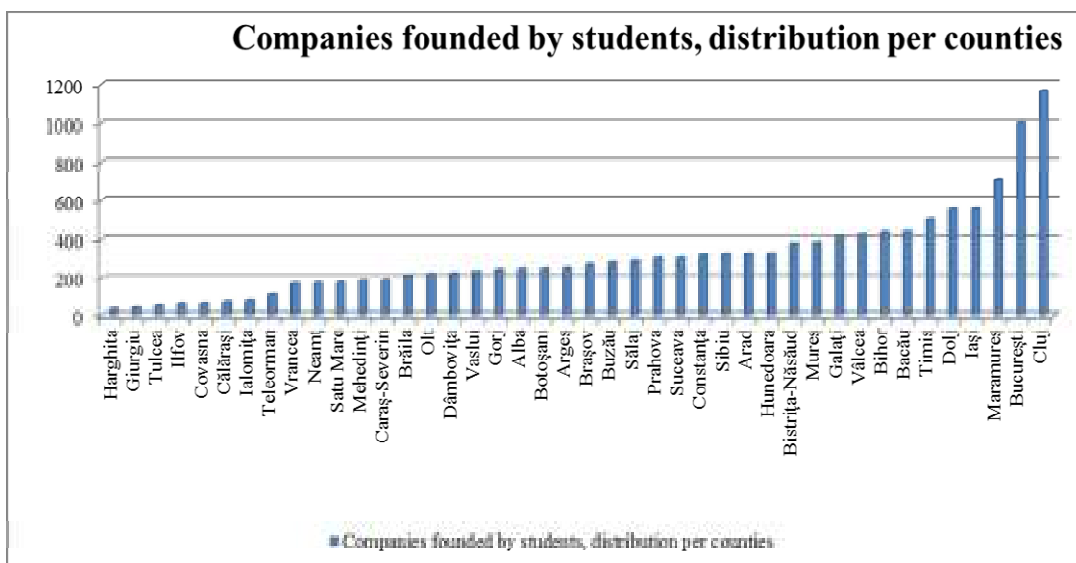
Analyzing at county level, the lowest unemployment rate is not as we expected, in Bucharest, but in Ilfov - 0.70% of the total of 23.90%, followed by Gorj, Timis, Bacau, Tulcea. Counties with the highest unemployment rate among young people are Dolj (1.67%), Mures (1.47%), Teleorman (1.29%), Bucuresti (1.22%), Suceava and Galati – 1.09%. Representation of youth unemployment rate aged 15-24 can be found in Fig. No. 3.



**Fig. no. 3 Youth unemployment rate distribution by counties**

Source: The National Employment Agency, June 2014

Despite the fact that the counties Dolj and Bucharest recorded the highest rates of youth unemployment, we see that it ranks in the top 5 counties where most students have founded SMEs (Fig. No. 4).



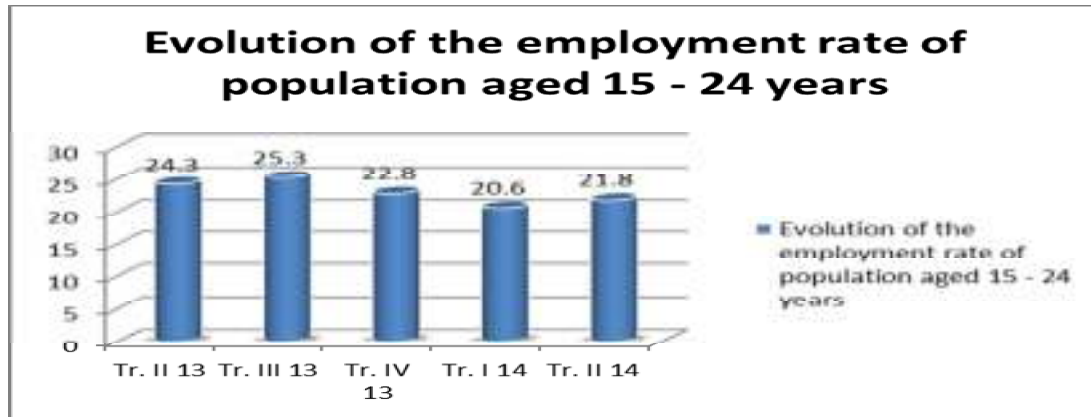
**Fig. no. 4 Companies founded by students, distribution per counties**

Source: The National Employment Agency, June 2014

Last ones benefited of the facilities that Government gives to students, programme for all young people who want to become entrepreneurs and based on which will be exempt from

paying some taxes and fees. The program is developed in order to reduce the unemployment rate among young people in return for increasing employment rates among them.

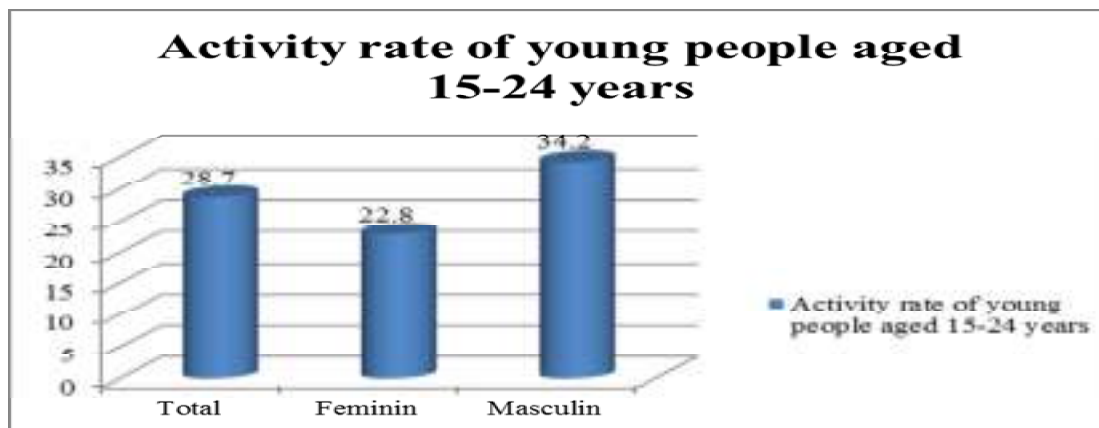
However, the lack of studies, models and mentors, but also business incubators for young people, leads to an occupancy rate of young population smaller and smaller. As shown in Fig. No. 5 the occupancy rate for young people up to 24 years old recorded a negative trend compared to the same period in 2013.



**Fig. no. 5 Evolution of occupancy rate of population aged 15-24, second quarter of 2014**

Source: National Institute of Statistics, second quarter of 2014

If we were to compare the constraints faced by young people with initiative, compared to adults, we will see that adults have more advantage due to work experience they already have, but they are not as enthusiastic and do not contribute to the creation of new businesses. In this way, the business community, as well as the economy overall, suffers.



**Fig. no. 6 Activity rate of young people aged 15-24, second quarter 2014**

Source: National Institute of Statistics, second quarter of 2014

Following the data collected, it resulted a 28.70% rate activity. We observe that young males have a higher activity rate, activating mainly in IT, technology, while young women are more active in services (Fig. No. 6).

The contribution of young entrepreneurs to economic growth can be achieved in two phases, as more companies are founded, number of employees increases, as a consequence, more young people will become entrepreneurs, so the unemployment rate among them will thus decrease.

In order to increase the number of entrepreneurs, we need funding and mentoring. Funding without mentoring is inefficient, as is mentoring without funding. Also, in order to succeed, we require a simple and friendly environment in terms of regulations and fiscalization, in other words the reduction (Taming) of red tape.

#### 4. Conclusions

Entrepreneurship represents a solution for a healthy economy, so it is important to create policies for the maintenance and development of entrepreneurship in Romania.

The biggest obstacle in the development of a business is the lack of financing. This is especially true for those seeking to develop a new type of product or service, while traditional funding — such as business angels, private equity and venture capital — remains even more limited for a young entrepreneur. Addressing the funding gap must be a key priority for Romania in order to support young entrepreneurs and help stimulate job creation.

Also, providing financial support alone will not be enough to enable young entrepreneurs to fulfill their potential and serve as an engine of job creation. It is known that capital without mentorship may prove to be capital lost.

Young entrepreneurs need more support than their older peers, so there is a pressing need to provide these growing businesses with a stronger support ecosystem: with business incubators especially, but also mentors, start-up programs, entrepreneurs' clubs and associations — which help facilitate networking and the sharing of best practices — and know-how.

The creation of clusters or technology hubs should be taken into consideration in order to bring together all the disparate but essential components and players — including universities and corporates — of a successful entrepreneurial ecosystem, facilitating young entrepreneurs' access to knowledge, opportunities and resources.

Viewed objectively, it should be obvious that younger entrepreneurs need more of this broad-based support. They have limited experience in running businesses and fewer opportunities to build useful networks with peers and mentors. Unless young entrepreneurs get extra help, their efforts may not be successful even if they are able to attract funding.

Also, bureaucracy, labor force taxation and the ambiguity of the legal framework are considered to be barriers to entrepreneurship development in Romania. Decision makers priority, in order to stimulate entrepreneurship should be the establishment of some policies for the demolition of these barriers.

Stimulating young people to become entrepreneurs would reduce the unemployment rate and will increase revenues to the state budget.

Young entrepreneurs will not succeed in greater numbers until governments create a simpler, SME-friendly business environment.

For reducing bureaucracy we need a simplified system, namely the realization of two statements per year, at the beginning of the fiscal year and the end of the fiscal year, for those who have never had status of entrepreneur.

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# FEMALE ENTREPRENEURSHIP IN LOCAL DEVELOPMENT

Iuliana, Ciochină<sup>1</sup>

## **Abstract:**

*Under the pressure of globalization, local communities around the world are looking for new strategies to facilitate local economic development, to reduce poverty and for social inclusion, through harnessing local resources, the creation of workplaces and of better life quality for men and women.*

*In this context, programs to encourage and promote the entrepreneurial spirit in women considering that, on a global level, one third of new businesses are their creation, a significant part of SMEs, the primary source of new workplaces and of economic growth in a local community. In a competition where women continue to be confronted with more obstacles than men, measures must be taken to ensure the best possible context to support female entrepreneurship in such a way that local communities to fully benefit from their potential in creating workplaces, economic and social development on a local, national and European scale.*

*The lack of confidence in creating their own businesses, difficulty in balancing professional and family life, inability to obtain the capital necessary for developing their business, difficulty in preparation and limited access to information are all problems that hinder initiative and the development of women's entrepreneurship. Female entrepreneurs are in need of recognition, from financiers and business partners, logistical support and help in increasing managerial and leading capacity.*

**Keywords:** *entrepreneurship, local development, female entrepreneurship, social entrepreneurship*

**JEL Classification:** L26, M13, O15

## **1. Introduction**

Studies previously conducted on the place and role of SMEs in the economy and their relation to business developments have highlighted the opportunity to develop female entrepreneurship as a dynamic factor in the development of local communities. The share of SMEs in the market structure has grown in recent decades, and they are considered "growth engine", a major source of jobs, the space of showing innovative, entrepreneurial skills, an important factor for economic and social development, an strategic area, interesting for any economy. With positive effects on national, European and world economies, occupying market segments that are inefficient for large enterprises, the ability to respond quickly to community needs, taking advantage of the opportunities by using local resources, the SMEs contribute to ensuring sustainable economic and social development. In this context, as shown by studies in the field, women entrepreneurs have an important role in economic growth, particularly in countries with low level or development environment. For this purpose, we have performed an analysis of the literature in the field, focusing on the connection between business and women entrepreneurship, the interaction between small and medium business managed by women and local development. This paper aims to identify the place held by female entrepreneurship in the local economic development.

## **2. Entrepreneurship in the literature in the field**

The business world has faced profound changes in recent years. Entrepreneurship has become a term that is increasingly used worldwide, defined from different perspectives, by those who are called pioneers in this field, such as Cantillon, Say and Schumpeter. The term tends to be associated with the economic development and the welfare of society. The role of entrepreneurship in national economic growth was highlighted by Joseph Schumpeter, the economist most often associated with this term. The definition of entrepreneurship, from his perspective, focuses on innovation of new products, new

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production methods, new markets, new organizational forms, the wealth being created when innovation results in new applications. Schumpeter argues that innovation is the driving force not only of capitalism, but also of economic progress in general and that entrepreneurs are the agents of change in an economy. In this context, the entrepreneur's function can be defined as a combination, in an innovative way, of several factors to generate customer value, higher returns for firms, wealth for the economy, creating jobs and developing innovations. Entrepreneurs conduct these changes, creating new channels for economic activity and employment.

The entrepreneurial activity entails identifying and exploiting economic opportunities. JB Say (1860) states that "the entrepreneur reveals the economic resources out of an area with low productivity and introduces them in an area with high productivity and high yield."

An economic study of the OECD, in 1997, defined entrepreneurship as "the dynamic process of identifying economic opportunities and exploiting them by developing, producing and selling goods and services".

The entrepreneurs transform the market, not only do they provide goods and services in the internal market, but they also provide a new source of jobs in the economy (Praag, 1995). As a result, entrepreneurship is a necessary ingredient in the process of economic development, which serves as a catalyst for market transformation and offers new opportunities for growth, employment, leading to increased per capita income. Policymakers can improve economic factors facing potential entrepreneurs by initiating market reforms that increase market incentives and availability of capital necessary for entrepreneurs (Wilken, 1979).

In defining entrepreneurship we can include: innovation, recognizing opportunities, risk management, action, resource use, value added.

Davidsson and Wiklund (1995) suggest that regional variations in the level of entrepreneurial activity are influenced by cultural values. They argue that "determinant factors are the cultural and economic ones", suggesting that cultural differences and beliefs explain regional differences in the development of entrepreneurship. The cultural hostility can hinder entrepreneurship in a given region, but another region can benefit from the migration of entrepreneurs.

Considering the place and role of SMEs in many countries, central and local administrations create and implement programs and public policies to stimulate and support the establishment of new businesses. Each such item follows objectives that consider economic growth, environmental problems, increasing social inclusion, etc. However, due to the complexity of the domain, they have imposed the identification of statistical indicators for measuring entrepreneurship in different countries and globally (Entrepreneurship Indicators Programme (EIP) developed by OECD and Eurostat) and indicators that will increase innovative enterprises, for supporting the "the main indicator of innovation in the EU", set in the context of the Europe 2020 strategy.

Because of its elusive nature, entrepreneurship is often overlooked in developing economies. It is, however, a pervasive aspect of human action, its manifestation depending on the institutional environment (Baumol, 1993; Boettke and Coyne, 2003). Therefore, we can say that entrepreneurship is a necessary ingredient to boost growth. Thus, all countries that want to achieve a successful economic development must experience both economic growth and "fundamental changes in the economy" (Gillis, 1996).

### **3. Female entrepreneurship**

Although women are still a minority in entrepreneurship, in recent years there has been a considerable increase in the number of women worldwide who start and run their own business. To support and develop women's entrepreneurship internationally, there were ongoing concerns, noting the initiative of the United Nations Economic and Social Council, in 1997, which started a program through which gender is integrated to guide research in the

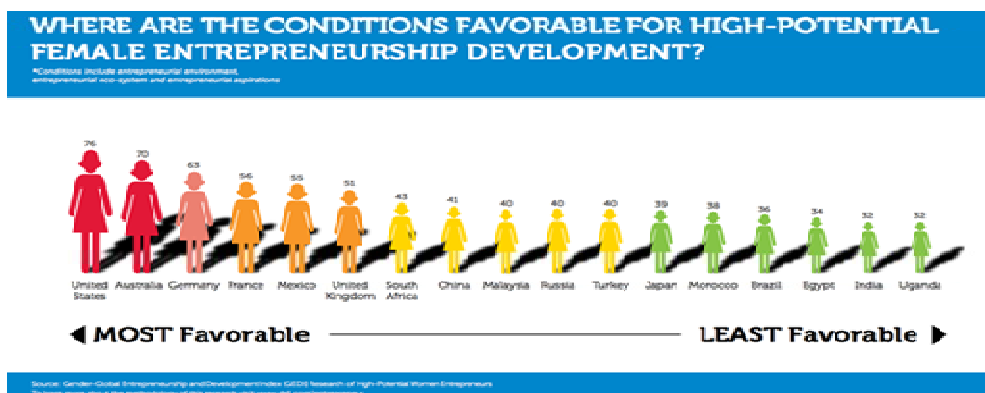


field, development of appropriate policies, a program coordinated by UNDP. The basis for such programs is the understanding that real economic and social progress cannot be achieved without investing in both women and men. (dr. Daniela Stefanescu, 2011).

Entrepreneurship has no gender, says Sorana Mantho, Director Corporate Affairs Philip Morris Romania and Bulgaria, who believes that the recipe for success in business is "the common sense, she applies to any professional in his profession." Sorana Mantho said: "Entrepreneurship is a mindset. (<http://www.bursa.ro/companii-afaceri/conferinta-antreprenoriatul-feminin-editia-a-ii-a-sorana-mantho-philip-morris-antreprenoriatul-es...&articol=236973.html>)

The Committee on Employment and Social Policy of the International Labour Organisation, stated as soon as November 2006 that "it is necessary to adopt special measures to enable women entrepreneurs to start a business and develop formal sector". In this context, the International Labour Conference in June 2007, proposed promotion strategy to support the development of women's entrepreneurship, highlighting, through measures designed specifically for women entrepreneurs, their growing importance in the economy, considering that "women's economic empowerment is crucial for sustainable societies. "

Today, between 25 and 30% of all existing firms in the global economy are created by women. However, the vast majority are micro and small enterprises with limited growth potential. Social attitudes and beliefs often prevent women to consider entrepreneurship, and those who work, mostly confine themselves to very small businesses operating in the informal economy. These limits diminish their ability to earn an income for themselves and their families, reduce the leverage of their potential to contribute to socio-economic development of their communities and to create jobs.



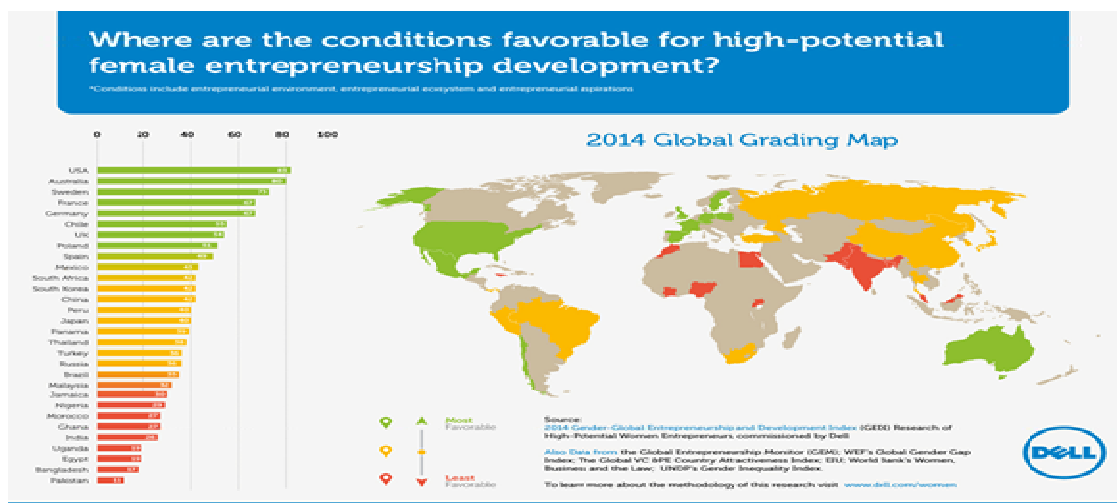
**Fig. no. 1 The ranking of countries considering the development potential of female entrepreneurship**

A World Bank report in 2011 showed that productivity can increase by almost 25% in some countries where discriminatory barriers against women were to be removed. (International Labour Organization, *Entreprises durables. Le développement de l'Entrepreneurial Women*, [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/---ifp\\_seed/documents/publication/wcms\\_183754.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_183754.pdf))

A global ranking, based on the Global Entrepreneurship Gender and Development Index (GEDI), a diagnostic tool that identifies and analyzes comprehensively the conditions that foster women's entrepreneurship development potential, highlights how in various countries around the world, there have been created to stimulate this activity.

Composed of 30 assessment indicators that take into account: the legal rights, education, the access to finance, individual aspirations, business environments, this index emphasizes the multi-dimensional aspects of female entrepreneurship development.

In 2013, the USA is in the lead, with 10.6 million businesses created and run by women, Europe is present in the top 10 with 4 countries: Germany, France, Britain and Russia. In 2014, if the US maintains its leading position, within Europe there are changes, so that we find in the top 10 countries: Sweden, France, Germany, Britain and surprisingly Poland and Spain.



**Fig. no. 2 Clasamentul țărilor analizate pentru Gender- GEDI**

The study shows that success requires positive operation, the cumulative of all factors. There can be huge opportunities for the development of female entrepreneurship, but if structures (economic, social, political) cannot support existing entrepreneurs to capitalize these opportunities, whether social norms and cultural disadvantage or they are less favorable to women entrepreneurship development, it cannot contribute sufficient to achieve economic development, a successful business environment in the unequal distribution of family responsibilities, chores, lack of maternity protection, limits women's access to entrepreneurial activities.

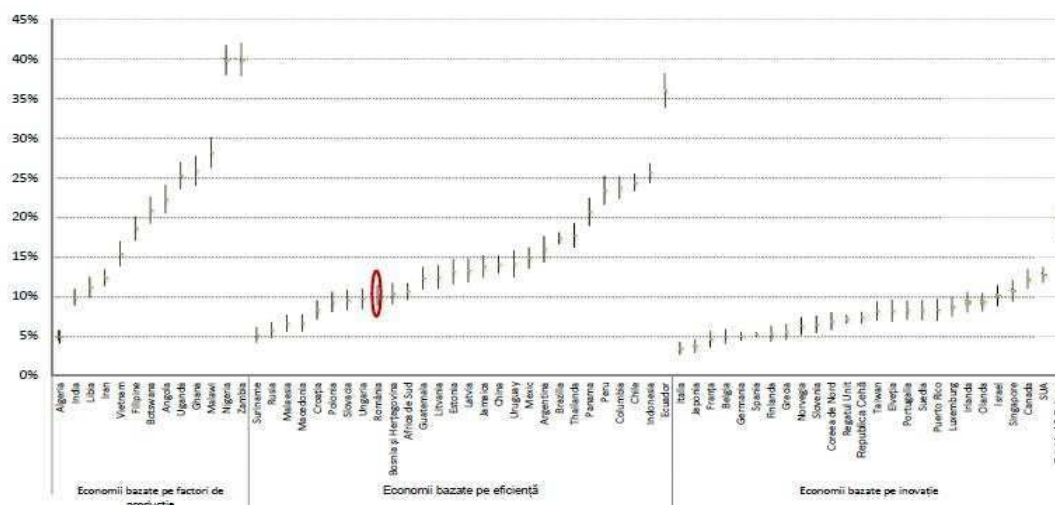
However, the lack of specialized education makes women do not have the skills to develop their business beyond a certain level. Access to formal financial mechanisms is crucial, membership of entrepreneurial networks, Internet access, technology are essential components of growth, helping to create opportunities for women entrepreneurs.

The "lack of confidence" in their own forces, legal and institutional obstacles in accessing financing make it difficult in many countries, women's in entrepreneurship. Investments in specific programs for women, creating a culture of women's entrepreneurship, strengthen institutional capacity to better meet the needs of women entrepreneurs, providing specific tools and approaches to enhance women's ability to create and develop sustainable business can have a significant impact on development, being one of the most effective means of achieving equality and promoting sustainable and inclusive growth. Removing these barriers on discriminatory cultural practices, the lack of access to financial institutions and time constraints because of family and domestic responsibilities may provide more opportunities for sustainable businesses run by women. This will contribute to women's empowerment and gender equality as well as to sustainable growth and jobs. Since 2010, the European Council requested that the proportion of women in entrepreneurship, to exceed 60%, that the Member States to remove barriers to women's participation in the labor market.

The fact that in 2012, according to the Global Entrepreneurship Monitor (GEM), an estimated number of 126 million women have started or conduct new business in 67 economies around the world, and the top of richest individuals includes numerous women who by creating and managing their own business, demonstrate, that female entrepreneurship is alive, shows that women are becoming more and more milestones in business

#### 4. The development of local entrepreneurship

Between the entrepreneurial level of a country and its level of economic development there is a direct correlation. Economies of poorer countries, focused on inputs, recorded average rate of entrepreneurship, which expresses the need to initiate new business. In efficiency-oriented economies based on innovation and entrepreneurship, the rates are higher, because of the opportunities for entrepreneurship and innovation development of the economic environment.



**Fig. no. 3 Early stage entrepreneurial activity rate**

Source: GEM, Global Raport, 2014, p. 33

In the European Union, the levels of economic development, productivity and employment opportunities vary from one region to another. The European Union allocates approximately one-third of its budget to reduce these disparities, helping the least developed regions to benefit from the advantages offered by the European market. The grant funding programs aimed at developing the skills of the local workforce, encouraging entrepreneurship, improving infrastructure and environmental protection. Millions of Europeans have already specific regional funds.

The proposed budget of the European Union for the period 2014-2020 provides for the allocation of 376 billion euros for such programs. The Commission proposes a more efficient approach, so this round of financing to help meeting the long-term objectives of the Europe 2020 strategy for growth and employment. (EU Commission, economic growth and employment, the core of the cohesion - 06/10/2011, [http://ec.europa.eu/news/regions/index\\_ro.htm](http://ec.europa.eu/news/regions/index_ro.htm)).

The impact of entrepreneurship in the economy and society is measured by indicators such as:

- Creating jobs,
- Economic growth,
- Poverty reduction.

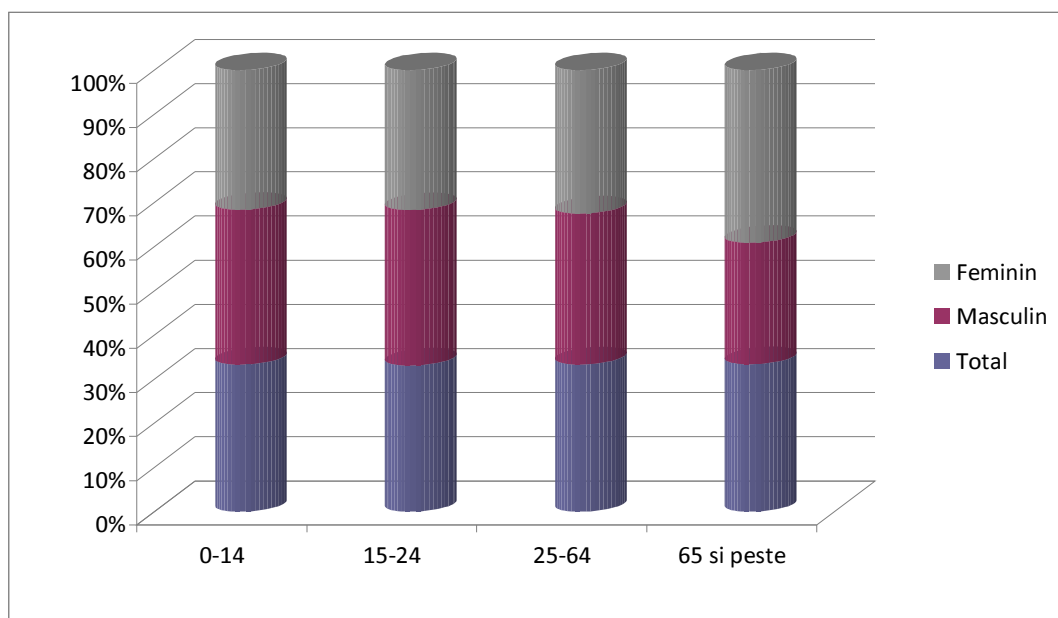
These elements reveal more aspects about "social entrepreneurship", which aim to initiatives bringing to the fore the value of the company (local, regional), ideas, solutions to social challenges.

Economic and social entrepreneurship development within the community involves combining the "community development" with "professional development" and "family life" to reduce the risks of exclusion from the labor market and reduce the dependence on subsistence economy .

## 5. Female entrepreneurship in Romania

On 1 January 2014, Romania had a resident population of 19,942,642 people. Gender structure of the population has the following aspects:

- female population was 10,204,197 representing 51.2% of the population;
- compared to 1 January 2013, the population decreased for both males and for the females.



**Fig. no. 4 The structure on age groups of the people living on the 1st of January 2014**

Source: INS, Press release no 155 of 30 June 2014,

[http://www.insse.ro/cms/files/statistici/comunicate/com\\_anuale/populatie/PopRez2014r.pdf](http://www.insse.ro/cms/files/statistici/comunicate/com_anuale/populatie/PopRez2014r.pdf)

Females represent 51,2 % of the total population of the country, 45,6% of the active population.

In 2012, the Post-Privatization Foundation developed the study "Promoting entrepreneurship as a key factor for economic development", which analyzes the profile of Romanian business owners, the trends in our country concerning the start of new private business, women's attendance of the Romanian business environment and market development of SMEs in Romania in the global context.

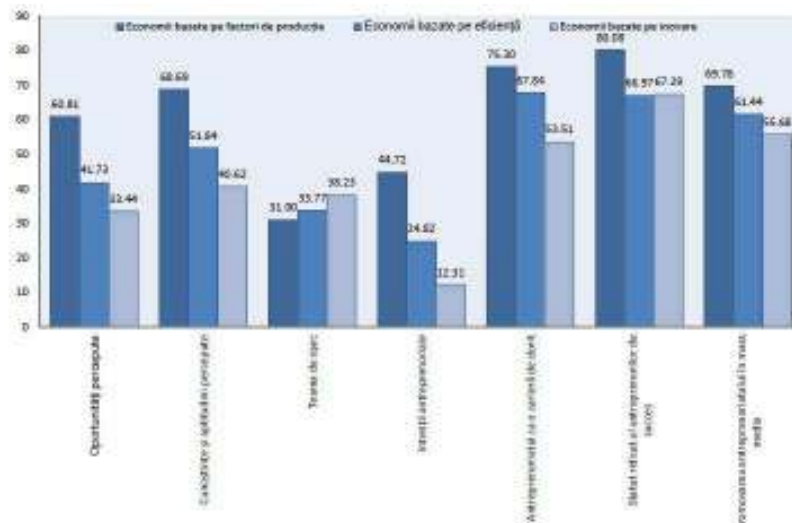
The study shows that Romania has too few enterprises, only 23 SMEs / 1000 inhabitants, 56% of the European average of 41 SMEs / 1000 inhabitants and productivity and the profitability, efficiency and competitiveness of the Romanian SMEs are insufficiently prepared to compete successfully in the European single market.

Most businesses were initiated in 2012 in Commerce (29.2%) and agriculture (16.5%), the Romanian entrepreneurs are obviously attracted by agriculture and due to government policy support and consistent financial support. Businesses in agriculture developed on medium term, are the only ones with positive constant evolution

Considering the volume of business initiatives to develop our country ranks among 56 out of 59 countries evaluated and the last among countries with economies focused on efficiency. A positive aspect of this study revealed, that places our country in higher positions (4th in the overall standings and 3rd among economies based on efficiency), refers to the percentage of Romanian entrepreneurs who, in the initial phase of starting a business on their own, have customers in other countries (exporters).

*"A rate of almost half (45.99%) of the adult population of Romania avoid to set up a new company for fear of financial failure, lack of regulations to foster entrepreneurial attitudes, and lack of education in business on their own, education where Europeans invest*

significantly. Moreover, our country is among the few European countries that have not to this day a national entrepreneurship education strategy, "said Peter Barta, CEO FPP.



**Fig. no. 5 Beliefs and attitudes on entrepreneurship 2013**

Source: GEM, Global report, 2014, pg. 28

The effects of the economic crisis superimposed on an unstable economic environment led to the cancellation in less than 2 years of approximately 250,000 SMEs in the country.

Mrs. Cristina Chiriac, President of the National Association of Entrepreneurs, believes that the barometer of an economy is given by the small and medium business and she claims that in practice it is less well than in theory "after figures from the previous year, insolvencies decreased, the number of erasures were reduced. But it is all - it is never enough because we are still at the end of the table, in this area, among EU countries. If in 2010 the EU found that female entrepreneurship is a priority, certainly there were statistics that showed it. "<http://www.bursa.ro/antreprenoriat-feminin-2014/>)

The statistics of recent years show that women entrepreneurship in Romania decreased dramatically from year to year. While in 2009, 42.9% of the Romanian women considered business opportunities, in 2010 only 11% of them have maintained this aspiration, other motivated their removal from the Romanian business entrepreneurship environment by lack of funding and lack of profitability of their business, initially estimated.

Moreover, it is a general characteristic of Eastern European countries, which have the lowest levels of the degree of participation of women in entrepreneurial activities.

In many countries, especially the least developed countries, women are the pillars of economic life, their families and their local communities. They meet two or three roles: mother, wife and responsible for food. Faced with the difficulties of economic, social and cultural development, they still will need tenacity and small business development. By promoting a system of information and training to facilitate the mobility of women in the labor market and develop their entrepreneurial skills in order to involve them in private economic structures in the context of issues of maintaining the balance between family and professional obligations and prejudice existing, the local female entrepreneurship can be a solution for local development.

In developed countries, women often face a number of challenges that consider unemployment, low wages, beliefs and behaviors that are not very clear for their entrepreneurial spirit. "... *The state must intervene through measures to boost women's participation in business, as rights and child bringing-up facilities for women entrepreneurs and customized leadership programs through which women from Romania can overcome personal attitudes and behaviors. European figures show that women ,s education on entrepreneurship immediately lead to immediate success initiatives and*

*prompt promotion within companies. Gender balance in the area of entrepreneurship leads to default state benefits by reducing poverty and increasing taxes to the state budget, "said Peter Barta, CEO FPP. (Post-Privatization Foundation, 2012)*

Statistics show that in small towns or villages, the gap between male and female economic impact is becoming increasingly apparent. According to the National Institute of Statistics, 53.1% of inactive persons are homemakers in rural areas, mostly women. Entrepreneurial skills and female workforce in rural areas are underused. Most economic activities in rural areas are small, aiming only to survival and they are often informal.

The European Employment Strategy, inspired from the growth strategy Europe 2020, aims to create more and better jobs throughout the EU, to coordinate employment policies.

An important objective in this context is to promote an active role for women from disadvantaged backgrounds - rural areas and small towns, mainly with agrarian economy by supporting them in initiating and managing small business and activities through community projects.

The multitude and diversity of actions, programs and projects undertaken by other European countries on female entrepreneurship are examples to follow, so that in Romania to adopt such programs allowing the creation of a climate that facilitates increasing the number of successful women entrepreneurs. As Peter Drucker show "The entrepreneurial nuesta neither science nor art, is a practice." (Peter Drucker, 1993)

## **6. Conclusions**

The willingness to undertake is largely a culture, a mood that is transmitted through education, the school being the one that should promote entrepreneurship, develop attitudes and skills to help women create and develop businesses.

It is also necessary to promote the image of women entrepreneurs in training courses, mediation, coaching and support for successful entrepreneurship, encouraging women entrepreneurs to access different areas of business development, to provide mentoring, tutorials for beginners, to encourage women entrepreneurs to emerge from isolation to form networks and associations.

In this context, the following can have a positive impact:

- promoting entrepreneurship and regional campaigns and awareness of women towards entrepreneurial culture;
- the existence of female "ambassadors" in the key business sectors may encourage more women to engage in starting a business, to present reality in designing and running a successful business, providing assistance and advice in support services,
- eliminating gender stereotypes;
- promoting active learning throughout life, a transfer of knowledge and best practices through the creation of associations, entrepreneurs exchanges with other countries by developing guidelines for initiation into entrepreneurship.

"Government policies should foster the competitiveness of SMEs on the long term, given the shortage of competitiveness in the SMEs sector in Romania, compared with SMEs in the European Union. At the same time, the low level of entrepreneurial development in Romania, revealed, inter alia, the low density of SMEs related to population, i.e. the value of 24 SMEs / 1000 inhabitants is far below the average of 42 SMEs / 1000 inhabitants in Europe. as a result, SMEs are unable to contribute significantly to GDP and economic growth of the country, as long as there isn't a sufficient number of companies and a favorable foundation and their growth. "(Post-Privatization Foundation, 2012)



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# ENTREPRENEURSHIP, A SOLUTION TO IMPROVE YOUTH EMPLOYMENT IN THE EUROPEAN UNION

Mariana-Cristina, Gănescu<sup>1</sup>

## Abstract:

*The high level of unemployment among young people in EU countries reflects the difficulties young people face in finding a job. On the premise that entrepreneurship is a solution to youth unemployment in the European Union, the present study uses the entrepreneurial ecosystem assessment methodology proposed by the Global Entrepreneurship and Development Institute. Panel data analysis reveals a negative correlation between the level of development of the entrepreneurial ecosystem and the level of youth unemployment. The paper is of interest because it emphasizes the idea that a high level of development of the entrepreneurial ecosystem may reduce the level of youth unemployment.*

**Keywords:** entrepreneurship, youth unemployment rates, entrepreneurship eco-system, Global Entrepreneurship and Development Index (GEDI), European Union.

**JEL Classification:** L26, J21, J13, O52

## 1. Introduction

Entrepreneurship and innovation are priority areas for the EU as they offer opportunities to overcome the current crisis, increase global competitiveness and ensure sustainable and profitable growth (Homolova et al., 2014). Moreover, entrepreneurship is regarded as „the heart of innovation, productivity growth, competitiveness, economic growth and job creation” (Grilo and Thurik, 2006, p.4), being associated with personal success.

The Europe 2020 strategy recognises entrepreneurship and self-employment as key for achieving smart, sustainable and inclusive growth (European Commission, 2010). In its support to entrepreneurship and self-employment, the European Commission focuses its efforts on: business start-ups by unemployed and people from disadvantaged groups; sustainability and quality of work of self-employed businesses and micro-entrepreneurs and support for social entrepreneurs.

This paper addresses a topic of interest to European Union Member States as well as to researchers or companies. Youth entrepreneurship could help develop young people's personality, identify new ways of employment and poverty reduction, and transform the society in general. For many young people affected by the lack of jobs, the alternative to unemployment is setting up their own business.

In the first section, the study explains the significance of entrepreneurship and its contribution to economic growth and personal success through various studies from scholarly literature. The second section reports the current state of youth employment at European and global level. The third section presents the methodology employed to assess the entrepreneurial ecosystem in EU member states. The paper then continues with introducing the objectives and hypothesis of research and the data collection methods. Finally, the study presents the data analysis and research findings.

## 2. Youth entrepreneurship and its impact on employment

In trying to define entrepreneurship, many researchers establish a connection between this kind of activity and business innovation. Thus, „entrepreneurship is the creation of new organizations” (Gartner, 1989, p.32). "Entrepreneurial activity is a practice of creating a new organization or rehabilitating, recovering, upgrading and/or restructuring an existing organizations, especially in business" (Zaman et al., 2009).

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Other studies show that „entrepreneurship is a process of exploiting opportunities that exist in the environment or that are created through innovation in an attempt to create value. It often includes the creation and management of new business ventures by an individual or a team” (Ulijn and Brown, 2014, p.5). Rwigema and Venter (2004) define entrepreneurship as „the process of conceptualising, organising, launching and through innovation, nurturing a business opportunity into a potentially high growth venture in a complex and unstable environment”.

Youth entrepreneurship is „the practical application of enterprising qualities, such as initiative, innovation, creativity and risk-taking into the work environment (either in self-employment or employment in small start-up firms), using the appropriate skills necessary for success in that environment and culture” (Chigunta, 2002, p.5). „Young entrepreneurs can be divided into two broad groups: those who become entrepreneurs by necessity because they are unable to find other forms of formal employment or continue their education, and what can be called “vocational entrepreneurs” who seize a business opportunity” (Llisteri et al., 2006, p.3).

Entrepreneurial behavior is seen, rather, as a purely psychological phenomenon. This explains why, for example, only a quarter of businesses worldwide are headed by women. „They have to cope with discrimination, prejudices and certain skill deficiencies, but at the same time demonstrate successful management styles such as open communication and participative decision-making” (Ulijn and Brown, 2014, p.7).

Entrepreneurship can be measured in two ways: actual entrepreneurship and latent entrepreneurship (Pihie, 2009). It is important to have the conditions required for latent entrepreneurship and that the intention to create a new business becomes a behaviour.

The stages youth go through while generating youth entrepreneurship are (Chigunta, 2002): *pre-entrepreneurs* (the formative stage and the transition from the security of the home or education to the work place; age group 15-19 years); *budding entrepreneurs* (the growth stage; age group 20-25 years; these youth are likely to have gained some experience, skills and capital to enable them run their own enterprises; they often face three enterprise pathways: remaining stuck in marginal activities, going out of business and running successful enterprises); *emerging entrepreneurs* (they are also likely to have accumulated vital experience in business or in other areas of life; age group 26-29 years).

The propensity to entrepreneurship is influenced by many factors. Family and culture exert a significant impact on entrepreneurial behavior. Cromie (2000) found a significant difference between reasons given by men and women to establish an enterprise, relating to career dissatisfaction and child-rearing: a mother can more easily work at home for her own enterprise where she seems to care less about making money than men (Ulijn and Brown, 2014, p.7).

For quite some time, researchers have tried to explain international differences in entrepreneurial behavior based on cultural characteristics. Therefore, some studies try to identify the link between national cultural characteristics and the levels of innovation or entrepreneurship (Stephan and Uhlaner, 2010), considering the role of culture in facilitating the association between economic, institutional, and social factors and entrepreneurial behavior (Pinillos and Reyes, 2011). Other studies focus on the aggregation of regional and national needs and entrepreneurial reasons that create the entrepreneurial culture (Beugelsdijk, 2007). The aforementioned study (Beugelsdijk, 2007) shows a positive relationship between entrepreneurial culture and regional economic development for 54 European regions, explaining the influence of culture on innovation (Hayton and Cacciotti, 2014).

According to Gray (2002), some of the motivations of young people to start their own business are: „to be one’s own boss, with more control over one’s own work and life; to obtain an alternative route for advancement from a dead-end job; to obtain additional money; and to provide products not elsewhere available”. In the UK, young graduates are

motivated by the desire to be independent and by the flexibility of one's own business, rather than by financial gain (OECD, 2001).

Entrepreneurship is an important factor contributing to economic growth, success and prosperity. Some studies connect entrepreneurship and economic growth (Audretsch, Carree, Thurik and van Stel, 2005). Thus, „an entrepreneur is one that shifts economic resources out of an area of low productivity into an area of higher productivity and greater yield” (Herrington, Kew and Kew, 2009). However, the number of young people involved in the creation of small businesses is still low. Studies show that this seems to be the variant chosen by a small number of young people affected by unemployment. The Status of Youth Report (2005) shows that only 6% of young people create their own businesses. Also, the Global Entrepreneurship Monitor (Reynolds, 2005) highlights the low rate of involvement of youth in entrepreneurship.

Barriers to youth entrepreneurship are: „lack of access to institutional capital; lack of access to lucrative markets; poor marketing and branding; inadequate planning; lack of access to suitable working space; lack of business management skills and abilities; inadequate, inaccurate and non-existent financial records, lack of new product development, and; lack of on-going business support” (Chigunta, 2002, p.6).

Other studies identify the determinants of entrepreneurship (Grilo and Thurik, 2006).

### 3. Youth unemployment, a global and European problem

„In recent years, the promotion of entrepreneurship as a possible source of job creation, empowerment and economic dynamism in a rapidly globalising world has attracted increasing policy and scholarly attention. However, despite this attention, there has been no systematic attempt to look at it from a youth angle” (Chigunta, 2002, p.).

Worldwide, unemployment remains a fairly important problem. „From 2009 to 2011 the youth unemployment rate decreased from 12.7 per cent to 12.3 per cent. It increased again to 12.4 per cent in 2012 and has continued to grow to 12.6 per cent in 2013. This is 1.1 percentage points above the 2007 level of 11.5 per cent. Global youth unemployment is estimated to be 73.4 million in 2013, which is an increase of 3.5 million since 2007 and 0.8 million above the 2011 level” (International Labour Organization, 2013).

Youth unemployment is an extremely serious problem for EU governments. The youth unemployment rate is double or more than double compared to the unemployment rate for all ages. After 2008, the economic crisis has hampered access to employment for many young people. The data reveals worrying levels of youth unemployment in Spain, Greece, Croatia and Italy (Table. 1). During 2011-2013, Romania ranked around the European average.

**Table no. 1. Youth unemployment rates in the EU member states between 2010-2013**

Country	Country acronym	Unemployment rate 2010	Unemployment rate 2011	Unemployment rate 2012	Unemployment rate 2013
Austria	AT	8.8	8.3	8.7	9.2
Belgium	BE	22.4	18.7	19.8	23.7
Bulgaria	BG	21.8	25.0	28.1	28.4
Cyprus	CY	16.6	22.4	27.8	38.9
Croatia	HR	32.6	36.1	43.0	49.7
Czech Republic	CZ	18.3	18.1	19.5	18.9
Denmark	DK	13.9	14.3	14.0	13.0
Estonia	EE	32.9	22.4	20.9	18.7
Finland	FI	21.4	20.1	19.0	19.9
France	FR	23.3	22.6	24.4	24.8
Germany	DE	9.9	8.6	8.1	7.9
Greece	EL	33.0	44.4	55.3	58.3

Country	Country acronym	Unemployment rate 2010	Unemployment rate 2011	Unemployment rate 2012	Unemployment rate 2013
Hungary	HU	26.6	26.1	28.1	27.2
Ireland	IE	27.6	29.1	30.4	26.8
Italy	IT	27.8	29.1	35.5	40.0
Latvia	LV	36.2	31.0	28.5	23.2
Lithuania	LT	35.7	32.6	26.7	21.9
Luxembourg	LU	15.8	16.4	18.0	17.4
Malta	MT	13.2	13.8	14.2	13.5
The Netherlands	NL	8.7	7.6	9.5	11.0
Poland	PL	23.7	25.8	26.5	27.3
Portugal	PT	28.2	30.1	37.7	37.7
Romania	RO	22.1	23.7	22.7	23.6
Slovakia	SK	33.9	33.7	34.0	33.7
Slovenia	SI	14.7	15.7	20.6	21.6
Spain	ES	41.5	46.2	52.9	55.5
Sweden	SE	24.8	22.8	23.7	23.4
United Kingdom	UK	19.8	21.1	21.0	20.5
EU-28		21.2	21.4	23.0	23.4

Source: Eurostat

Practically, „the level of unemployment is a mirror image of the state of a nation's economy. Suffice to also say, youth unemployment is highly dependent on the overall status of the economy” (Awogbenle and Chijioke Iwuamadi, 2010).

Some studies show that a small number of new businesses (6-10%) are responsible for half of all the jobs created by new firms that still operate 7-10 years after their creation (Listeri et al., 2006).

The increased interest of researchers and especially of governments to promote youth entrepreneurship is triggered by the high number of unemployed young people. For them, entrepreneurship could be „a channel for the talents of many highly educated young people to explore their potential and cash their business acumen” (Sharma and Madan, 2013, p.131).

Youth entrepreneurship education might help to consider entrepreneurship as an alternative to unemployment. Studies on developing countries (Oyelola et al., 2014) show that human resource development through entrepreneurship education programs, access to finance, and providing support for business start-ups could solve this problem of young people.

In this respect, the present paper explores the relationship between the entrepreneurial behavior of youth and unemployment, through an original methodology employed to assess the entrepreneurial ecosystem in EU states.

#### 4. Methodology, objectives and research hypothesis

The purpose of this research is to assess EU's entrepreneurial ecosystem. The objectives of the study are as follows:

- O1. Establish the significance of the entrepreneurial ecosystem.
- O2. Identify a methodology for assessing the entrepreneurial ecosystem.
- O3. Identify the degree of association between the index of entrepreneurial ecosystem and youth unemployment by using the Pearson correlation coefficient.

The hypothesis of the study is as follows: *"There is a negative correlation between the level of development of the entrepreneurial ecosystem and the level of youth unemployment."*

#### 4.1. Assessing EU's entrepreneurial ecosystem based on the Global Entrepreneurship and Development Index

Nowadays many governments speak about the entrepreneurial ecosystem. The entrepreneurial ecosystem refers to all elements (individuals, organizations, and institutions) that favor or hinder the election of a person to become an entrepreneur or the likelihood to achieve success.

In this respect, the entrepreneurial ecosystem includes several specific elements, grouped into six general groups (Isenberg, 2014): [a conducive culture; enabling policies and leadership; availability of appropriate finance; quality human capital; venture-friendly markets for products; a range of institutional and infrastructural supports](#). Other research identifies the three areas of the entrepreneurial ecosystem, all of special importance: [accessible markets, human capital/workforce, funding and finance](#) (World Economic Forum, 2013).

[„A first step to stimulating entrepreneurship is mapping and measuring the existing entrepreneurial ecosystem”](#) (Aspen Network Development Entrepreneurs, 2013, p.1). Therefore, initiating measures to boost youth entrepreneurship must be preceded by diagnosing opportunities and challenges of the entrepreneurial ecosystem.

An example is the tool developed by the Aspen Network of Development Entrepreneurs, supported by the UK Department for International Development, which provides a methodological guide to assess the condition of the entrepreneurial ecosystem and a set of resources that can be used by researchers and practitioners" (Aspen Entrepreneurs Development Network, 2013). The Asset Mapping Roadmap (Council on Competitiveness, 2008) is one of the most comprehensive and detailed instruments that uses over 150 indicators, structured into eight distinct areas.

The Global Entrepreneurship and Development Index (GEDI) is of great importance. [„This index was created to provide a more complete understanding of economic development by capturing the contextual nature of business formation, expansion and growth. It is based on analysis of comprehensive data sets from more than 120 countries that marshal information about the “3A’s” of development: entrepreneurial attitudes, aspirations and activity \(GEDI, 2013\).](#)

Scholarly literature includes some studies that test entrepreneurship models, examining contextual and individual factors (Schoon and Duckworth, 2012). [Results showed gender differences and the importance of individual and contextual factors in the development of entrepreneurial activities \(Geldhof et al., 2014\).](#)

[Acs and Szerb \(2010\) constructs a Global Entrepreneurship and Development Index \(GEDI\), that captures the contextual feature of entrepreneurship across countries. The index measures from a qualitative and quantitative point of view the process of entrepreneurship in 71 of the most important countries in the world, based on three subindexes: entrepreneurial attitudes, entrepreneurial activity and entrepreneurial aspirations.](#)

The assessment of the entrepreneurial ecosystem starts from the analysis of the following coordinates: external factors (public policy on entrepreneurship, access to finance for young entrepreneurs, incentives for venture capital investors, business incubators, business angels, bureaucracy, regulatory and tax environment, the existence of clubs and associations of entrepreneurs) and domestic factors (entrepreneurship education, density of new businesses).

In the present study we opted to assess the entrepreneurial ecosystem based on the methodology proposed by the Global Entrepreneurship and Development Institute. According to this methodology (Acs and Szerb, 2010), GEDI is determined on the basis of three subindexes: *the entrepreneurial attitude sub-index, the entrepreneurial activity sub-index and the entrepreneurial aspiration sub-index*.

The entrepreneurial attitude sub-index aims to identify entrepreneurial attitudes associated with the entrepreneurship related behavior of a country's population (Acs and Szerb, 2010). The attitude towards entrepreneurship is influenced by institutional factors, market size, education and culture.

The entrepreneurial activity sub-index is principally concerned with measuring high growth potential start-up activity. This subindex assesses the motivation to involve in entrepreneurship, entrepreneurship education and business freedom.

The entrepreneurial aspiration sub-index refers to the distinctive, qualitative, strategy related nature of entrepreneurial activity. This subindex includes production and technologic innovation, internationalization and availability of business financing.

**Table no. 2. GEDI in EU member states, 2010-2013**

Country	Countr acronym	GEDI 2010	GEDI 2011	GEDI 2012	GEDI 2013
Austria	AT	0.45	0.39	0.46	0.49
Belgium	BE	0.58	0.50	0.50	0.53
Bulgaria	BG	N	N	N	0.31
Cyprus	CY	N	N	N	0.40
Croatia	HR	0.28	0.26	0.29	0.34
Czech Republic	CZ	0.42	0.38	0.40	0.34
Denmark	DK	0.76	0.67	0.55	0.63
Estonia	EE	N	N	N	0.41
Finland	FI	0.56	0.48	0.45	0.50
France	FR	0.50	0.45	0.45	0.53
Germany	DE	0.54	0.49	0.46	0.51
Greece	EL	0.32	0.29	0.29	0.31
Hungary	HU	0.25	0.23	0.29	0.35
Ireland	IE	0.63	0.54	0.46	0.50
Italy	IT	0.41	0.37	0.29	0.34
Latvia	LV	0.36	0.32	0.31	0.35
Lithuania	LT	N	N	N	0.37
Netherlands	NL	0.62	0.54	0.48	0.58
Poland	PL	0.29	0.26	0.31	0.37
Portugal	PT	0.35	0.32	0.29	0.34
Romania	RO	0.25	0.23	0.23	0.30
Slovakia	SK	N	N	N	0.36
Slovenia	SI	0.49	0.43	0.42	0.43
Spain	ES	0.40	0.35	0.33	0.39
Sweden	SE	0.68	0.59	0.57	0.63
United Kingdom	UK	0.56	0.49	0.46	0.54

Source: data sourced from Acs and Szerb, 2010; Acs and Szerb, 2011; Acs and Szerb, 2012; GEDI, 2013.

Table no. 2 contains GEDI values extracted from studies published in 2010, 2011, 2012, and 2013. Exceptions are Bulgaria, Cyprus, Estonia, Lithuania and Slovakia are the exceptions, as no data is available for these countries in 2010, 2011, and 2012.

#### 4.2. Testing the hypothesis

To test the hypothesis we used the panel data method because the sample was a cross-sectional dimension type. On the one hand, we present the states ( $i = 1, \dots, 28$ ) are represented, and, on the other hand, we highlight the longitudinal dimensions represented by time series ( $t = 1, \dots, 4$ ) (Gujarati, 2004, p.636). For data analysis we used techniques to analyze panel data models in Eviews 8.

To process data we documented the GEDI values and the youth unemployment rate (YUR) in the Eviews software as panel data for 21 of the 28 countries from the sample and for 4 years. We eliminated Luxembourg and Malta for which GEDI had not been calculated. Because there were no GEDI values reported in 2010, 2011, and 2012 for Bulgaria, Cyprus, Estonia, Lithuania and Slovakia, we created a balanced panel sample and obtained 84 observations.

Using Eviews 8, we studied the relationship between the two indexes employing the statistical correlation method. A correlation coefficient of -0.517713 establishes an indirect, negative link of strong intensity between GEDI and YUR (Table no. 3).

**Table no. 3. GEDI and YUR correlation matrix**

	GEDI	YUR
GEDI	1	-0.517713
YUR	-0.517713	1

Therefore, the study hypothesis, that there is a negative correlation between the level of development of the entrepreneurial ecosystem and the level of youth unemployment is validated.

## 5. Conclusions

Youth unemployment has reached very high levels, especially due to the economic crisis in the EU states. Encouraging entrepreneurship could be a solution to youth unemployment thanks to the ability of new firms to create jobs. European governments have tried to identify measures and implement policies to stimulate young people to create their own businesses.

However, the entrepreneurial ecosystem is not favourable for young people. This study responds to the challenge of establishing the relationship between the level of development of the entrepreneurial ecosystem and the level of youth unemployment. Using GEDI methodology we defined the level of development of the entrepreneurial ecosystem in EU member states in 2010, 2011, 2012, and 2013. Testing the hypothesis of the study revealed that there is a negative relationship between the level of development of the entrepreneurial ecosystem and the level of youth unemployment. In other words, states that employ quick and appropriate policies to develop the entrepreneurial ecosystem will be able to reduce the alarming unemployment among younger generations.

The limits of the study arise from the difficulty of extending the analysis of data for a greater number of years, due to lack of studies. Creating a national index of youth entrepreneurship will be of major interest in the short future.

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# ANALYSIS OF OPTION FOR ENTREPRENEURSHIP OF STUDENTS STUDYING ECONOMICS

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Gianina, Ciorășteanu<sup>2</sup>

## Abstract:

*Entrepreneurship is important, entrepreneur plays a major role at micro and macroeconomic level. Entrepreneur is the manager and employee at the same time, is leader and innovator, his company provides products and services that society needs. Europe needs more entrepreneurs and those who want to follow the path of entrepreneurship needs to face multiple challenges that can be overcome when the future entrepreneur benefit from a complex entrepreneurship education. This paper aims, through applied questionnaire, to identify whether future economists are determined to choose the path of entrepreneurship and start a business on their own. Also, we wanted to identify the obstacles that interviewees consider that you have to struggle to start their business. We applied a questionnaire to students, final year bachelor's degree, studying economics. They were chosen because during the three years study several economic disciplines: microeconomics, macroeconomics, management, accounting, finance, law, economic analysis, the national economy, European policy.*

**Keywords:** entrepreneur, students, funding, entrepreneurship culture.

**JEL Classification:** L26, M13

## 1. Introduction

In the current economy affected by the crisis, entrepreneurship is playing an important role in the economy of a region and of a country, due to the ability to stimulate the real economy. Thus, both at European and national level, entrepreneurship development is the focus of policies. In 2008 was adopted the "Small Business Act" which aimed to improve the overall policy approach to entrepreneurship. The first of a set of 10 principles stipulate the creation of an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (Commission of the European Communities, 2008, pp.4). The European concern for the promotion and development of entrepreneurship is demonstrated by the financing obtained by projects that focus on: promoting entrepreneurial culture, entrepreneurial skills development of young people, the establishment of educational structures to promote entrepreneurship, encouraging young entrepreneurs, encouraging women entrepreneurs, establishment of business incubators, stimulating the creation of new micro-enterprises, stimulating economic performance of the existing micro-enterprises, assistance and consultancy for starting a business.

## 2. Research method and results

To study potential entrepreneurs we used quantitative research (survey). The composition of the questionnaire started with clear and detailed specification of the problem investigated. We composed a questionnaire about: entrepreneurial characteristics, work experience, sources of funding, intention of entrepreneurship.

Objectives of the research were:

- Identification of entrepreneurial intent among students,
- Identification of areas of interest to those wishing to start a business,
- Identification of funding sources to which students wish to appeal to fund future business.

Were made a number of assumptions:

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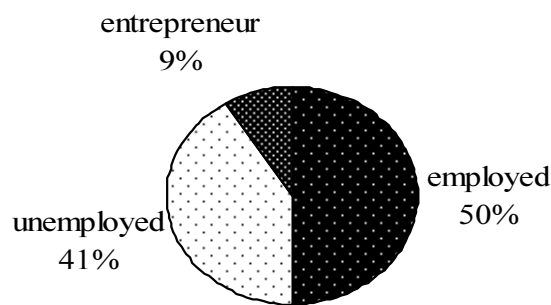
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- Romania has a culture that does not support entrepreneurship.
- Students are not willing to engage in entrepreneurial activity.
- The main obstacle for those who want to start their own business is represented by scarce financial resources.

We want to emphasize that the reduced sample of responses does not allow results of the study to be considered exhaustive, but we are convinced it can be considered as a picture of what students think about the attributes of entrepreneurship, finance and entrepreneurship and the conditions of involvement in entrepreneurial activity.

The questionnaire was applied to a sample of 30% of the students of the third year, students undergoing specific economic programs: management, accounting and finance. After processing the identification data have resulted the sample characteristics: ages ranging between 21 and 51 years, professional experience between 1 and 30 years, 68% are women and 32% men, 77% live in urban and 23% rural area. Regarding labor market status, although 41% of respondents do not work, only 9% have no work experience.



**Fig. no. 1 Labor market status**

### ***2.1. Passion – the primary characteristic of entrepreneurs***

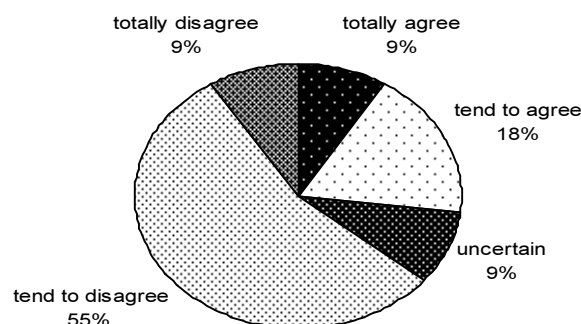
Entrepreneurs have a number of features that help them start their own business and increase their chances of success. These include: vision, intelligence and creativity, knowledge of industry, perseverance and determination, charisma and persuasion, responsibility, decision-maker, problem solver, gut-feeling, positive thinking, passion, personal ethics, trust people, attitude. (Ghenea, 2011, pp.47) Students were asked to prioritize on a scale from 1-10 (1 point receiving attitude most important) attributes that best describe the entrepreneurship attitude. The first attributes were: passion, optimism, spirit of competition and perseverance. These were followed by: vision, energy, intellectual curiosity, flexibility, risk-taking ability, the ability to learn from mistakes. Students are aware that if you are not passionate about the area in which you start a business chances of success are low.

Students surveyed were asked to express their agreement or disagreement with the statement *Romania has a culture that supports entrepreneurship*. The results shows that most of the students are convinced that Romanian environment discourage people from starting a business. Ernst&Young analyzes Romanian entrepreneurs' perceptions on five fundamental factors for the development of entrepreneurship: access to funding, regulation and taxation, entrepreneurship culture, education and coordinated support. The results are presented in annual barometer *Entrepreneurs Speak Out*. In the second edition of the annual barometer made by Ernst&Young 59% of respondents believe that Romanian attitudes and values do not support entrepreneurship, compared to 43% of entrepreneurs in the European Union. ([www.ey.com](http://www.ey.com))

**Table no. 1 Comparison**

Results	Ernst&Young	Students
Totally and tend to agree	35%	27%
Totally and tend to disagree	59%	64%
Uncertain	6%	9%

In accordance with the results of the annual barometer Entrepreneurs Speak Out and results of our research is necessary to develop a more entrepreneurial culture, not only at the national level, but also at European level. We strongly believe that entrepreneurial education should start with young people and from school. Importance of entrepreneurial education has been underlined by Günter Verheugen European Commission Vice-President, responsible for Enterprise and Industry who said “Entrepreneurs are the economic DNA which we need to build competitiveness and innovation in Europe.” (European Commission, 2008) Entrepreneurial education is now a priority on the European agenda. The Entrepreneurship 2020 Action Plan is built on three main pillars: i. Entrepreneurial education and training, ii. Creation of an environment where entrepreneurs can flourish and grow, and iii. Developing role models and reaching out to specific groups whose entrepreneurial potential is not being tapped to its fullest extent or who are not reached by traditional outreach for business support. (ec.europa.eu)

**Fig. no. 2 Romania has a culture that supports entrepreneurship**

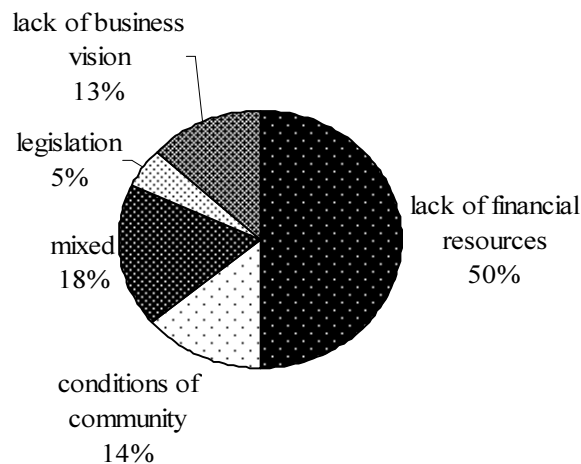
Probably one of the most important facets of Romanian culture is the value people attribute to family and friends, and family relationships and friendship usually lasts a lifetime. (Văduva, 2004, p.102) Involvement in a business require not only financial resources but also family involvement. Knowing this, it is not surprising that students surveyed believe that family is most influential when deciding to start a business on their own. Most students believe that friends have no influence when they choose the road of entrepreneurship. Teachers, careers advisors, other entrepreneurs and entrepreneurship-related events to which students participate positively influence the decision to initiate a business.

Respondents were asked to indicate the area where they want to start a business. Sectors in which students intend to start a business are diverse and range from: agriculture, beekeeping to retail, health to tourism (hotels), accounting services to real estate, nutrition to pyrotechnic, promotion of Romania traditions to food industry.

## ***2.2. Obstacles for entrepreneurs***

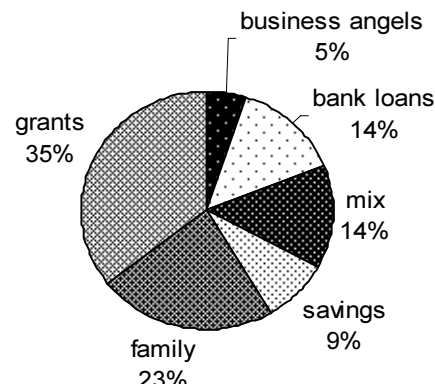
All students have a preferred domain in which to start their own business. This reveals the inner reflection to the possibility of opening your own business. Moving to entrepreneurship is hampered by a number of factors. Among the factors listed, in the first place is lack of financial resources 50% followed by the conditions offered by the community in which they live 14% and lack of business vision 13%. About 20% of respondents consider entrepreneurial opportunities can not be exploited, not only due to

lack the financial resources and the community in which they live, but also because of legislation or their inability to lead people. The most significant obstacle for those who want to start their own business is represented by scarce financial resources.



**Fig. no. 3 Obstacles for entrepreneurs**

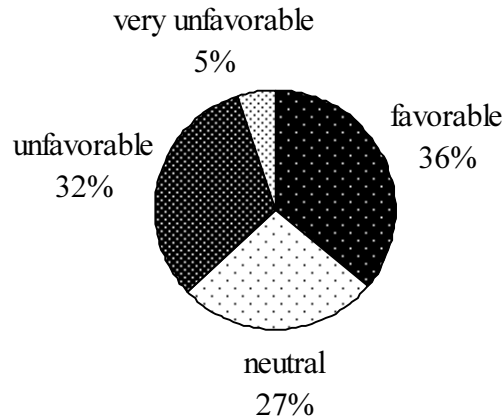
Without proper funding no start up can operate, invest and grow. In terms of funding sources: 36% of students want to seek grants, 23% to obtain financial support from the family and 14% bank loan. Only 5% of the students thought to appeal to an business-angel. Because they have not enough resources 14% of respondents are willing to mix funding sources: grants, family resources and savings.



**Fig. no. 4 Funding sources**

Requesting the family to obtain total or partial financing for start-up is the easiest solution because, at the beginning, getting a bank loan can be difficult.

Students surveyed were asked to characterize the current environment for starting a business. Results show that 37% of the students believe that the current environment is not suitable for initiating a start up. Interesting is that most of the students 36% believe that the environment is favorable for business. None of those surveyed said that the present business environment is very favorable.



**Fig. no. 5 Current conditions for starting a business**

Entrepreneurs play a vital role in any healthy economy. That is why, students were asked to assess the probability of starting a business, in the next three years, on a scale of 1-5, where 1 represents the most unlikely and 5 represents certainty to start a business. This indicator represents the entrepreneurial propensity of the population, defined as the probability of becoming entrepreneurs in the future (akcess.com, 2013). Entrepreneurial inclination of respondents recorded an average value of 3,136.

### **3. Conclusions**

Students consider that to be successful in your own business must be involved in a field that you enjoy, being aware that opening your own business requires hard work, perseverance and flexibility. Optimism, the second attribute for those who want to be entrepreneurs, necessary, more so as the current economic environment is not attractive for young investors.

Some of the assumptions were considered confirmed. Romania has a culture that does not support entrepreneurship, students believe that entrepreneurs are not encouraged enough. Another hypothesis confirmed is on the main obstacle for those who want to start their own business represented by scarce financial resources. To insufficient financial resources were also added conditions offered by the community in which students live. There were students who clearly stated that they want to start a business but in another town. A hypothesis that was not confirmed was that relating to students' willingness to engage in entrepreneurship. When student were asked to indicate the area in which they wish to start their own business, although it was an open-response question, all provided a domain. We believe that this proves that there is a real interest in entrepreneurship among students, entrepreneurial intention is likely to materialize at graduation (bachelor's degree or master's degree).

Challenges for students who want to start their own business are numerous, from difficult access to finance, community support, and sometimes, the lack of a strategic vision of the business.

We conducted an empirical study, but the results, beyond which any empirical research implies, is a knowledge base for knowledge and understanding how students perceive the complex aspects of entrepreneurship.

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(accessed on October 2014)

# STUDY ON QUALITY OF INDIVIDUALS' LIFE OF XXI<sup>ST</sup> CENTURY THROUGH WORK\*

Diana-Elena, Șerb<sup>1</sup>  
Georgeta, Gogeanu (Andronache)<sup>2</sup>

## Abstract

*Given that there have been written a number of books, numerous papers, theses that treat the subject work in people's lives, this article aims to bring added value by identifying the extent that it contributes to improving the quality of individuals' life. During the two parts of the article (state of the art and theoretical) the article focuses on relevant issues which have national and international literature sources, but also international websites specialized in work analysis.*

*The data, on I have completed the practical part of this article, comes from a site specialized in the study of quality of people's live „Word Values Survey". The theoretical part is a office marketing research focused on the analysis of secondary sources. The working hypothesis of this article assumes that work is one of the determinants of people's life quality, because it determines the individual's moral and financial satisfaction, and through economic situation the individual can lead a better life.*

*The research is actually a comparative analysis based on a survey among Romanians and Ukrainians to identify how they perceive some aspects related to work. "Word Values Survey" has an application and, as a result of the orders, it has provided me information from surveys applied, whereon I analyzed and interpreted in my own way, but objectively. The research reveals that there is a difference of opinion between the two countries on relevant issues related to work.*

**Keywords:** work, satisfaction, stress at work, dedication, exhaustion

**JEL Classification:** J 28, J 62, M12

## Introduction

Work has been and continues to be the area of interest of individuals. If in the past the work was associated to that category of people who had undertaken activities to obtain food, clothing and housing, along with the passage of time people's line of thought changed about it. Practically, the work was perceived as a form of barter, but the barter is also available today for people performing certain activities with or without an employment contract to be paid.

The scope of work is wide, from the work in their households (household work that brings benefits, but not in material form) to the work in household, but aimed for sale of goods grown up to work in different organizations that belong to public or private. In many of the activities that were previously performed only by men, more women are involved now, because there is an emancipation of women, she wants to be independent and have the opportunity to maintain herself.

The developments in society has left its mark on work, in the sense that modern technologies have emerged and some of the activities provided by the people were taken by modern equipment. The entrepreneurs have realized lately that in order to get from the employee performance, they must be focused on meeting their satisfaction, satisfaction that means compensation, favorable work environment and collaboration between employees.

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## **Chapter 1. Defining aspects of the concept of work**

### **1.1. Work in society**

An enterprise is a group of people working together in a process that is based on the division of labor in order to achieve a common goal, and that is true for many groups starting from family, religious collective or entities, economic or government companies. In present, business management has a high complexity because the deficiencies encountered at decision-making are considering a variety of alternatives whose comparison is difficult to a significant extent, by the unpredictability of human behavior (Manolescu A., 1999).

For an employee is difficult to find a balance between work and personal life. Effective management of relation work/professional life determines individual's satisfaction. Wishing to make many things, to get involved in various activities at work, man becomes stressed. Scientists are saying that moderate amounts of stress can benefit human, and most of people have the capacity to cope with stressful situations. Increased stress generates a weak level of employee's morale, low productivity and thus resulting in decreased satisfaction at work (Friedman S., 2000).

Workload balancing is achieved by overview on carrying out activities with pleasure, morally, work should not be regarded as a necessity or socially, as a punishment (Morin E, 2000).

### **1.2. Dedication and exhaustion at work**

There is a class of individuals who are fully committed to work and are not making a proper separation between personal and professional life. Dedication to work is different from exhaustion at the workplace. If dedication at work leads to spiritual fulfillment, exhaustion generates feelings of anxiety and discomfort. Exhaustion at work is a form of organizational pathology. Exhaustion refers to an accumulation of feelings that lead to chronic fatigue, occurred due to overload at workplace. The cynicism is a distant attitude towards work, in general, and to work colleagues. In this situation, the interest in work is lost. Lack of efficiency is low power and lack of results (Jari J. Hakanen A, 2006).

Maslach and Leiter (1997) were the first ones who were interested in analyzing the work dedication and exhaustion. They think that exhaustion and dedication at work are diametrically at opposite poles of a continuous process of work (Schaufeli W, 2003).

The dedication at workplace is assessed by five items (Maslach C, Jackson S, Leiter M. 1996): - I consider that the work we do is characterized by meaning and purpose;

- I have high enthusiasm about work; my work inspires me;
- I'm proud of my job;
- For me, my job is a challenge.

For an employer, it is essential to know the potential employee. Understanding human resource involves: developing a broader perspective (to understand whether the employee has the job inclination) and knowledge of the objectives (knowing which are his tasks, the employee can be very helpful). Developments in technology and globalization have increased the complexity of the employment matter. However, they contribute to creating more opportunities to change the mentality and to restore the meaning of work to humans (Weisskopf J, 1967).

The repercussions caused by job insecurity is explained by the fact that insecurity creates the perception in mind that the individual may lose his job. This perception has a negative connotation. In many contemporary societies, a job has the key of social integration, social participation and recognition (Hans de Witte, 2009).

### **1.3. Work satisfaction**

Satisfaction at work was and is a subject of research of many specialists. Churchill, Ford and Walker (1974) describe the term to be satisfied. All the characteristic features that constitutes the environment, in itself, represents the satisfaction (Locke, E, 1976). Satisfaction's cause vary greatly for individuals, because it comes from the individual's emotional state.

The satisfaction affects expectation: the subjectivity results from the fact that is determined by expectations, as the expectations are greater, the will be more difficult to realize them (Little E, 2003).



The management encourages studies on job satisfaction. In the beginning was the theory of Taylor.F. W. Taylor has set four major principles of scientific management. (file:///C:/Documents%20and%20Settings/My%20Documents/Downloads/Teorii%20organizational\_2013-2014.pdf).

The first principle is the scientific study of the work that must be done by a team of specialists. The second principle is the scientific selection and training of the worker. The third principle is actually linking the first two. Most enterprises pay more attention to market share than customer satisfaction. Enterprises must monitor and improve the level of satisfaction (Kotler P, 2004).

If performance lives up to expectations, the customer and the employee will be satisfied. Some of the most successful enterprises today succeed to live up to expectations and provide appropriate performance (P Kotler, Keller K, 2006).

## **Chapter 2. Quality of life in Romania and Ukraine Through Work**

### **2.1. Methodological framework within the research is carried out**

**Contextualizing the study** – The purpose of the study is to present the contribution of work to obtain a life quality of Romanians and Ukrainians.

Research objectives:

- the knowledge on how respondents from the two countries perceive the equal opportunities in work between residents and foreigners;
- the degree to which the respondents are agree with gender equality at work;
- the satisfaction level of respondents aged over 30 years on income ;
- the extent that job generates satisfaction to Romanians and Ukrainians.

The organization of the research. The sample consists of 1500 people, Romanians and Ukrainians citizens. Questionnaire is applied on-line. The questionnaire includes several areas of interest: education, employment, family, religious structure. It was drafted by specialists from "Word Value Survey", and in the employment field have chosen four questions.

**Research hypotheses:**

- The majority of respondents who participated in the research from the two countries disagreed on the statement: „ When there are fewer jobs, men should have more rights than women in employment? ”.
- Ukrainian and Romanian respondents agree with the fact that when there are not many jobs in their country, they should be prioritized at the expense of foreigners.
- Regarding the satisfaction that work generates, both Ukrainians and Romanians are dissatisfied.

The period of application of the questionnaire: Ukraine in 2011 and Romania in 2012, and data collection was done during August-September 2014.

### **2.2. The research results**

To what extent do you agree with the following statements?

1. When there are fewer jobs, men should have more rights than a woman?

**Table 1. Males priority in filling a job**

<b>TOTAL</b>	<b>Country Code</b>	
	<b>Romania</b>	<b>Ukraine</b>
Assent	34.7%	39.8%
Indifference	21.2%	22.8%
Disaccord	40.2%	34.9%
Not responding	1.1%	0.2%
Do not know	2.8%	2.2%
<b>(N)</b>	<b>1,500</b>	<b>(1,503)</b>

Source: <http://www.worldvaluessurvey.org/WVSONline.jsp> Romania2012,Ukraine 2011

Analysing the responses given (Table 1) by the selected sample from our country and the sample belonging to Ukrainians, we can find a much stronger attitude of the Romanians, because they have an attitude of disagreement on discrimination at work (40% of respondents), while as a percentage of 39% of Ukrainians agree with this statement. Basically, it is violated one of the principles of EU social policy "equality of opportunity". This discrepancy of answers occurs also because the values of each nation.

2. When there are fewer jobs, employers should give priority to the Romanians at the expense of the foreigners?

**Table 2. Population's priority of that State at the expense of the foreigners on filling a job**

	<b>Romania</b>	<b>Ukraine</b>
Assent	71.3%	73.8%
Indifference	15.9%	13.3%
Disaccord	11.0%	10.3%
Not responding	0.2%	1.0%
Do not know	1.8%	1.6%
(N)	(1,503)	(1,500)

Source: <http://www.worldvaluessurvey.org/WVSONline.jsp> Romania2012,Ukraine 2011

At a rate of over 70%, the people of the two countries that participated in the research conducted by "Word Value Survey" agree with this statement. At the opposite pole is the case of Romania where only 11% expressed disagreement, and in Ukraine 10% manifested an attitude of disagreement (Table 2).

3. How satisfied are you with the remuneration received at work?

**Table 3. Satisfaction on remuneration**

	Country Code [Age=Up to 29]	
	<b>Romania</b>	<b>Ukraine</b>
Completely dissatisfied	7.0%	9.6%
2	1.1%	2.7%
3	5.8%	10.6%
4	5.5%	9.7%
5	10.7%	17.0%
6	9.1%	17.0%
7	22.6%	14.3%
8	17.4%	11.0%
9	8.3%	4.9%
Completely satisfied	12.3%	3.3%
Not responding	0.3%	-
(N) Aged over 29 years 29	318	340

Source: <http://www.worldvaluessurvey.org/WVSONline.jsp> Romania2012,Ukraine 2011  
Romania2012,Ukraine 2011

Most of the respondents from Romania and Ukraine declare dissatisfied about the the remuneration received at work (Table 3).

3. Considering all aspects of your life in terms of the role of work in life, wthat is your degree of satisfaction?

**Table 4: Satisfaction on the role of work**

	<b>Romania</b>	<b>Ukraine</b>
<b>Completely dissatisfied</b>	<b>86%</b>	<b>93.2%</b>
<b>Completely satisfied</b>	<b>13.2%</b>	<b>6.8%</b>
<b>Not responding</b>	<b>0.1%</b>	<b>-</b>
<b>Do not know</b>	<b>0.7%</b>	<b>-</b>
(N)	(1,503)	(1,500)

Source: <http://www.worldvaluessurvey.org/WVSONline.jsp> Romania2012,Ukraine 2011

Most of the respondents from Romania and Ukraine ( Table 4) declare dissatisfied about the impact of their work on their lives (86% of Romanians and 93% of Ukrainians).

### 2.3. Research findings

Not all assumptions formulated at the beginning of the research are verified. The first hypothesis is not verified, and the following two are verified. The first hypothesis is not verified because only the Romanians do not claim the discrimination at work, in the sense of violation of equal opportunities regardless of gender (40% of them), while Ukrainians agree a 39% to the fact that when there are fewer jobs, men should have priority.

Hypothesis number two is verified, because both Romanians and Ukrainians in a percent of 70% agree with the statement according to that in the situation, if in their country there are fewer jobs, they should be given priority at the expense of foreigners.

Analysis of the satisfaction of people participating in research, in terms of income as a result of work performed, shows that both Romanians and foreigners are dissatisfied. The last hypothesis is verified, because those surveyed in Romania and on the territory of Ukraine declares dissatisfied on work contribution in ensuring the quality of their lives (86% of Romanians and 93% of Ukrainians).

In conclusion, there is a difference in perception between respondents of both countries on some defining aspects related to work, that contributes to the quality assurance, and the work has not a fundamental role in making the individual feel satisfied.

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# STUDY ON ORGANIZATIONAL PATHOLOGY AND IMPLICATIONS ON HUMAN RESOURCES JOB SATISFACTION, ALSO ON THE EMPLOYMENT OF THE LABOR MARKET\*

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## Abstract:

*People need to face the demands resulting induced neurotic styles of their leaders. The result is lower morale, affect behavior, dissatisfaction at work. This paper aims to present the point of view of theoretical and practical implications of failures in the organization on job satisfaction of employees. The practical part of this article is the analysis of statistically labor employment level , and a marketing research field, a survey using questionnaire as the main instrument. The main objectives during the research aims: knowledge labor employment in Romania, identify employee satisfaction on labor relations between managers and subordinates, knowledge of the involvement of the manager in providing a suitable work environment, to determine the extent the problems arising in the workplace creates dissatisfaction which ultimately rebounds on return.*

*The main results drawn as a result of research carried out show that existing pathology in an organization is felt on one side by the employee the aggression and persecution has implications for morale, and on the other hand these disturbances are felt at employment in that workplace, stress employees resign and this leads to higher unemployment.*

**Keywords:** organizational pathology, human resources, satisfaction, labor employment

**JEL Classification:** J40, M12, J62

## Introduction

Over time, organizations focused primarily on gaining profit and customer satisfaction. In their quest to achieve total satisfaction of the client, entrepreneurs have forgotten the importance of resources in the organization.

Entrepreneurs want of its own human resources yield, given the condition that the organization can achieve maximum effect with minimal effort, but they do not focus on creating an enabling environment in which the employee can prove that he is the man in the right place.

Existing failures in the organization by the fact that on the one hand, work climate is not conducive intellectual development of the individual, and on the other, the employee is with a sense of persecution due to poor relations with colleagues and managers, all this leads to weak results obtained by the individual.

## Chapter 1. Notions about organizational theoretical pathology and human resources

### 1.1. Organizational pathology

Dysfunctional situations are a barrier to people's need to satisfy the pleasures and achieve their life goals. People need to face the demands resulting induced neurotic styles of their leaders. The result is lower morale, affect behavior, dissatisfaction at work.

Neurotic leaders tend to create crises In turn, infected the crisis organizations often seek to strengthen the management and leadership neurotic styles. The end result is toxic neurotic failure model . Such self-defeating patterns to be detected without creating a new round of crisis.

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A more common form of pathology in the organization is mobbing , which are common terms persecution at work. This is a situation that may affect the individual physically and mentally.

Rayner și Hoël (1997) structured as mobbing (<http://prezi.com/4ekw0vf7kv3w/patologii-organizationale/>):

- threats to professional status (for example, depreciation opinions, public professional humiliation and accusations of lack of effort );
- Personal attacks (insults, intimidation, nickname, devaluation on age);
- isolation (restriction of access to job opportunities, physical or social isolation, hiding information);
- task overload (unnecessary pressure, impossible deadlines to meet, unnecessary interruptions);
- destabilization (unfounded mistrust, meaningless tasks, responsibilities withdrawal, recall repeated mistakes, prepare to fail a person).

Organizational aggression results in the individual :

- poor health human resources ( physical and mental disorders occur).
2. falling productivity, decreased quality of work done intentionally, loss of time due to attempts to avoid the aggressor, sabotage and theft from employees .
  3. legal action taken by employees.

Another factor strongly linked to development, burnout is the type of personality and especially the "resistance", which reflects the relative capacity of the individual to stay healthy while strong, prolonged stress situations (Felton J, 1998).

Maslach and Jacks develop inventory Maslach Burnout (MBI) detection and measurement of the severity of the BOS . Their study assesses three areas, namely, emotional exhaustion, depersonalization and personal sense of failure at work (Poncetl M, Tulic P, 2002)

### **1.2. Human resource**

People looking repetitively, the desire to stand out, to show those around you that have a higher potential than their peers, not necessarily to meet the organization's objectives.

The role of growth factors is as (Petrescu I, 2008):

– **1. Labor content.** Factors boosting the role of staff in contemporary production ,major changes in work content, generated by the use in production of new techniques and technologies.

– **2. Control over personnel.** Exchange possibility of control over personnel and significant increase in self-monitoring and self-discipline.

– **3. Macroeconomic factors.** Macroeconomic factors, in particular, changing orientation and dynamics, demand and production oriented towards satisfying it.

## **Chapter 2. Study on the organizational pathology on DRDP Cluj**

### **2.1. Research methodology**

He undertook a marketing research field, a survey among human resources of the Regional Directorate Roads and Bridges Cluj. The purpose of the research was to identify difficulties in relation to human resources organization. From the staff were chosen only those in leadership positions. The sample size, 100 people. The main instrument used was a questionnaire. We used non-randomized sampling. The questionnaire is shown in Appendix 1 is the scaling method used by Likert .

#### **Research objectives**

- identify employee satisfaction on labor relations between managers and subordinates,
- knowledge of the involvement of the manager in providing a suitable work environment,

- the extent to which the problems arising in the workplace creates dissatisfaction which ultimately rebounds on yield.

The main hypotheses:

- Most respondents show full agreement on the statement „ I feel good at work „.
- People surveyed in a small percentage show an attitude of total agreement on the statement „ I feel annoyed by the company of other colleagues „ .

3. A rate of over 50 % of the research subject is indifferent to the statement „ are relaxed in front of the head „.

## 2.2. Sample results

Analysis was performed on three levels:

- identify the mood of staff,
- observing climate work,
- highlight the relationship between manager and subordinates , and between individuals at work .

Analysis mood. Was chosen to be interpreted results that reflect the mood of the employees to see the extent that it comes with a source of tension, stress, anxiety learned from the load felt at the family level (see Table 1).

**Table 1: Responses on mood**

Criterion	Strongly disagree -2	Disagree -1	Whatever 0	Agreement 1	Complete agreement 2
a) I feel calm				80	20
b) I feel anxious	50	30	20		
c) I feel rested			10	80	10
d) I feel sad	10	50	40		

Calculate the score for each sub-criterion the criterion mood . The score for the sub-criterion „ I feel calm „ is 1.2. This result shows that respondents agree with the first statement. The score for the sub-criterion „ I feel anxious „ is -1.3. According to our attitude scores of respondents have a disagreement on this statement. The score for the sub-criterion „ I feel rested „ is 1.2 this result suggests that respondents manifested an attitude of agreement . The score for the sub-criterion „ I feel sad „ is - 0.7. The respondents have an attitude of disagreement . In order to identify human resource attitude overall global score is calculated, which is 0.1 . According to the results presented respondents overall attitude of indifference on the sub-criteria that define the mood.

Was chosen for analysis, work climate to observe the extent to which there is organization-wide pathology, pathology determined by the environment in which staff operate. See Table 2 .

**Tabel 2: Replies working on climate**

Criterion	Strongly disagree -2	Disagree -1	Whatever 0	Agreement 1	Complete agreement 2
a) I trust in my own power that the climate where i work will make me progress				80	20
b) I feel useful at work			20	30	50
c) I feel myself when I work because there is a pleasant environment			80	10	10
d) I'm in a good mood when I am paid as			10	50	40

The score for the first sub-criterion is 1.2, respondents have a positive attitude about the statement „**I trust in my own power that the climate i work in will make me progress,**„ the score for „**I feel useful at work,**„ of 1.3. Respondents agree with this statement. Criterion score for number three is 0.3. Respondents are indifferent to the statement „ **I feel myself when I work because there is a pleasant environment,**„ . Scoring criterion for „**I’m in a good mood when I am paid as,**„ is 1.2. This score reflects the attitude of the respondents agree on this sub-criterion .

In order to observe the general attitude of the staff working on climate using global score . Its calculation reveals a global outcome score 1. The respondents have an attitude subcriteria agree on criteria defining work environment .

The third level of analysis is the relationship between manager and subordinates, and between individuals. It analyzes plan to observe the extent to which if any pathology at the organization level is determined by the relationship manager and colleagues ( Table 3 ).

**Table 3. Responses of relationships within the organization**

<b>Criterion</b>	<b>Strongly disagree -2</b>	<b>Disagree -1</b>	<b>Whatever 0</b>	<b>Agreement 1</b>	<b>Complete agreement 2</b>
a) I feel irritated in the company of colleagues			80	10	10
b) I feel relaxed in the company of the Boss		60	30	10	
c) I’m worried about the task’s my manager will draw			80	10	10

The score for the first sub-criterion is 0.3. This result shows that respondents show an attitude of indifference .

The score for the second criterion is -0.5 . This result suggests that employees have an attitude of a disagreement about the claim „ I feel relaxed in the company of the Boss „.

The score for the last sub-criterion is 0.3 . This reflects an attitude of indifference. Overall score for the criterion relations manager and colleagues is 0.03 . Overall this criterion respondents manifested an attitude of indifference to the sub-criteria that define this criterion.

In order to observe the general attitude of employees towards the three planes of analysis taken overall global score is calculated. Its calculation shows a result of 0.37. This reflects the fact that human resources have a general attitude of indifference .

The last part of the questionnaire is the identification questions. Their purpose is to highlight aspects of personal life: age, income and home environment .

The responses provided 40 persons are in the age range 30-39 years, 50 is in the range 40-49 years and the remaining percentage is distributed to other age ranges.

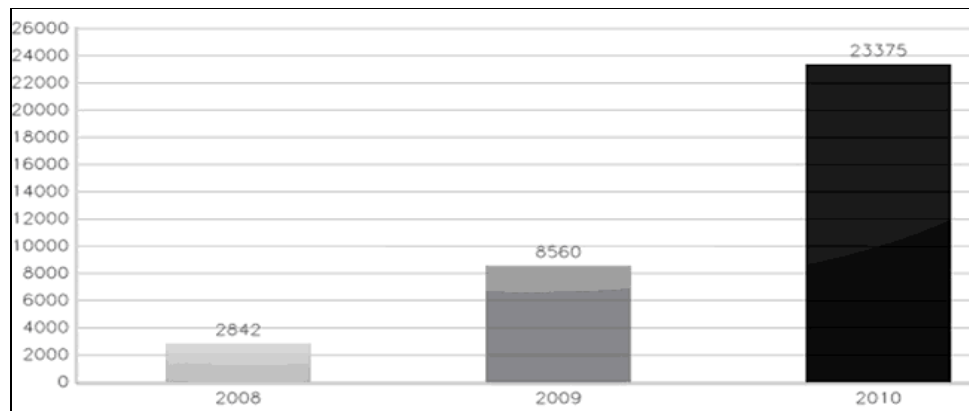
Of those surveyed 60 living in urban areas and 40 in rural areas. Most respondents have come out between 1401-2001 .

### **2.3. The analysis of employment under the impact of organizational pathology**

At the beginning of 2012 My job site conducted a survey on the labor market in Romania. Among the indicators of labor market characteristics that were analyzed are: labor migration and employment areas for Romanian .

#### **Labour migration**

Unlike domestic supply facing a decline in the last two years, the number of jobs available for Romanian abroad grew significantly in 2009 and more in 2010 labor migration phenomenon is reflected in the figure below ( Figure 1).



**Figure 1. Labour migration**

Source: Myob.ro

Between 2012 and 2013 the phenomenon of labor migration is increasing. It is about the internal migration and external one .

Another trend that emerges from the report is that the redirection occurs offer jobs to professionals rather detrimental unskilled . This produced a change of domain ranking the best jobs for Romanian ( Table 4 )

**Table 4. Top business areas attractive for hiring Romanians**

Top	2008	2009	2010
1	Client Service	engineering / technology	engineering / technology
2	Turism	IT&C	IT&C
3	restaurants / hotels catering	architecture / building design	medical / pharmacy
4	architecture / building design	restaurants / hotels catering	Accounting
5	Production	medical/pharmacy	arcjotectire/building design
6	engineering / technology	food/trade	Sales

Source: Myob.ro

These areas currently continues to be attractive for employment. The labor market is still far from being generous . Given that there are very few alternatives , basically there is no question of choice - a place implicit muncă.Tinerii generally seeks a stable job to provide them with a decent living.

### **Research findings**

Problems on organizational climate, role of employees morale, satisfaction and psychological well-being, plus the influence of organizational culture on behavior conducted workplaces began to be priority researchers in organizational psychology. Organizational pathology can be remedied by changing individual behavior. This change means that the personal interests of employees shall be in accordance with the organization's objectives .

An individual's behavior and poor management lead to conditions that will have an impact on the proper functioning of the relationship between the two parties involved , but also on achieving the objects of the organization.

The first two hypotheses of this research is verified, and the last is not verified . The first hypothesis is verified as most respondents show a user all of the claim ,, I feel good at work ,, . Hypothesis number two and she also checked because a few respondents manifested an attitude totally agree on the statement ,, I feel irritated in the company of fellow ,, . The last assumption is not verified because half the number of respondents show a total user on afirmația ,, I feel relaxed in front of the head, but only 10 people, while most have an attitude of indifference.



In conclusion, DRDP Cluj as a result of research conducted on its own human resources management function has no organizational pathology, so human resource not operate under its own tensions, stress and persecution .

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5. <http://www.myjob.ro/> .

### Appendix 1. Questionnaire

Hello ! Conducted research to identify organizational pathology ! Please take a few minutes to complete the following questionnaire. Below are descriptions of different moods . Read each description and exprimați-vă în agreement or disagreement .

I.

Nr	Description	Strongly disagree	Disagree	What-ever	Agreement	Complete agreement
1	I feel calm					
2	I feel myself					
3	I feel rested					
4	I feel anxious					
5	I trust my powers					
6	I feel good at work					
7	I feel irritated in the company of colleagues					
8	I'm relaxed in front of the Boss					
9	I feel satisfied with work					
10	I'm worried about what my duties will be drawn by the Chief					
11	I'm in a good mood when you are paid as					

II.

#### 12. How old are you ?

- a) 15-19
- b) 20-29ani
- c) 30-39 ani
- d) 40- 49ani
- e) 50 - 59 ani
- f) 59-69

#### 13. What is your monthly income ?

- a) sub 700 lei
- b)700-1400 lei
- c) 1401-2100 lei
- d) peste 2100 lei.

#### 14. What is your home environment ?

- a)Urban,
- b)Rural.

Thank You!

# ORGANIZATIONAL STRATEGIC PLANNING OF HUMAN RESOURCES

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## Abstract:

*The strategic planning of human resources is an ongoing process closely connected to the mission, vision and goals of an organization. The need for strategic planning arises from the dynamism of social and economic life, with a proactive approach in any type of organization.*

*The role of strategic planning of human resources is to “ensure the right man in the right place at the right time”, as a human resource is the only one with a creative and innovative effect. Thus, there is a synergistic effect between an individual and the organization in which he/she operates, between a human resources strategy and an organization's overall strategy.*

*The main objectives of strategic planning are ensuring the necessary human resources, suitability to an organization's nature and the effective use of human resources in achieving organizational objectives. Analyzing the necessary human resources according to an organization's objectives and linking them to the existing labour supply and demand, there is an absolutely essential balance in strategic planning. The benefits obtained therefore are undeniable and human capital is transformed into a true competitive advantage.*

*The challenges generated by the changes that may occur at any time in any type of organization and which directly affect the existing human resources can be effectively managed through strategic planning.*

**Keywords:** human resource, organization, strategic planning, human capital, competitive advantage.

**JEL Classification:** M 54

## 1. Introduction

In a current complex, uncertain socio-economic context, the key to success in any field of activity lies in strategic thinking. Successful organizations have realized that a human resource is the main source of competitive advantage, thus enhancing the strategic role of human resources management. Not incidentally, nowadays experts in the field speak of a true “*magic triangle*” made up of a business plan, financial planning and strategic planning of human resources whose objectives are to ensure the necessary human resources, the suitability to the nature of an organization and the effective use in achieving the latter's goals.

The strategic planning of human resources is an inseparable part of the strategic planning process in any type of organization, closely related to organizational mission, vision and goals. In this respect, the strategic planning of human resources decisively contributes in reducing the risk related to the staffing needed to achieve organizational goals.

The strategic planning of human resources can be defined as a process of ongoing assessment of human resources needs in relation with organizational goals. The need for strategic planning arises from the dynamism of social and economic life, with a proactive approach in any type of organization.

## 2. Strategic Planning of Human Resources in an Organization

The current socio-economic environment requires fierce competition, so that the success of an organization depends on its ability to distinguish itself from competition through its multidimensional contribution, where the central role is held by human resources.

The dimensions of human resources strategic planning are functional and temporal (Bühner, 1994, p. 55). The functional dimension aims at anticipating future staffing needs,

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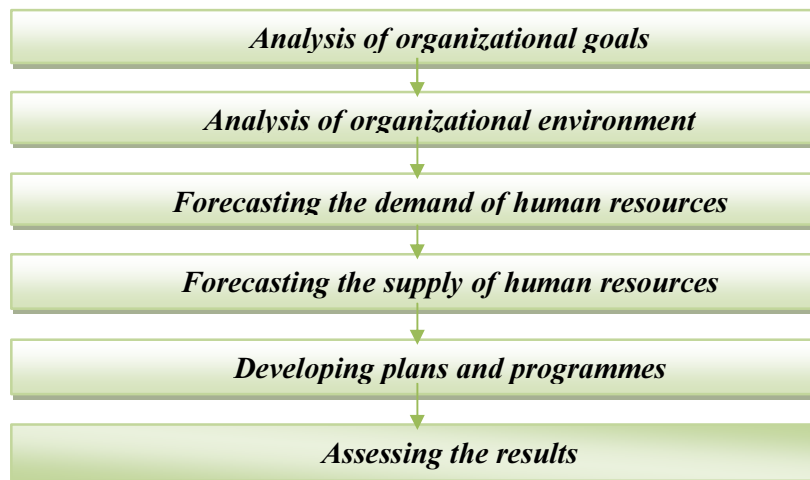
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taking into account the strategic objectives of an organization. The temporal dimension aims at linking time horizons covered by human resources plans with the plans of an organization as a whole.

Integrating within an organization all the activities related to human resources management requires careful analysis and planning of human resources by setting up a strategy to integrate their use in compliance with other resources, in order to efficiently achieve the targets of an organization (Gherman, Pănoiu, Dindire, Popa, 2013, p.49). The purpose of strategic planning at organizational level, including as far as human resources are concerned, is to generate a change, not just any change, but a controlled one.

The main objectives of strategic human resources planning are:

- integrating an HR strategy in the overall strategy of an organization;
- attracting and retaining competent staff;
- linking staffing to organizational objectives by anticipating staff deficits or surpluses;
- effectively developing the existing workforce;
- increasing workforce flexibility.



**Fig. no.1 Stages of Human Resources Strategic Planning**

The main steps to be taken in the process of human resources strategic planning are:

- a) analysis of organizational goals
- b) analysis of organizational environment
- c) forecasting the demand of human resources
- d) forecasting the supply of human resources
- e) developing plans and programmes
- f) assessing the results

a) *Analysis of organizational goals.* The starting point of human resources strategic planning is to identify and analyze organizational goals. The quantitative and qualitative existence of human resources is a necessary condition to achieve objectives. Any change in the strategic planning of an organization entails changes in the strategic planning of human resources.

b) *Analysis of organizational environment.* The external environment includes a set of opportunities and threats, by the nature of current domestic and international economic, social, demographic, political, technical and technological circumstances. Macroeconomic forecasts, general market characteristics and particularly labour market features, legal regulations in the field, fiscal and trade policy, the force of domestic and foreign competitors are only some very important elements in the external environment that should be taken into account.

Opportunities in the external environment must be exploited effectively and threats must be managed so that their adverse impact upon an organization could be minimized. Equally important is the analysis of the internal environment, that is, own strategies and plans, existing human resources (age, labour seniority, qualification and specialization levels, mobility and fluctuation rate), financial statements which highlight the strengths and weaknesses of an organization.

Assessing an organizational environmental especially the external one is particularly difficult today because of its high degree of uncertainty and complexity, which often requires a detailed analysis.

c) *Forecasting the demand of human resources.* Depending on the volume of activities predicted by an organization, one can estimate future human resources needs, both quantitatively and qualitatively.

The main methods used in forecasting the demand for human resources are:

- management estimates;
- Delphi method;
- trends' analysis;
- work study techniques etc.

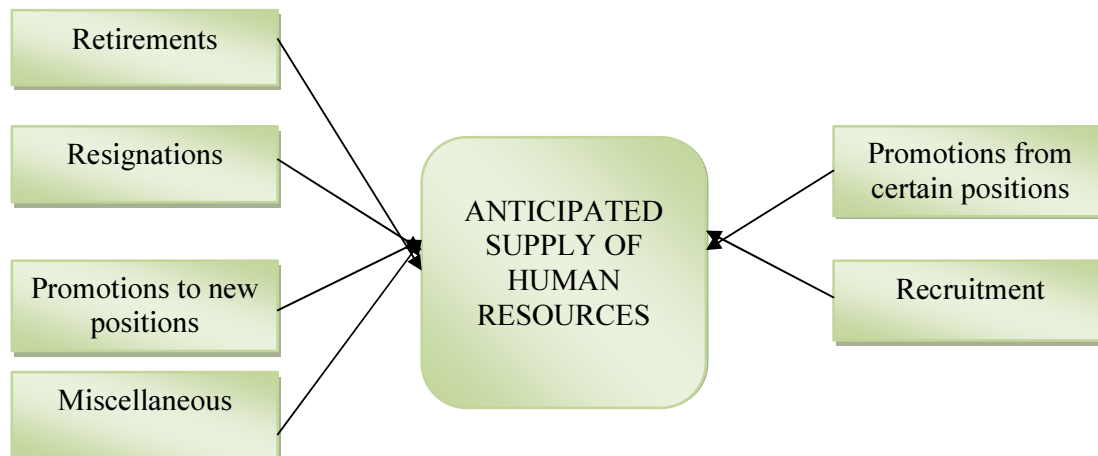
Management estimates are carried out by upper level managers and managers in other hierarchical levels, who depending on a specific activity, determine the staffing needs for future periods in relation to the overall strategy of their organization. This method is usually used by small organizations or “start up” organizations, entailing a number of risks.

*Delphi method* requires the existence of an expert group (around 10-20 people), who through systematic consultation, express their views on the future of an organization and implicitly on the staffing needs based on structured anonymous questionnaires. The expert group very well knows the activity of an organization, and it also has extensive knowledge in the field of human resources. Usually, after a session of 3-5 inquiries, they reach a consensus, a single trend is crystallized, a time when the process of activity forecasting and staffing can be completed.

*Trends' analysis* is a method characterized by estimating the necessity for future resources by reference to the data from previous periods. Thus, necessary human resources are estimated in terms of quantity and structure, based on the correctness of previous records and on the ability and realism of assessors.

*Work study techniques* are recommended to be used when work can be measured. In the event of productive activities, one envisages the planned volume of production, standard labour time per unit, the labour time of a worker, and unproductive times (Manolescu, 2003, p. 255).

d) *Forecasting the supply of human resources* aims at analyzing internal human resources (existing staff) and the analysis of external human resources (potentially available). The analysis of human resources supply includes: available human resources; potential losses due to misuse; potential changes due to promotions; effects of being absent and of changes in working conditions; supply sources from within the company (Armstrong, 1991, p.297).



**Fig. no. 2 Anticipated Supply of Human Resources in an Organization**

Some changes in the supply of human resources can be easily estimated, such as retirement, others may be made precisely, such as promotions, but others are difficult to forecast, sometimes impossible to foresee (resignations, labour incapacity, death). Complying the demand with the supply of human resources, there may be a staff surplus or deficit, both results requiring corrections.

**Table no.1 Options to Solve Staff Surplus**

On short term	On long term
• staff deployment	• hiring freezing;
• temporary interruption of activities;	• permanent external transfers;
• providing annual leaves;	• dismissals;
• providing unpaid holidays;	• retirement stimulating;
• suspension of individual labour agreements.	• coaching (training).

Source: Prepared by the authors.

Organizational management can also make the decision to keep the number of employees, but it must reduce labour costs by decreasing the number of hours worked and/or by reducing benefit-related costs.

In the event of a staff deficit, these are the solutions:

- staff recruitment;
- overtime work;
- staff deployment in difficult places;
- concluding employment agreements for part-time or temporary work;
- staff leasing etc.

In the analysis of the labour demand and supply ratio, the question that arises is not related to quantitative, but qualitative imbalances that are very difficult to solve.

e) *Developing plans and programmes*, that is, actions, responsibilities, deadlines and budget. The main types of plans are recruitment, training and coaching, and promotion.

f) *Assessing the results*, the stage when a quantitative assessment is carried out in the form of productivity gains and costs, and also a qualitative assessment, namely new skills and human values.

### 3. Conclusions

The strategic planning of human resources is an ongoing process, being closely related to the mission, vision and goals of an organization. The need for strategic planning arises from the dynamism of social and economic life, with a proactive approach in any type of organization.

The role of strategic human resources planning is to “ensure the right man in the right place at the right time”, as a human resource is the only resource having a creative and innovative effect. Thus, there emerges a synergistic effect between an individual and the organization where he/she works, between an organization’s HR strategy and overall strategy.

The main objectives of strategic planning are to ensure the necessary human resources, the suitability to the nature of an organization and their effective use in achieving organizational objectives. Analyzing the necessary human resources according to an organization’s objectives and making a connection with the existing labour force demand and supply, the essential balance in strategic planning is ensured.

The benefits achieved are undeniable, as human capital is transformed into a true competitive advantage. Since human resources policies are open and positive, they provide equal opportunities for professional development, increasing one’s sense of professional accomplishment, staff turnover decreases, the commitment to an organization increases, and the results are then seen in organizational competitiveness.

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# THE ROLE OF WORK AND LABOUR MARKET FLEXIBILITY IN WORKING LIFE PROLONGATION: CASE SLOVENIA

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## Abstract:

*Building upon the premise that the prolongation of working life presents an adequate approach to address the fast approaching challenges of population ageing, the paper presents labour market outcomes of older workers in Slovenia in order to explore the role of social system and labour market flexibility in retirement behaviour. By applying bivariate graphic analysis and series of logistic models, paper finds that decisions of older workers (aged 50 - 69) of whether to retire or to continue working up to legal retirement age is being predominately shaped by the pension system parameters. Economic activity beyond this age (or when retired) on the other hand predominately correlates with flexible work arrangements and work motivation. Thus, the future policies in Slovenia aiming to prolong working careers within formal or informal sector should simultaneously do both; change pension system parameters and significantly expand the system flexibility stimulating willing and capable elderly to continue working within the formal sector.*

**Keywords:** *older workers, pathways to retirement, working longer, retirement determinants, labour market, flexibility, pension system*

## 1. Introduction

**Population ageing confronts social actors on different levels of social reality with many challenges that can be addressed by prolongation of working life.** First, societies as whole face increasing pressure on public finances and prospects of lower economic growth. Second, declining labour force growth challenges employers existing resourcing approaches and their views on practices and (human resource management) relations with older workers. Third, at the individual level, the population ageing could be related to risks of diminishing financial status in a consequence also living standards. The importance of working longer to address these challenges has already been theoretically and empirically well recognised. Increase of labour force participation of elder population could in next 40 years invert the decline in labour supply (European Commission and Directorate-General for Economic and Financial Affairs, 2009; Holzmann and Guven, 2009; Muenz, 2007; Chawla et al., 2007; Vodopivec et al., 2008; Oliveira-Martins et al., 2005; Commission européenne et al., 2006).

Well explored were also numerous determinants related to retirement behaviour (for extensive list of those factors see Hakola, 2002), bridge employments into retirement (for extensive list of those see Adams and Beehr, 2003) or differently operationalized dependant variable of economic activity in later life periods. **However, rarely are the effects of different determinants in transitions from work to economic inactivity holistically quantitatively analysed, as for instance, by observing the role of certain contextual determinant during the whole transition process.** We address this deficiency, by analysing the labour market status of population aged 45+ in order to shed some light upon the role of labour market and social security system flexibility in prolongation of working life. Considering that the transition to inactivity presents a complex process, we identify determinants over different transition phases to economic inactivity.

The case of Slovenia has been selected, since it represents the example of how the system rigidity (i.e. absence of flexible retirement transition arrangements) within the context of generous state sponsored retirement system manifests itself as an obstacle to prolongation of economic activity within formal work sphere in later ages.

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## 2. Data and methodology

**Data source chosen for the analysis was Labour force survey (henceforth LFS) and accompanying retirement behaviour ad-hoc module.** LFS sampling framework and sampling plan provide representative sample for population in Slovenia (Statistical Office of the Republic of Slovenia, n.d.). Data used address the period between January 2005 and July 2006. Labour market outcomes are presented using aggregated LFS sample; retirement behaviour determinants analysis on the other hand uses the ad-hoc sub-sample. Since LFS is panel survey, we used for descriptive analysis last data points of 22.522 individuals older than 45 years, who were interviewed in reference period in at least two and maximal 6 time points. Ad hoc module data have been additionally obtained in second LFS wave in 2006 from respondents aged 50-65. This sub-sample of 4662 units is significantly smaller. Comparison of demographic data showed smaller differences between both samples in respect to gender, family status and highest attained education composition. Those differences can be attributed to different age structures of LFS sample and ad-hoc sub-sample.

**Logistic regression, more specifically binary logit and multinomial logit (henceforth MNLM) models estimations have been used for analysis of retirement behaviour determinants.** Regression dependant variable values have been operationalized by taking into consideration ILO definitions of labour statuses and following ad hoc-module survey questions: a.) whether person already met retirement eligibility criteria; b.) whether person receives his/hers retirement benefit; and c.) whether person reduced his/hers working time after the age of 50? Main categories of the dependant variable thus form mutually exclusive outcomes in the retirement process; i.e. the transition phases from work into economic inactivity. Conceptually the dependent variable enables the observation of three relevant aspects. First one describes individual's position in the transition from work to inactivity, which includes information about the labour status (employed, unemployed, inactive), work type (formal, informal) and social status (retired). Second, one incorporates the element of retaining or decreasing workload. The last one is the temporal aspect of transition from work to inactivity: early exit (prematureness), over-night retirement (directness), prolongation of working life (persistence), retaining economic activity (continuation).

Independent regression variable of retirement behaviour was operationalized as follows.

- In phase of *retaining activity* are the employed retaining working time (in numbers of hours worked per week) as before age of 50 who are not receiving old age pension.
- In phase of *prolongation of activity* i.e. postponing retirement are the employed that have already met retirement eligibility criteria, but are not yet receiving retirement benefit.
- The *decreasing activity* phase is assigned to those who are employed, work fewer hours per week after age of 50 and are not receiving retirement benefit.
- *Retirement* phase is assigned to those who are receiving old age pension.

We are aware, that presented definition of dependant variable analytically disregards those who are retired and are still economically active. In order not to weaken the analysis for over-night retirement and activity in retirement, two additional dependant variable categories have been developed as well as two additional nested regression models. The panel nature of LFS data enables us to treat over-night retirement and working in retirement as panel variables. We defined *retired over-night* as retired persons (i.e. those receiving retirement benefit) that have last time worked for payment at the age when they have also received retirement benefit. Variables affecting the retirement transition speed are interpreted as over-night retirement determinants. *Active in retirement* are those who receive retirement benefit and are economically active according to ILO labour status, and have received their first retirement benefit before they last time worked for payment. We



are aware of unemployed and the possibility that those active in retirement could have retired over-night. However, since preliminary data analysis showed numerally weak groups of those early-exiting labour market and those prolonging activity, it was not possible to make any distinctions within those groups according to amount of hours worked. Due to the same reason, it is not possible to analytically develop and test regression models for unemployed and inactive retaining their labour market status waiting to meet retirement eligibility criteria.

**Independent variables or explanatory factors affecting the transition from work to inactivity have been selected into separate models taking into consideration economic theory, available empirical findings and existing data quality of 2005–2006 LFS and transition from work into retirement ad hoc module.** It needs to be noted that due to use of LFS filters some independent variables do have missing values at certain values of dependant variable and thus could not be used in all relevant regression models disallowing systematic analysis of determinants' effects across all observed phases of transition from work to inactivity. Next, due to temporal nature of transition from work to inactivity we further modify some independent variables in such manner that they either correspond to individual's past or present. Work characteristics of inactive thus relate to past (i.e. person's last employment), as with active, they relate to present situation (i.e. current employment). All independent variables have been coded as dummy variables, except age, retirement age and accumulated pension-qualifying period. We present Logit coefficients (b) as well as estimated effects of independent variables in form of factorial ( $e^b$ ) and percentage (%) change in odds for unit increase of X. Marginal effect of binary independent variables is observed as the variable value changes from 0 to 1 (0→1). For categorical variables, we observe discrete change as unit changes (-1/2). Descriptive statistics are available by the request from the author.

### **3. Old workers in Slovenia and retirement pathways**

Welfare state and labour market arrangements in Slovenia provide comparatively high levels of social security, but the system itself is characterised by relatively high rigidity due to few formal pathways enabling prolongation of economic activity in unstimulative system parameters. Obligatory first pillar is provided by state and financed on Pay-As-You-Go basis - with statutory conditions that are set relatively low in comparison to EU. System offers high replacement rate, weak incentives to postpone retirement, statutory regulated seniority pay (extra payment for years of service), work-retirement bridge through unemployment insurance or disability, higher levels of employment security of older workers and limited availability of formal pathways for prolongation of economic activity. However, there are only few available formal retirement pathways enabling the prolongation of economic activity. Consequently, dominating among formal retirement pathways are those that enable either early retirement exit or overnight retirement – i.e. direct transition from economic activity to inactivity.

**Transition from work in Slovenia begins around age of 50 and ends abruptly with age of 61. Only small share of elderly remains active i.e. works later into old age. Majority of those find work in informal sector.** Transition from work in Slovenia begins at age 50 effectively ends with age of 61 (figure 1). Share of full-time formally employed decreases dramatically after age of 51 and stabilises again after age of 61, mainly on expense of significant increase of inactive population. Only few remain formally employed after age of 61, and after age of 65 their share becomes negligible. Economic activity after age of 62 is limited to predominately informal work. Proportion of elderly in informal types of work remains fairly stable from age of 60 into late 70's, whereby retired dominate in this age span. Share of part-time formally employed is small at all observed ages and

comparable to share occupied by unemployed. Unemployed gradually retreat from labour market until age of 60. Distinctive labour market status for elderly after age of 60 in Slovenia is economic inactivity, since the share of active population in age of 60 represents less than 20 per cent, and less than 10 per cent at age of 70. Share of full-time formally employed in male population decreases at slower rate and more gradual than in female population. Intensive decrease of formal employment share begins in male population around age 57, whereby in female population five years earlier around age of 52.

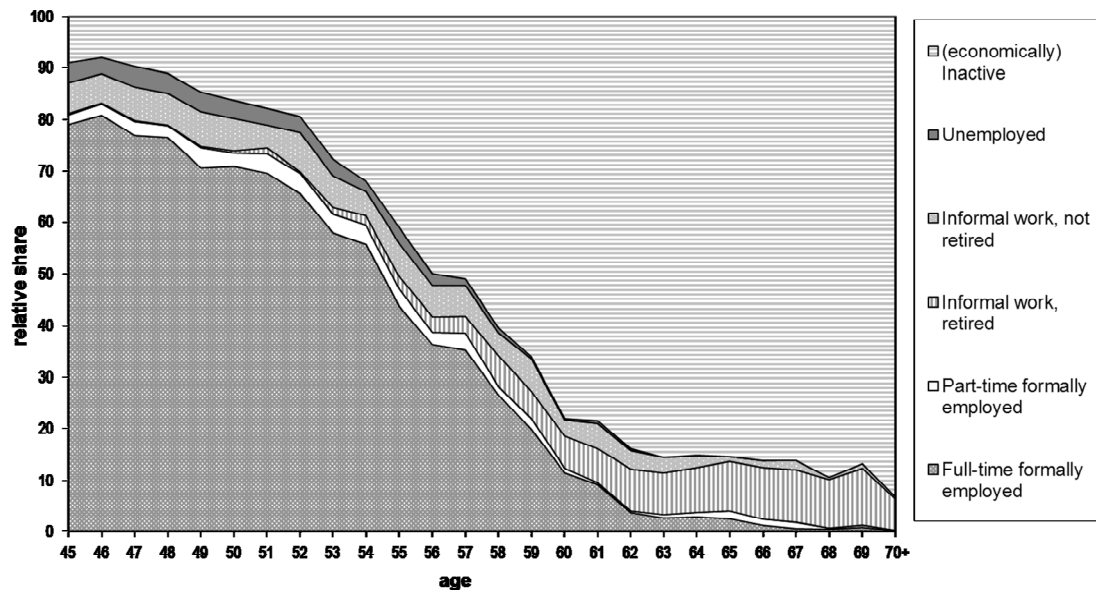


Fig. no. 1 Transition from work in Slovenia

#### 4. Old-age economic activity determinants

Below we present the estimates of logistic regression models that indicate that economic activity in later ages i.e. between age 50 and 69 significantly related with two groups of determinants: pension system parameters and flexibility of labour market and social security arrangements. Pension system parameters effect the decision to retain existing economic activity, decision to retire; they affect workforce supply and the extent of work provided at certain age. Retirement age, retirement period and accumulated pension qualified period reflect the effects of retirement circumstances in the period after independence of Slovenia set by previous retirement legislation. The effect of age, gender and attained education can also be explained as reflection of current retirement system parameters manifesting itself in all phases of the transition to inactivity process.

**Table no. 1 Estimation of MNLM model for transition from economic activity with 'retaining (current) activity' set as initial model value**

variable (initial value)	model value	postp. retirement			decreasong activity			marginal effects			
		b	e^b	%	b	e^b	%	postpone 0>1	-1/2	decrease 0>1	-1/2
age		0,30***	1,35	-26,0	0,05	1,05	-4,5	0,00	0,01	0,00	0,00
gender (male)	female	0,93***	2,52	-60,4	-0,04	0,96	3,9	0,01	0,02	0,00	0,00
marital status (single)	married / cohabiting	0,06	1,06	-5,5	0,14	1,15	-12,7	0,00	0,00	0,01	0,01
degree of urbanisation (city)	suburban and rural	-0,73*	0,48	107,0	-0,10	0,91	10,3	-0,02	-0,02	-0,01	-0,01
attained education (primary school or lower)	secondary	-0,33	0,72	39,8	-0,31	0,74	35,8	-0,01	-0,01	-0,02	-0,02
	university or more	-0,37	0,69	45,3	-0,71	0,49	102,9	-0,01	-0,01	-0,05	-0,05
professional status (employed for an employer)	self-employed	0,48	1,61	-37,9	0,70**	2,02	-50,5	0,01	0,01	0,06	0,05
occupation type (white collar)	expert	-0,57	0,56	77,2	0,25	1,29	-22,2	-0,01	-0,02	0,02	0,02
	blue collar	0,23	1,26	-20,8	0,28	1,32	-24,3	0,01	0,01	0,02	0,02
employment sector (personal and oth.	public services	-0,19	0,83	20,7	0,31	1,36	-26,7	-0,01	-0,01	0,03	0,02
	manuf. energ. civil.eng.	-0,51	0,60	65,9	-0,40	0,67	49,4	-0,01	-0,01	-0,03	-0,03
	farming, forestry	-1,47**	0,23	333,5	0,08	1,08	-7,5	-0,03	-0,04	0,01	0,01
age when retired											
retirement period											
accum. pens. qual. period		0,06***	1,07	-6,3	0,01	1,01	-1,2	0,00	0,00	0,00	0,00
pre 1999 retirement (not)	yes										
high motivation for work in old age (not)	yes	0,91**	2,49	-59,8	-0,28	0,75	32,6	0,03	0,03	-0,02	-0,02
retirement reason (reason not present)	loss of work										
	attained max. pens. age										
	health related										
	care for other(s)										
	unsuitable work cond.										
	financial opportunity										
	wish to retire										
	attained retirement cond.										
employment spell at last employment		0,01	1,01	-1,3	0,02*	1,02	-1,9	0,00	0,00	0,00	0,00
no. of hours worked / week		-0,58*	0,56	79,2	-2,04***	0,13	665,6	0,01	-0,01	-0,15	-0,16
lifelong learning (no)	yes	0,19	1,21	-17,3	0,25	1,28	-22,2	0,00	0,00	0,01	0,02
***	P> z  < 0,01	Number of obs	1908								
**	P> z  < 0,05	LR chi2	492,24								
*	P> z  < 0,10	Prob > chi2	0,0000								
		Pseudo R2	0,2344								

**Table 2 Logit model estimates: for retirement (in comparison to active), retired over-night (within the group of retired) and active in retirement (within the group of retired)**

variable (initial value)	model value	retirement					retired over-night					active in retirement				
		b	e <sup>b</sup>	%	0->1	-1/2	b	e <sup>b</sup>	%	0->1	-1/2	b	e <sup>b</sup>	%	0->1	-1/2
age		0,55***	1,73	72,8	0,00	0,12	0,37***	1,45	45,1	0,00	0,03	0,09	1,10	9,7	0,00	0,00
gender (male)	female	1,98***	7,27	626,9	0,15	0,42	-0,51*	0,60	-39,7	-0,06	-0,04	-0,70*	0,50	-50,4	-0,04	-0,02
marital status (single)	married / cohabiting	0,18	1,20	19,7	0,04	0,04	0,21	1,23	23,4	0,02	0,02	0,12	1,12	12,2	0,00	0,00
degree of urbanisation	suburban and rural	-0,21	0,81	-18,9	-0,05	-0,05	-0,14	0,87	-12,7	-0,01	-0,01	0,22	1,24	24,1	0,01	0,01
attained education	secondary	0,08	1,09	8,7	0,02	0,02	-0,17	0,85	-15,4	-0,01	-0,01	-0,43	0,65	-34,8	-0,01	-0,01
(primary school or lower)	university or more	-0,88**	0,41	-58,6	-0,18	-0,20	0,66	1,94	93,8	0,06	0,05	-0,03	0,97	-3,4	0,00	0,00
professional status (employed for an	self-employed	-0,63**	0,53	-46,7	-0,13	-0,14	-0,98**	0,38	-62,4	-0,06	-0,08	2,88***	17,78	1677,7	0,25	0,12
occupation type	expert	-0,28	0,76	-24,4	-0,06	-0,06	-0,73	0,48	-51,9	-0,04	-0,06	1,18*	3,25	224,6	0,06	0,04
(white collar)	blue collar	0,29	1,34	33,8	0,07	0,07	-0,36	0,70	-30,2	-0,03	-0,03	0,32	1,38	38,1	0,01	0,01
employment sector	public services	-0,14	0,87	-13,0	-0,03	-0,03	-0,02	0,98	-2,4	0,00	0,00	-0,24	0,79	-21,0	-0,01	-0,01
(personal and oth. servic.)	manuf. energ.	0,04	1,05	4,5	0,01	0,01	0,01	1,01	1,0	0,00	0,00	-0,48	0,62	-37,8	-0,02	-0,02
	farming, forestry	-0,22	0,80	-19,9	-0,05	-0,05	-1,16*	0,31	-68,5	-0,06	-0,09	1,96***	7,13	613,0	0,14	0,07
age when retired							-0,62***	0,54	-46,1	0,00	-0,05	-0,26***	0,77	-23,2	0,00	-0,01
retirement period							-1,81***	0,16	-83,6	-0,34	-0,15	-0,04	0,97	-3,4	0,00	0,00
accum. pens. qual. period		0,16***	1,17	16,8	0,00	0,04	0,00	1,00	0,0	0,00	0,00	0,03	1,03	2,6	0,00	0,00
pre 1999 retirement (not)	yes						0,82	2,28	128,1	0,05	0,06	-0,52	0,59	-40,6	-0,02	-0,02
high motivation for work in old age (not)	yes	-1,59***	0,20	-79,6	-0,28	-0,35										
retirement reason	loss of work						0,04	1,04	3,6	0,00	0,00	-3,08***	0,05	-95,4	-0,05	-0,14
(reason not present)	attained max. pens. age						0,57	1,77	76,7	0,05	0,04	-3,50**	0,03	-97,0	-0,04	-0,16
	health related						1,00*	2,73	172,6	0,11	0,08	-3,68***	0,03	-97,5	-0,04	-0,18
	care for other(s)						-0,64	0,53	-47,3	-0,04	-0,05	-3,78	0,02	-97,7	-0,03	-0,19
	unsuitable work						1,92*	6,80	579,7	0,29	0,16	-1,76	0,17	-82,9	-0,03	-0,06
	financial opportunity						1,81	6,09	509,0	0,27	0,15	-0,89	0,41	-59,1	-0,02	-0,03
	wish to retire						1,34*	3,82	281,7	0,17	0,11	-5,35***	0,00	-99,5	-0,04	-0,34
	attained retirement						1,08***	2,93	193,3	0,08	0,08	-3,05***	0,05	-95,2	-0,13	-0,13
employment spell at last employment																
no. of hours worked / week																
lifelong learning (no)	yes	0,78***	2,17	117,1	0,10	0,17										
*** P> z  < 0,01	Number of obs			3332					1392					1392		
** P> z  < 0,05	LR chi2			2761,53					456,10					845,07		
* P> z  < 0,10	Prob > chi2			0,0000					0,0000					0,0000		
	Pseudo R2			0,6071					0,3464					0,6737		

#### 4.1. Pension system effects

Individuals retiring in period of changed labour market conditions under circumstances of more favourable 'transition' retirement legislation related to Slovenia's transition to market economy more likely retired over-night. Generally, further into the past the individual retired, the higher the probability that it retired over-night. The marginal effect is relatively strong in comparison to other explanatory variables. For every five years more into the past the probability of over-night retirement increases by 15 per cent (all figures presented in this section observe ceteris-paribus condition). Hence, the lower the retirement age, the more likely person retired over-night. For each early year of retirement, the probability of retiring over-night increases by 5 per cent.

The age effect can be explained both with existing retirement system and with biological ageing. According to existing retirement system parameters, it is obvious that with increasing age the probability of retaining existing activity after age of 50, decreases. The older the person, the higher the probability to retire, since with increasing age the person comes closer to fulfilling the old age pension statutory conditions. Every additional year of age increases the probability of retirement between ages 50-69 for 12 per cent. Age is also weakly related to postponement of retirement (1 per cent) in over-night retirement (3 per cent), but it has no effect on economic activity in retirement. Those postponing retirement are more likely older than those still being active. Persons that have attained the statutory retirement conditions are obviously older than those either retaining or decreasing

economic activity. Weak relation of age to retirement postponement can also be understood as manifestation of inadequately set age parameters for obtaining pension bonus. However, the higher the retirement age, the less probable (-1 per cent for every additional year) the economic activity in retirement, as individuals more likely face the decline of physical abilities and work motivation. In addition, the weak negative effect (4 per cent) of attained maximal pension age on economic activity in retirement can be interpreted in following way. Persons reaching maximal retirement age are already so old that due to decline in physical abilities one cannot expect economic activity.

**Weak effect of accumulated pension qualified period also suggests effects of retirement system parameters.** Amount of accumulated pension qualified period is positively related (4 percent for every additional year), with retirement in comparison to those retaining activity phase. The longer the insurance period, closer is the individual to meeting the old age pension statutory conditions and more likely, it will retire. Additionally, the increase in accumulated insurance period weakly decreases the probability of premature decrease of economic activity in comparison to postponement of retirement i.e. prolongation of economic activity. Presented results reflect the 'system fact' that persons postponing the retirement or those who are retired already met the old age pension statutory conditions and have probably higher accumulated insurance period in comparison to those decreasing or retaining current economic activity.

**Observed gender differences too suggest that older workers follow the retirement system parameters in retirement process.** Female retire at earlier age than male. Between age 50-69 females retire 15 per cent more likely than males. Interestingly, females that do not retire more likely than man (1 per cent) postpone their retirement. Males on the other hand retire at later ages. Males also more likely retire over-night (6 per cent at  $\alpha < 0,10$ ), and after retirement more likely (4 per cent at  $\alpha < 0,10$ ) remain economically active. Therefore, after meeting statutory retirement age females will likely prolong economic activity in formal work sphere. Males still motivated to work will on the other hand more likely retire and than work for payment in informal work sphere besides receiving retirement benefit.

**Attained education, more specifically the attained university education, manifests itself as relatively strong explanatory variable in the retirement phase - also demonstrating the pension system effects.** Attained university education decreases the probability of retirement and conversely economic activity at age 50-69 by 18 per cent. Those with university degree or higher enter labour market at later ages due to longer education period and need to work into later ages in order to meet the retirement eligibility criteria, or respectively to achieve full pension. In same way we explain the relation of university or higher education to smaller probability of decreasing economic activity in comparison to retaining existing level of economic activity between age 50 - 69 (at  $\alpha < 0,10$ ).

#### ***4.2. Flexibility of work and social security arrangements***

**The extent of economic activity in later ages is importantly affected by flexibility of work and employment regulations.** This is supported by uncovered effect of working in the agriculture sector or being an expert worker as well as differences when observing self-employed and employees. Premature decreasing of economic activity is on the other hand related to employments characterised by the looseness or absence of employment relation, low levels of labour market integration and sustainability of employment relation.

**The importance of labour market flexibility is demonstrated by strong effect of working in agriculture sector or by employment types characterised by looseness or absence of employment relation to economic activity in retirement. This relation simultaneously reflects the role of contextual opportunities (i.e. generosity of pension**

**system).** The role of pension system can be established out of the finding that farmers less likely postpone retirement (3 per cent), and at the same time more likely work when retired (14 per cent). Persons last employed in agriculture, forestry or fishing sector also less likely retired over-night (6 per cent). Since agriculture sector did not proved itself as significant predictor in the retirement model, we conclude that farmers wait until reaching the pension statutory conditions and then retire. Farmers therefore - when motivated - continue working in old age, but instead of postponing the retirement rather, they rather decide on economic activity in retirement (i.e. economic activity when receiving state retirement pension). Flexible nature of work on the other hand enables them more gradual transition to full economic inactivity. Working home and being self-employed enables them more flexible adjustment of work intensity and working conditions, which in consequence enables them to work in later ages.

**The significant effect of working as an expert can be interpreted as reflection of retirement rules, while the effect of unsuitable working conditions reflects the lack of flexibility related to working conditions or nature of work.** The probability (at  $\alpha < 0,10$ ) of those holding expert jobs to remain economically active in retirement is 6 per cent higher. Experts namely poses specific knowledge relevant for labour market that can be offered individually outside organisational setting. Specific knowledge has higher market value, which presents additional motivation for economic activity in later ages. Interestingly, the expert occupation is not significantly related to any other observed transition to inactivity phase, not even the phase of postponing the retirement. This, as in case of agriculture sector means, that experts less likely relinquish the additional opportunity income, and that pension system is not motivating them to postpone retirement. Conversely is the lack of work flexibility and workplace adaptation reflected by the strong effect of 'unsuitable working conditions' reason to retirement (29 per cent) in case of over-night retirement model.

**Observed differences between self-employed and employees also suggest the importance of work and employment relations flexibility.** Being self-employed (i.e. self-employed or temporary employed) increases the probability of economic activity in retirement by 25 per cent as well as decreases the probability of retirement between age of 50 - 69 by 13 per cent. Self-employed also less likely (by 6 per cent) retire over-night. Observed probability of economic activity in retirement can be explained with advantages brought by flexibility of knowledge and experience stemming from their work. Workers that are 'employees to themselves' are more familiar with products and service markets and are more flexible in sense of being independent of employer. They are used to selling their work and work results on market in contrast to employees. Employees on the other hand are used to primary offering their knowledge, abilities and competencies to employer who later sells them as products or services on the market. Thus it is easier for self-employed to continue working even when receiving old age pension in comparison to employees. **Premature decreasing of economic activity for self-employed is also determined by flexibility of work and social security arrangements.** Self-employed are the labour market group that more likely (by 6 per cent) prematurely decreases economic activity then retain existing level of economic activity. Since they are the employers to themselves, they are more flexible in determining the organization and intensity of work. This in turn means that they are less bound to a system of work and have more freedom in establishing personal preferences in retirement process. Thus have self-employed, if they need to, more options available to decrease their economic activity prematurely.

**Differences between self-employed and employees can alternatively be explained within the context of pension system.** Self-employed will more likely retire under conditions that will not entitle them to full pension or is their pension relatively low due to lower contributions. Self-employed – mostly those opportunistically employed have quite often irregular retirement contribution payments and are thus forced to work longer if they

want fulfil the statutory conditions. Consequently, it is less likely for them to be retired in ages 50–69. This in turn forces them to continue working after retirement in order to provide adequate level of quality of live. Respectively, for them it is less probable to retire over-night. This explanation corresponds with relatively strong negative effect (13 per cent) of retirement reason of having met the statutory retirement conditions on the probability of being economically active in retirement. Lower probability of over-night retirement of self-employed can also be explained with difficulties related to exact retirement planning when involved in temporary – opportunity jobs.

**Workers weakly involved in current work face more difficulties retaining the contact with labour market in later ages.** "The loss of work" as retirement reason namely represents statistically significant deterrent for economic activity in retirement (5 per cent), since people loosely attached to labour market difficulty accept other sorts of work, or offer other work outputs due to lesser flexibility. Persons losing employment later in career often find it difficult to activate themselves in older ages and thus lose their contact with the labour market. Greater weekly workload on other hand significantly increases the probability of retaining economic activity and respectively decreases the probability of premature decreasing of economic activity and postponement of retirement. Effect of greater weekly workload on retaining existing economic activity is rather strong; on every additional 20 hours of weekly workload the probability of retaining existing economic activity increases by 17 per cent, the probability of premature labour market exit and postponement of retirement, on the other hand, decreases by 1 per cent. Workers tightly involved in current work thus retain current levels of economic activity until they meet the statutory retirement condition and then retire. Longer employment spell with last employer weakly increases the likelihood of premature decrease of economic activity in comparison to retaining activity. This relation can be interpreted as if premature decrease of economic activity is being induced or enabled with certain extent of flexibility stemming from the quality of employment relation with last employer.

**Third group of variables affecting transitions to economic inactivity falls into category of individually conditioned determinants.** High personal motivation for work in old age manifests itself as important and relatively strong retirement determinant well as weak determinant in postponing retirement and retaining current extent of economic activity. Those highly motivated 3 per cent more likely postpone retirement than retain current economic activity or prematurely leave labour market. Individuals postponing retirement namely poses higher motivation for work in old age than those retaining current extent of economic activity. This finding is somewhat expected since those postponing the retirement have to be prepared to work past the statutory conditions. It is also understandable that those retaining current level of economic activity poses higher motivation in comparison to those prematurely decreasing economic activity. Retired convey even clearer picture. Presence of high motivation for work in old ages brings 28 per cent lower probability of retirement between ages 50 – 69. Individually conditioned determinants also include the (poor) health variable, which increases the likelihood of over-night retirement by 11 per cent and decreases the likelihood of economic activity in retirement for 4 per cent. When confronted with poor health in old age one usually would not expect presence of economic activity, since social security system currently provides adequate level of security. Third variable of individually conditioned determinants is urbanisation level manifesting itself as significant but weak determinant of postponing the retirement. Those living in city (urban) environment are 2 per cent less likely to retain existing levels of economic activity than postpone the retirement.

## **5. Conclusions and policy implications - discussion**

**The results show that the scope and type of work at later ages significantly relates to two groups of determinants; determinants relating to the system (social security and labour market) flexibility and pension system parameters.** Characteristic

for Slovenia are quick transitions into economic inactivity, early retirement, low percentage of active at older age and specific sectors where economic activity at older age is taking place belonging to informal work sphere. Results show that retirement decision is mostly affected by the retirement system parameters. Prolongation of economic activity is on the other hand to greater extent related to employment sectors and contextual conditions that reflect higher levels of flexibility of either work itself or employment relations.

**Slovenia thus represents interesting case demonstrating how the system rigidity (i.e. absence of flexible retirement transition arrangements) within the context of generous state sponsored retirement system manifests itself as an obstacle to prolongation of economic activity within formal work sphere in later ages.** The key question in Slovenia's retirement reform thus seems to be how to increase the system flexibility along with proper parametric changes that will induce the prolongation of economic activity within formal work sphere. Thus, the future policies in Slovenia aiming to prolong working careers within formal or informal sector should simultaneously do both; change pension system parameters and significantly expand the system flexibility stimulating willing and capable elderly to continue working within the formal sector.

The applied methodology on the other hand demonstrated the importance to analyse the transitions from work to economic inactivity holistically, which provides the deepened understanding how certain contextual determinants effect the transition process comprised of many, often interchanging states.

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# STRESS IN ORGANIZATIONS

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## Abstract:

*Taking into account the changes that are currently taking place in our country, it is clear that these changes, which occur in almost all companies, lead to new stress factors for both employees and the organization.*

*Occupational stress is a major problem for employees and managers, but also for the whole society. The issue of stress in organizations has given birth to many debates and studies. It is a common theme that is addressed by managers, employees and consultants from different perspectives.*

*According to a study by the European Agency for Safety and Health at Work, in the European Union, work-related stress is the second work-related health issue after dorsal disorders. It affects 28% of EU employees. The European Parliament is fully involved in addressing issues related to the psychological support of the staff. Preventing work-related stress is one of the objectives set out in the Communiqué of the European Commission for Employment and Social Affairs regarding their new health and safety at work strategy.*

*Manifestations of stress in organizations are easily observable, being manifested by behaviors such as: difficulties in adapting to the changes required to work or the dramatic drop in labor productivity. Also a double action is met: both the person who passes through the stressful situation and at the organization level on which it is reflected the existence of a stressful environment.*

*This paper aims to address the implications of workplace stress, symptoms of stress in the workplace and strategies to eliminate and prevent stress at work*

*This paper represents an exploratory research based on qualitative methods, being consulted various sources of information: the literature, case studies, media articles, reports of relevant organizations, etc.*

**Keywords:** job stress, stress, exhaustion, stress management, adaptation, stress factors

**JEL Classification:** I15

## 1. Introduction

Every day we meet people who are either overworked or overwhelmed or underpaid. Louis Barajas (2009, p.1). We wonder what to do to cope with the stress in our life. Often we forget to put on paper all the tasks we have to do throughout the day, and paradoxically while receiving other new tasks, which we have to fulfill. According to Peter Drucker, we must make a clear distinction between those who today do intellectual work, their situation being more complicated than for workers who used to work once at the production line, meaning that the latter knew or know what to do. Instead, those involved in intellectual work must not only execute the plan, but also conceive it. This puts pressure on the brain big enough that when you go to the doctor, one of the questions is: *How stressed are you?*

Organizational stress returned as a subject of great interest, both internationally and in studies of organizations in Romania, due to economic pressures and social measures that are derived from facing the economic crisis of recent years. Delia Virga, *Stress in organizations* <http://www.ohpedu.ro/articole/stresul-in-organizatii/>.

In America people work weekly more than in any country in the world except New Zealand, according to the Organization for Economic Cooperation and Development. One in three employees in the USA, says he feels chronically ill.

Stress at work is one of the many problems faced by the modern society driven by work, with direct consequences on employment, but also the health of those who work is in question (Pitariu, 2004).

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The fact is that stress at work can affect anyone at any level. It is produced in every sector and in organizations of any size. Stress affects the health and safety of individuals and also welfare of organizations and national economies.

## 2. Methodology

The main objective of this paper is to highlight the stress at work.

This paper represents an exploratory research based on qualitative methods, for this having been consulted various sources of information on organizational stress: the literature, case studies, media articles, reports of organizations profile etc. The hypothesis we started from in the realization of this study was the existence of a vast literature material, in which is presented the phenomena related to stress at work, but that does not make a clear distinction, so that organizations can speak of a specific stress - organizational stress. In the making of this scope an important place was held by the guide for employers entitled "*Stress at work*", published by the Health and Safety Authority in the UK (HSE, Health and Safety Executive), <http://www.hse.gov.uk/pubns/indg281.pdf> available at p: [http://www.protectiamuncii.ro/en/pdfs/stresul\\_in\\_munca\\_ghid\\_angajatori.pdf](http://www.protectiamuncii.ro/en/pdfs/stresul_in_munca_ghid_angajatori.pdf)., and data provided by the European Agency for Safety and Health at Work (EU-OSHA).

## 3. Approaches to Stress

The term stress belongs to Hans Hugo Bruno Selye, professor of histology, which together with Alvin Tofler put the foundations in 1977, of the International Institute of Stress. They consider stress is linked to *the adaptation system, the response to stress by each individual being performed after assault from the environment*. Hans Selye defined stress as *"the set of reactions of the body to the external action of the causative agent (physical, chemical, biological and psychological) consisting of morphological and functional changes, often endocrine changes"*. <http://ro.wikipedia.org/wiki/Stres>

According to the Explanatory Dictionary of the Romanian Language (1998), *stress* is *"name given to any environmental factor (or set of factors) which causes abnormal body reactions; adverse effect on the human body produced by an environmental factor."*

According to Terry Looker, Olga Gregson (2009, p.31.), *"Stress is seen as a reaction of the body to changes occurring in our environment."* All authors listed believe that *"stress can be defined as a state that we feel when we feel a gap between perceived demands and ability to cope."*

*"Stress is the reaction of defense that people exhibit when exposed to excessive pressure. It is a disease. But if it is intense and if it persists for a while, stress can lead to physical and mental health problems (eg. ∴ depression, nervous breakdown, cardiac disorders)".* <http://www.hse.gov.uk/pubns/indg281.pdf>, [http://www.protectiamuncii.ro/en/pdfs/stresul\\_in\\_munca\\_ghid\\_angajatori.pdf](http://www.protectiamuncii.ro/en/pdfs/stresul_in_munca_ghid_angajatori.pdf)

According to the Project co-financed by the European Social Fund through the Sectorial Operational Programme of Human Resources Development 2007-2013, *"Invest in people"*, an understanding of the significance of the stress can be found in the letters that compose the word STRESS:

**„S (stands for strength)** - "power struggle" physically, emotionally, intellectually and spiritually;

**"T" (stands for traffic control)** - "struggle to control your mind";

**"R" (stands for re-design)** - "fight for remodeling"

**"E" (stands for erase)**- "exceeds the time"; "Crisis"; "Get over"; "Get over the situation";

**"S" ( is for sharing)**- "to share" with others the welfare, knowledge, duties, etc. <http://www.thrgroup.ro/files/ManagementulStresului.pdf>

Iamandescu IB (2002), believes that mental stress is "*a syndrome consisting of exacerbation, beyond the level of simple homeostatic adjustments of certain psychiatric reactions and of their somatic correlates (affecting almost all body compartments), in connection with external and internal excitation exerted by configuration triggers (stress agents) acting intense, surprising, sudden and / or persistent and having a symbolic, "threat", or a extremely favorable role for the subject (perceived or anticipated as such by the subject). Sometimes stress agents represent major affective stimuli of psychic resonance (positive - or negative stress - distress) or a power overload of a cognitive process (attention, thinking, etc.) and volitional, but with the understanding that mental stress is based primarily on an obvious emotional involvement.*"

"*Stress is an individual reaction and the result of interaction between environmental demands on the one hand and the resources, capabilities and opportunities of the individual on the other hand.*" [http://stres.protectiamuncii.ro/ce\\_este\\_stresul.html](http://stres.protectiamuncii.ro/ce_este_stresul.html).

According to Iamandescu IB (1993), stress can be: **positive (eustress)** or **negative (distress)**.

**Eustress** ("*positive stress*") has beneficial effects on the human body, occurring when stress agents have positive significance for the individual. These trigger positive emotions (joy intense ecstasy, triumph, laughing out loud), and the emotions that positively influence the body's organs and apparatus. Eustress appears in the course of positive emotions coupled or not with moderate exercise (eg. Intercourse or jogging). Frequent repetition of eustress helps increasing immunity and anti-infectious agents, becoming a prerequisite for longevity.

**Distress** ("*negative mental stress*") is widely recognized as pathological. It produces usually suffering and it occurs as a result of contact with a stressor.

**Table no. 1. Generating situations of mental stress**

<ul style="list-style-type: none"> <li>* The existence of unusual circumstances for the individual which surprise him, unprepared to deal with them;</li> <li>* Significance of an event;</li> <li>* Individual engaging in an act or relationship exaggerated;</li> <li>* Particularities of social context;</li> <li>* Lack of internal conditions;</li> <li>* Subjective way of perceiving environmental demands;</li> <li>* Lack of internal conditions;</li> <li>* Subjective way of perceiving environmental demands;</li> <li>* Solicitation/ strain;</li> <li>* Existing conflict situations in the family, profession or intellectually;</li> <li>* Running out of time;</li> <li>* Isolation;</li> <li>* Appearance of a physical or mental obstacle in the way of a goal that leads to frustration;</li> <li>* Disturbing circumstances arising from physical agents (noise, vibration, temperature fluctuations).</li> </ul>
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Source: created by the authors based on information gathered from <http://arborele-vietii.blogspot.ro/2009/12/stres.html>

Stress in organizations is a phenomenon that has spread a lot in Romania, the implications of organizational stress having consequences on human beings, and social implications. Stress is addressed in several scientific perspectives: medicine, psychology, psychiatry, sociology, etc. Stress can be defined both in terms of cause and effect in the <http://egosano.ro/2013/07/10/impactul-psihologic-al-stresului-la-locul-de-munca/stress-ball/#main>. In other words, stress in the workplace can be defined as the harmful physical and psychological response that arises when job requirements do not match the resources, capabilities and needs of the employee. Stress at work can lead to compromised health and even disease.

Andreescu, A., Lita, S., (2006), states that "*sometimes professional stress is considered as a positive, beneficial effect on performance. This refers to eustress which*

*means activation, mobilization of individual resources. It is important to distinguish between eustress and distress, as a state of stress beneficial or adverse health effects. "*

According to statistics of the European Agency of Health Protection at Work, 80% of consultations given by general practitioners are motivated by stress-related symptoms. Moreover, the figures show that 25% of cardiovascular morbidity is attributed *to stress*, and more than 60% of all accidents are caused by work **stress**. Also, 50-60% of absenteeism in the workplace is related to occupational stress. Unfortunately, stress at work is often brought to the personal space / family, with negative effects on the couple relationship, quality and time with children. Among the most dramatic consequences that stress has on family life there are included divorces, domestic violence, emotional and behavioral disorders of children. Moreover, besides the fact that stress at work can destroy personal life it can destroy also health. (<http://sanatate.bzi.ro/stresul-in-place-of-work-how-to-show-and-how-can-be-warned-10576>).

Also a study by Robertson Cooper Ltd., a prestigious consulting company in health psychology at work, indicates that only 12% of employers believe that their employees' stress levels will decrease by the end of this decade, while 65% believe it will increase much or very much. (Robertson-Cooper, 2005). <http://www.cubiks.com/aspx/document.aspx?documentid=294>

Suciu I., (2010), stated that "in the last Annual Survey of Industrial Society, conducted throughout the European Union, it has been revealed that 76% of employees believe that occupational stress is Europe's largest health and safety issue they are facing and they will face for the next at least two years. Occupational stress is therefore an important issue in organizational development programs. It is one of the most important concerns, if not the most important concern of the modern employee. "

European Agency for Safety and Health at Work (EU-OSHA) states that 79% of European managers are concerned by *work-related stress*, but less than a third of businesses have introduced procedures for managing this.

According to the *European survey* among enterprises on new and emerging risks (ESENER), four out of five European managers say they are concerned about the stress at work, which means that stress at work is as important for businesses as accidents work (79%). Stress at work is very acute in health care and social work (89% of businesses in this area believe that stress must cause some concern or is an important concern) and education (84%). Careers, Leadership Journal <http://www.cariereonline.ro/articol/patru-din-cinci-manageri-preocupati-de-stresul-la-serviciu-doar-o-treime-din-organizatii-iau>.

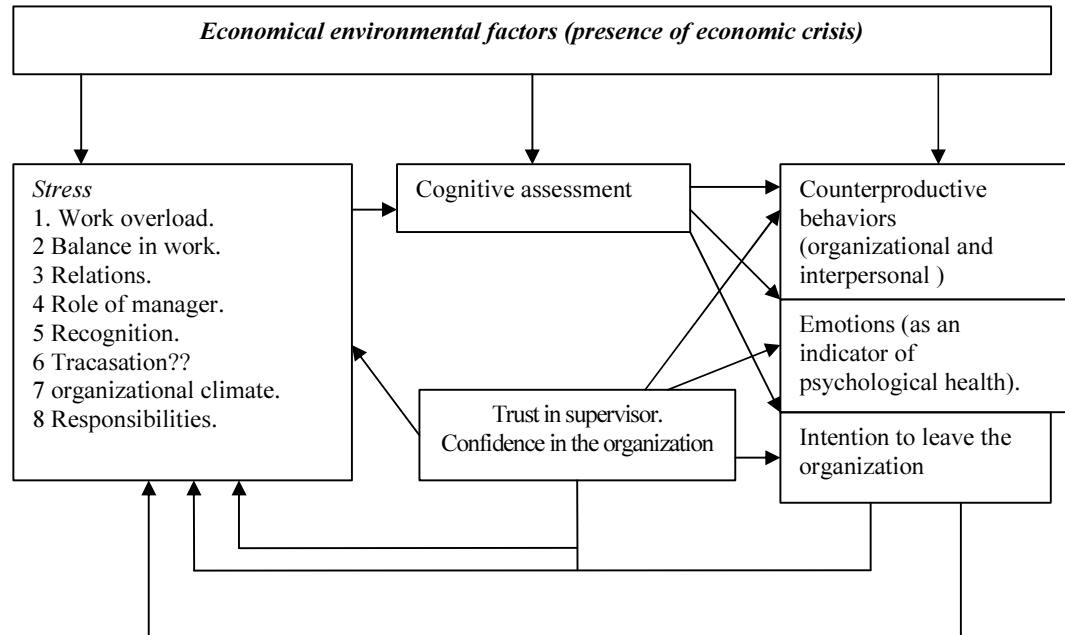
#### **4. Manifestations of stress at work.**

*Stress* at work can affect anyone at any level. It is produced in every sector and in organizations of any size. Stress affects the health and safety of individuals and also welfare of organizations and national economies. (*Agency for Safety and Health at work*-[https://osha.europa.eu/ro/topics/stress/index\\_html](https://osha.europa.eu/ro/topics/stress/index_html)).

In the workplace, stress occurs when demands exceed the resources of the professional human being. Stress is not only the result of major adverse events, but also is the result of daily pressures. The latter, by their frequency, they have an important role in the professional and individual affects more than major adverse events.

Based on the frequency and nature of changes in the economy, which is reflected automatically in organizations, Pitariu, H., Rus , C., (2010), states that environmental factors such as economic ones are represented by the global economic downturn affecting three components of occupational stress: perceived stressors, individual differences on trust and stress reactions such as counterproductive behaviors directed at the organization

and the people who interact with employees, employee positive and negative emotions, and their intention to leave the organization.



**Figure 1. A possible model of occupational stress of managers in the current economic crisis**

Source: Pitariu H, Russian C. Occupational stress in the current economic crisis: Comparative dates from two organizations, Journal of Psychology, no.1-2, 2010

[http://www.academia.edu/877877/STRESUL\\_OCUPATIONAL\\_IN\\_CONDITIILE\\_ACTUALEI\\_CRIZE\\_ECONOMICE\\_DATE\\_COMPARATIVE\\_DIN\\_DOUA\\_ORGANIZATII](http://www.academia.edu/877877/STRESUL_OCUPATIONAL_IN_CONDITIILE_ACTUALEI_CRIZE_ECONOMICE_DATE_COMPARATIVE_DIN_DOUA_ORGANIZATII)

Stress greatly affects the image of an organization. Reducing the stress associated with work and the psychosocial risks is not only a moral imperative but also a legal one. It is also a big problem of economic efficiency. The good news is that stress associated with work can be approached in the same way as other logical and systematic health and safety issues. There is an abundance of practical examples to address this problem in the space U E. Using the appropriate methods, workers can be free from stress.

On an organizational level, stress is manifested through increased absenteeism, poor quality of work, decreased moral tone, poor performance and increased staff turnover. The costs are most often enormous. HSE estimates that in the United Kingdom stress related illnesses resulted in the loss of 6.5 million work days per year, and the money of these costs amounted to 370 million pounds for organizations and about 3.75 billion pounds at country level.( [www.comunicare.ro/stres/.../Proiect%20Stres%20CNC](http://www.comunicare.ro/stres/.../Proiect%20Stres%20CNC).)

Sensing stress can change the way you feel, think and act a person.

**Table no. 2. Symptoms of stress**

At organizational level	At an individual level
<ul style="list-style-type: none"> <li>➤ absenteeism;</li> <li>➤ high turnover of staff;</li> <li>➤ a faulty calendar;</li> <li>➤ disciplinary problems;</li> <li>➤ harassment;</li> <li>➤ low productivity;</li> <li>➤ accidents;</li> <li>➤ errors and increased costs from compensation or medical care.</li> </ul>	<ul style="list-style-type: none"> <li>➤ emotional reactions (irritability, anxiety, sleep disorders, depression, hypochondria, alienation, exhaustion, problems in family relations);</li> <li>➤ cognitive reactions (difficulty in concentration, memory, learning new things, making decisions);</li> <li>➤ behavioral reactions (drug abuse, alcohol and tobacco, destructive behavior)</li> <li>➤ physiological reactions (dorsal problems, low immunity, gastric ulcer, heart problems, hypertension)</li> </ul>

Source: made by the authors based on -[https://osha.europa.eu/ro/topics/stress/index\\_html/definitions\\_and\\_causes](https://osha.europa.eu/ro/topics/stress/index_html/definitions_and_causes)

The fact is that stress is characterized by intense hormonal changes and massive secretion of adrenaline. We also produce morbid changes (hypertension, ulcers, etc.). Psychological stress is caused primarily due to prolonged emotional frustration, conflict, anxiety. There can be overload stress, and stress due to not enough solicitation. A moderate stress is helpful and boost vitality. Harmfulness of stress occurs when degradation is too large and exceeds the adaptive capacity.

### 5. Strategies to prevent stress at work

Intervention strategies on organizational stress benefit both the organizations and the employees. A healthy organization is defined as an organization with a low rate of morbidity, disability and labor, which is also competitive. Research has identified organizational characteristics associated with health, minimum stress at work and a high level of productivity.

According to Florea C, M., (2011), organizational stress management strategies are performed at two levels: organizational (being dependent on the capabilities of the organization) and individual (referring to the possibilities and resources of the individual). <http://promep.softwin.ro/promep/news/show/4326>.

Recent studies of the so-called "healthy organizations" suggests that policies for healthy employees lead to benefits for the organizations. These refer to:

- *Recognizing employees for their performance.*
- *Opportunities for career development.*
- *Organizational culture that values employee.*
- *Managerial actions within the values of the organization.*

Study *Solutions to reduce stress at work* ([www.itmbucuresti.ro/SOLUTII%20DE%20REDUCER](http://www.itmbucuresti.ro/SOLUTII%20DE%20REDUCER)), states that the most effective method of preventing stress at work are the employee assistance programs and services for managers and HR specialists.

a. *Services for psychological assistance for employees* are occupational health services funded / provided by companies for their employees in order to reduce or eliminate problems that reduce performance at work.

b. *Services for managers and professionals* in human resources departments are:

- Critical incident management;
- Consultancy to develop management skills of problem behaviors of employees;
- Consulting and training in the management of employee performance;
- Advice on the development and implementation of employee assistance programs in the company.

**Table no. 3**

<b>Examples of psychological services for employees:</b>	<b>Examples of services for employers, managers, supervisors, specialists from the human resources department:</b>
<ul style="list-style-type: none"> <li>▶ services for screening depression, anxiety, diagnosing alcohol abuse, stress and comprehensive assessment services (medical and psychological);</li> <li>▶ counseling and psychotherapy services for the employee and his family;</li> <li>▶ crisis counseling;</li> <li>▶ training services for employees: performance management, time management, stress management, career management etc. ;</li> <li>▶ workshop educational sites: parenting, work-life balance, time management, stress management, emotional control, anger</li> </ul>	<ul style="list-style-type: none"> <li>▶ counseling in the development of employee assistance programs, stress management and work-life balance programs; for each client (company) there is assigned an advisor from the service provider, who is the program manager in the company, that aims to facilitate the implementation of the program together with someone from the human resources department; the program manager's role is to present and promote employee assistance services within the company;</li> <li>▶ counseling and performance management training (in terms of the cognitive compartmental perspective), managing difficult behaviors of employees and formulating rules of conduct within the company.</li> </ul>



Examples of psychological services for employees:	Examples of services for employers, managers, supervisors, specialists from the human resources department:
management, decision making and problem solving, couple communication, smoking cessation, weight control, etc. .; ►online educational resources - educational information for the employee and his family (access to information and educational resources for the employee and his family - web resources, brochures); ►career management services.	

Source: made by the authors based on information at [www.itmbucuresti.ro/SOLUTII%20DE%20REDUCE](http://www.itmbucuresti.ro/SOLUTII%20DE%20REDUCE)

According to Armstrong, M., (2003), organizations can develop through their human resources departments strategies to reduce and even eliminate stress level by:

- ✎ Setting clear goals that have realistic performance indicators, adjusted to the job description and feasible;
- ✎ Create and develop an appropriate system of communication between managers and subordinates;
- ✎ Increase the autonomy of employees, clarify their role in the organization;
- ✎ An appropriate work program and easily adaptable to the needs and requirements of employees;
- ✎ Developing anti-bullying policies

However Jörg-Peter Schröder, Reiner Blank (2011), shows us that relaxation helps fight stress. On the other hand, chronic stress cannot be easily overcome. We must learn to be more relaxed. Prevention is crucial.

Deaconu, A., Podgoreanu, S., Rascal, L., (2004) argues that there are three types of stress strategies: **primary strategies, secondary and tertiary strategies.**

**Primary strategies**, radical ones, are very expensive and rarely adopted. They are based on reducing ambiguity and dissatisfaction at work, and even going to the relocation of the organization in green places in offices that have all the necessary facilities to reduce stress. The arrangement of workspaces ( an orderly office, reducing as much as possible noise and pollution, natural lighting and proper temperature, decorating and cleaning up the workspace, plants, ensuring adequate storage and filing, ergonomic chairs, tables set for discussions, service availability for the equipment, prompt replacement of damaged materials) should allow a more relaxed atmosphere.

**Side strategies** are aimed at minimizing the stress level in the organization by giving all employees access to gyms, diets, special treatments.

**Tertiary strategies** are aimed at supporting people with clear signs of stress, by offering them programs against alcohol abuse and smoking, and giving free and confidential counseling to people suffering from stress.

The study "*How Moldavian man battle stress?*" conducted in 2010 by Magenta Consulting indicated, according to Figure 2, several methods to fight against stress.



Legend: Sleeping=40, Going out with friends=35, Going out in the park=28, Eating=21, Reading=18, Doing sports=16, Going to a bar=11, Going to the cinema=2, Others=8.

**Fig 2. Preferred methods of fighting stress**

Source: <http://consulting.md/rom/articole/cum-lupta-cu-stresul-omul-moldovean>

## Conclusions

In conclusion there is no standardized approach or even a manual for developing stress prevention programs. Designing programs and solutions will be influenced by many factors such as **the size and complexity of the organization, the resources available and in particular the type of problems faced by the organization.**

It appears that some companies have the main problem overloading employees and others an inflexible schedule or lack of communication with the public. In other words it is not possible to make a universal prescription for the prevention of stress at work, but it is possible to provide some guidelines for the prevention of stress in organizations.

We believe that in all cases, the process of stress prevention programs involves three distinct phases: problem identification, intervention and evaluation. For this process to be successful, organizations must be prepared properly.

A minimum level of training for stress prevention program should include the following:

- Awareness of issues of workplace stress (causes, costs, control).
- Ensure quality management and support for the program.
- Involve employees in all phases of the program.
- Establishing the technical capacity and management of the program (specialized training for members of the organization or the use of consultants).

Bringing together the employee or employees and managers in the same committee or "*group problem solving*" can be a very useful approach for developing a stress prevention programs. Research shows that these efforts have been successful in terms of ergonomic issues in the workplace, in part due to the capitalization of direct knowledge of employees about the problems encountered in their work.

In conclusion, stress is a "disease" of our time, affecting people regardless of their lifestyle. Stress is everywhere, more obvious, with greater frequency, in countries super-developed. It is up to us how we handle stressful situations in our lives.

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# FOREST MANAGEMENT IN THE PRESENT CONTEXT OF THE FOREST ADMINISTRATION IN ROMANIA

Delia, Teselios<sup>1</sup>

## Abstract:

*Although mankind depends on the forest in so many ways (ecological, social, economic), its destruction continues, the negative impact of illegal cutting increasing with the shrinking of the forest area. The study presented in this paper aims to illustrate the evolution of the forest area and timber volume harvested in Romania, during the period 1990-2013, as well as the interdependence between the two variables. In the analysis and interpretation of data was used a linear regression model. It is also analyzed the situation of illegal cutting of trees in the forests of Romania between 2009-2012. These, alongside uncontrolled deforestation and the insufficient level of reforestation, are the most pressing problems of forests in Romania. As part of the forest fund management, there are presented a series of measures and actions to combat the phenomena which has negative effects on forests.*

**Keywords:** forest fund, illegal cutting, regression, correlation

**JEL Classification:** C22, Q23

## 1. Introduction

Decisive factor in maintaining the climate balance, the ecological and the hydric one, forests have experienced over time a continuous degradation, their improper exploitation having the worst medium and long-term consequences.

Thus, one of the causes of global climate change is the poor management of forests. About 20% of the greenhouse gases emissions are caused by worldwide deforestation, according to the IPCC report (Intergovernmental Panel on Climate Change): "Climate Change 2007" (14).

In the new report "Climate Change 2014: Mitigation of Climate Change" (15) compiled by the IPCC it is stated that despite all efforts, global emissions of greenhouse gases continued to increase, reaching in 2010 unprecedented values . Floods, landslides, soil erosion are just some of the phenomena with major implications for human communities caused by deforestation. Therefore, it is necessary to take measures for the conservation and sustainable development of existing forests and increasing forest area through afforestation. In the early 90s the concept of forest management appeared as an objective necessity for the sustainable development of society.

According to the H1 resolution from Helsinki of the Second Ministerial Conference on the Protection of Forests in Europe (1993), "sustainable management" means the "stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems"(24).

When there is a balance between the environmental component, the social and the economic one, it is about a responsible forest management (21). As a guarantee of responsible forest management, with international recognition, Romania promotes forest management certification system FSC (Forest Stewardship Council) (22).

This certification involves running an audit by accredited certification bodies, based on a standard containing 10 principles and 56 criteria, which "describe in general the elements and rules of a proper management from the ecological point of view, which brings social benefits and which is economically viable "(22).

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Although certification is a voluntary process, requests for a FSC certificate are becoming more numerous, primarily because the certified forest products market grew, FSC certified wood having a higher sales price than the usual one. The validity of the FSC certificate is of 5 years, during which annually shall be made at least one external audit. According to Eurostat, in 2012, in Romania, forests and other wooded land covered about 36% of the area with the European average of 38% (12).

Currently, in Romania there are 33 state forests (RNP ROMSILVA) and private ones (forest districts) FSC certified, according to data provided by the FSC (23), representing approximately 37% of the total forest area.

## 2. Empirical research

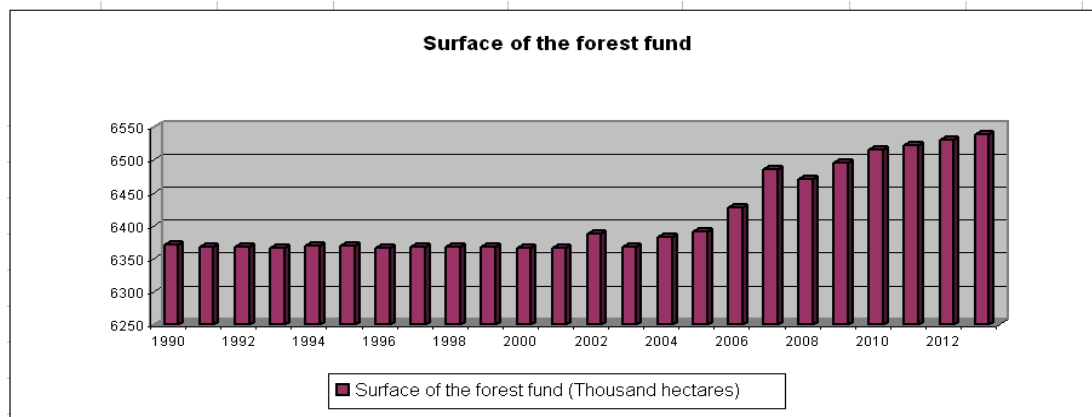
In January 2013, WWF (World Wildlife Fund) released a study in partnership with Ipsos Research, indicating pollution and deforestation as the main environmental problems experienced by Romanians (13).

According to the Forest Code (Law no. 46/2008) (16), the national forest fund represents the total area of forests, of lands meant for afforestation, of those serving the needs of crops, production and forest administration of ponds, brooks as well as of other areas intended for forestry and non-productive lands included in forest arrangements on the 1<sup>st</sup> of January 1990 or later on included, under the law, no matter of ownership right. Harvested wood volume represents wood volume (gross volume) harvested until the end of the year, meant for economic operators and population supply (17). Below is the evolution of the forest fund area and timber volume harvested in Romania, during 1990-2013.

**Table 1. Surface of the forest fund**

Year	Surface of the forest fund (Thousand hectares)	Year	Surface of the forest fund (Thousand hectares)
1990	6371	2002	6387.8
1991	6367.6	2003	6368.5
1992	6368.2	2004	6382.2
1993	6366.9	2005	6390.6
1994	6369	2006	6427.7
1995	6368.8	2007	6484.6
1996	6365.7	2008	6469.9
1997	6367.3	2009	6494.7
1998	6367.1	2010	6515.1
1999	6367.3	2011	6521.8
2000	6366.5	2012	6529.1
2001	6366.8	2013	6538.5

Source: <http://statistici.insse.ro/shop/index.jsp?page=tempo3&lang=ro&ind=AGR301A>



**Figure 1. Surface of the forest fund**

Source: Created by author based on the values in Table 1

From (Figure 1) it is observed the fluctuating evolution of the forest fund area in the period 1990-2013, the trend being ascending.

Since 1991, lower values of the forest fund area (compared with 1990) are the result of a "legislative and economic situation utterly unfavorable for the forest " (18), of which we mention:

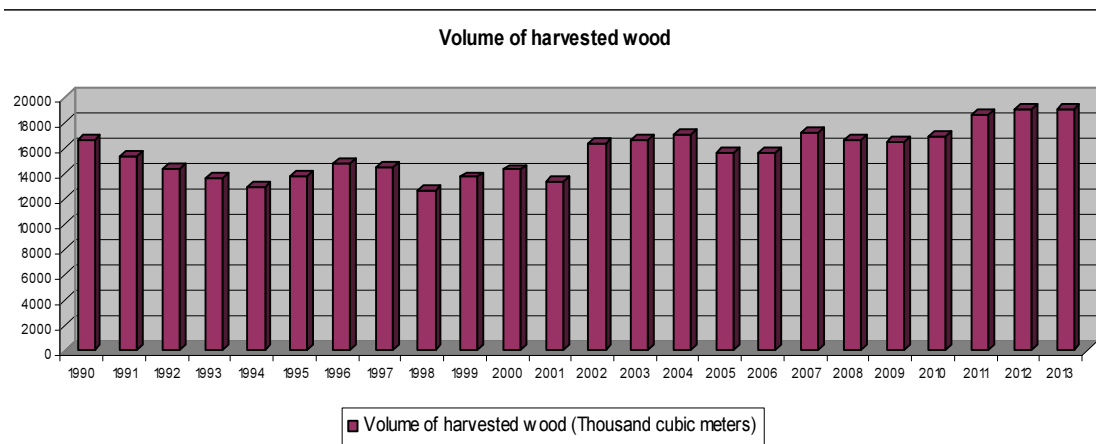
- enforcement of Law no. 18/1991 – The Land Law (plus amendments by Law no. 169/1997): restitution of forest land led to massive cutting of private forests. Thus, "in the period 1990-2012 the forest fund area - state property decreased by 3028762 ha in restitution to individuals or legal entities, following the application of the laws of Land" (6);
- Lack of legal framework: Law no. 2/1987 on the conservation, protection and development of forests (of the socialist units) has governed the forest activity until 1996, thus lacking a legal framework to establish the management of private forests;
- Very low fines provided in Law no. 2/1987 (5), for the illegal cutting of trees;
- Willingness of owners to obtain immediate benefits, the forests representing only a quick source of income;
- local authorities passivity.

Only in 2000, by Law no. 31/2000 (19) regarding the establishing and sanctioning of forest contraventions, were significantly increased fines for illegal cutting of trees and transport of timber or other forest products without the legal documents of specific provenance.

**Table 2. Volume of harvested wood**

<b>Year</b>	<b>Volume of harvested wood (Thousand cubic meters)</b>
1990	16649
1991	15377.1
1992	14419.3
1993	13590.7
1994	12942.1
1995	13812.7
1996	14803.3
1997	14508.5
1998	12642
1999	13718.1
2000	14284.7
2001	13410.3
2002	16383.1
2003	16691.5
2004	17082.1
2005	15671.3
2006	15684
2007	17237.6
2008	16704.6
2009	16519.9
2010	16991.6
2011	18705
2012	19081.2
2013	19063.8

Source: <https://statistici.insse.ro/shop/index.jsp?page=tempo3&lang=ro&ind=AGR306A>



**Figure 2 Volume of harvested wood**

Source: Created by author based on the values in Table 1

Analysis of data on the volume of timber harvested in the period 1990-2013 highlights the ascending trend, despite the fluctuating evolution. Thus, the intervals 1995-1996, 1999-2000, 2002-2004, 2006-2007, 2009-2012 show increases in the volume of harvested wood. The maximum volume of harvested timber is reached in 2012.

An issue of interest is that of the interdependence between forest fund area and the volume of harvested wood in Romania, during 1990-2013.

In order to establish this interdependence we use Data Analysis from the Tools menu of Microsoft Excel spreadsheet program.

**Table 3 Results of the statistical correlation method**

	Surface of the forest fund	Volume of harvested wood
Surface of the forest fund	1	
Volume of harvested wood	0.800745692	1

Source: Created by author based on the values in Table 1 and Table 2

Correlation coefficient allows to set direction and intensity of the relationship between the two variables (Savu and Bursugiu, 2013). Since the correlation coefficient between the time series of forest fund area and timber volume harvested in Romania has the value  $r = 0.8007$ , we can say that the two variables show a strong positive correlation.

<b>SUMMARY OUTPUT</b>	
<i>Regression Statistics</i>	
<b>Multiple R</b>	<b>0.800746</b>
<b>R Square</b>	<b>0.641194</b>
<b>Adjusted R Square</b>	<b>0.624884</b>
<b>Standard Error</b>	<b>1155.283</b>
<b>Observations</b>	<b>24</b>

**Figure 3. Summary of data processing**

Source: Created by author based on the values in Table 1 and Table 2

The coefficient of determination (R Square) being of 0.641194 indicates that the volume variation of harvested wood is explained at a rate of 64% by the variation of the forest fund area.

To counter the effect of increasing the coefficient of determination by including more variables in the model, it is determined the adjusted value of determination coefficient (Adjusted R Square), here with the value of 0.624884.

ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	52472121.11	52472121	39.31441323	0.00000260691			
Residual	22	29362937.65	1334679					
Total	23	81835058.76						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-134689.23	23980.72881	-5.616561	0.00001201	-184422.2179	-84956.24	-184422.22	-84956.243
X Variable 1	23.443683	3.738952491	6.270121	0.00000261	15.68957046	31.197796	15.6895705	31.1977961

**Figure 4. The results of regression method**

Source: Created by author based on the values in Table 1 and Table 2

Using the information in the column Coefficients we build the following linear model of simple regression:  $Y = a_0 + a_1 X + \varepsilon$ . (1)

$$\text{Results: } Y = -134689.23 + 23.4436833X, \quad (2)$$

where

$Y$  = volume of harvested wood in Romania during 1990-2013  
(endogenous variable, resultative)

$X$  = forest fund area in Romania during 1990-2013  
(exogenous variable, explanatory)

$\varepsilon$  = random variable that summarizes the influence of other variables (unspecified in the model) on the volume of harvested wood

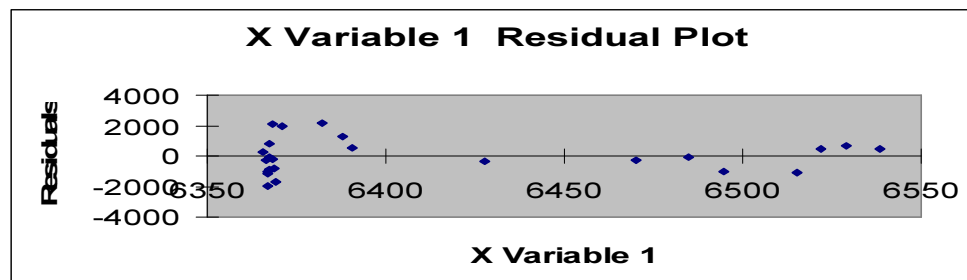
For the independent variable value equal to zero is obtained

$$Y = a_0 = -134689.23 \quad (3)$$

To an increase in forest fund area of a thousand hectares, the harvested timber volume will increase by an average of 23.4436833 thousands cubic meters.

To validate the model, in the ANOVA table (Figure 4) there are calculated the values for the F-test, respectively the significance limit. Since F is 39.31441323 and Significance F is 0.00000260691 (lower than 0.05) we conclude that the regression model is valid and we can use it to analyze the relationship between the two variables.

The lack of correlation between the independent variable and the residue is shown in (Figure 5) and it means that the model is well chosen.



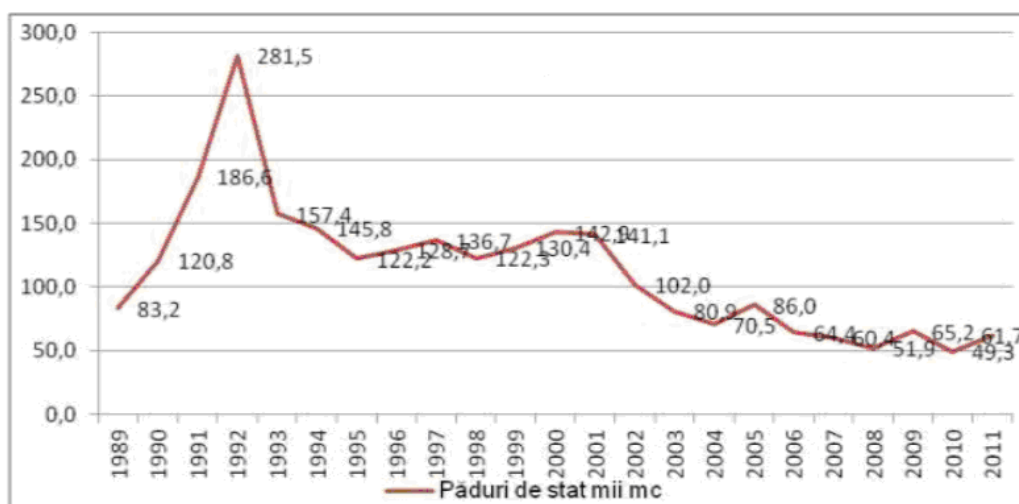
**Figure 5. Independent variable diagram versus residue**

Source: Created by author based on the values in Table 1 and Table 2

Although from official statistics, in 2013 the forest fund area was 167.5 thousands hectares wider than in 1990, in reality the situation is different, the number of deforested areas increasing from year to year. This is due, on one hand, to illegal cutting of trees and on the other hand to the fact that by law, in the forest fund, besides land surfaces covered by forests, there are also included the ponds, stream beds, lands under forest and unproductive, etc.

According to the Audit Report on “Patrimonial situation of forest fund in Romania during 1990 - 2012” by the Court of Accounts (6), the volume of illegal cutting in state forests during 1990-2012 was of 2508.7 thousands cubic meters.

Yearly situation of illegal cutting in state forests is shown in (Figure 6).

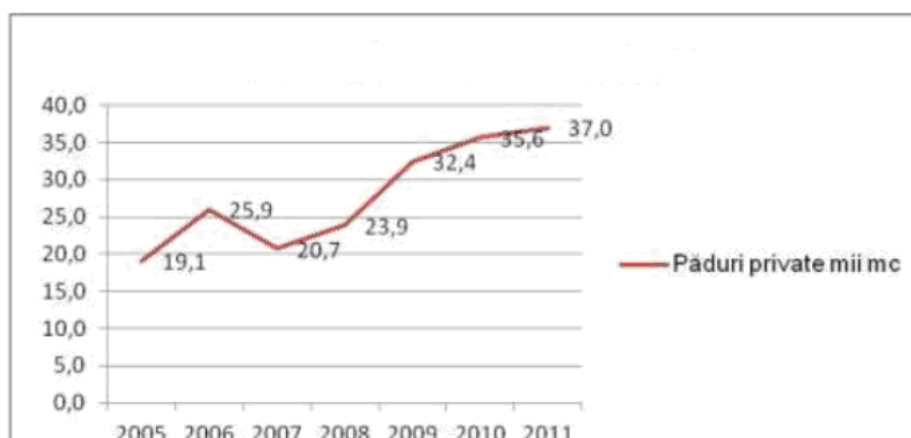


**Figure 6. The situation of illegal cutting in state forests**

Source: The Audit Report on “Patrimonial situation of forest fund in Romania during 1990 - 2012”,  
<http://www.curteadeconturi.ro/publicatii/economie7.pdf>

According to the same report, illegal cutting of timber were made, in many cases, due to negligence or abuse of forestry stuff.

During 2000-2011, the volume of illegal cutting in private forests managed based on contracts by R.N.P. ROMSILVA was of 194600 cubic meters (6).



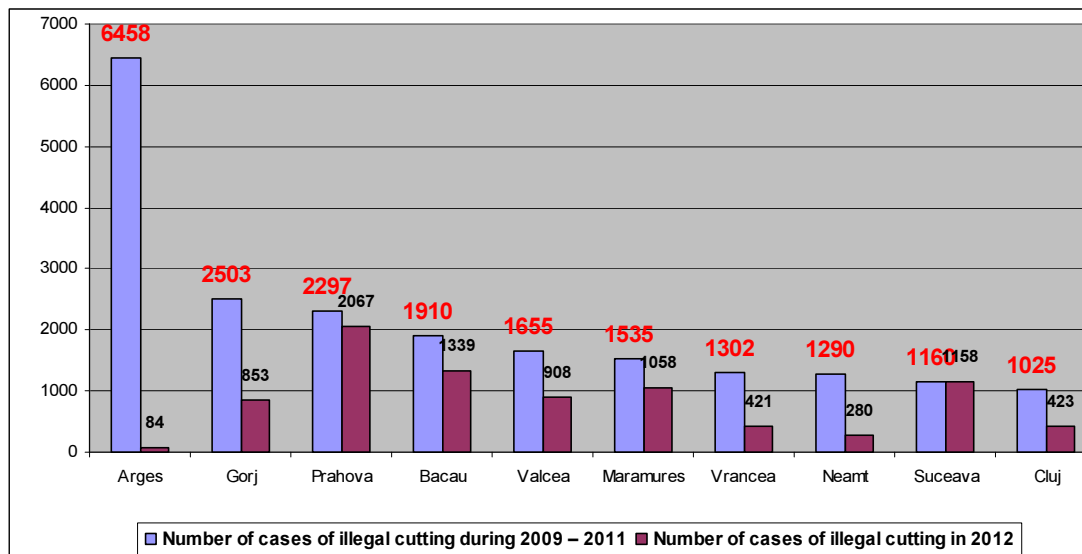
**Figure 7. The situation of illegal cutting in private forests**

Source: The Audit Report on “Patrimonial situation of forest fund in Romania during 1990 - 2012”,  
<http://www.curteadeconturi.ro/publicatii/economie7.pdf>

According to the Greenpeace report (7) on the illegal cutting of trees in the forests of Romania during 2009-2011, at the national level, there were 31456 cases of illegal cutting of trees that have resulted in sanctions, representing approximately 30 cases / day. For 2012, the Greenpeace report (8) specifies a number of 19500 cases of illegal cutting of trees resulted in sanctions, representing approximately 53 cases / day.



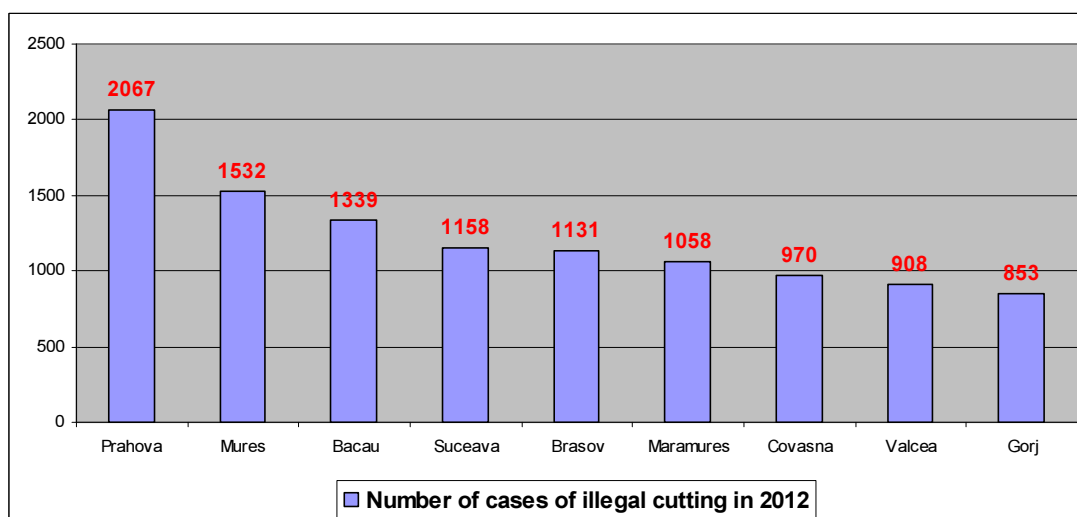
Data recorded for the first 10 counties with most cases of illegal cutting during 2009 - 2011 and their evolution in 2012 are shown in (Figure 8).



**Figure 8. Counties with most cases of illegal cutting in 2009-2011 and their evolution in 2012**

Source: Created by author based on data from Greenpeace reports [www.greenpeace.org](http://www.greenpeace.org)

(Figure 9) shows the top counties with most cases of illegal logging in 2012.



**Figure 9. Counties with most cases of illegal cutting in 2012**

Source: Created by author based on data from Greenpeace reports [www.greenpeace.org](http://www.greenpeace.org)

According to The Department for Water, Forests and Fisheries (established in the Ministry of Environment and Climate Change by G.D. no. 428/2013), the trend of increase in illegal cutting has also continued in 2013.

### 3. Conclusions

In his book "History of Romanian forest" (Giurescu, 2004), academician Constantin C. Giurescu noted: "the essential question that arises today is achieving a constant balance between the annual rate of forest cutting and that of its growth, by increasing is taking into account only natural growth, useful, valued, apart from afforestation".



Although figures presented are worrying, the phenomena is much wider, statistics including only official figures (the confiscated wood and caught offenders).

Among the effects of these illegal cutting we mention: flooding (with devastating effects, often on local communities and infrastructure), soil degradation through erosion and landslides (because of a wrongful cutting of timber on steep land or river bed), clogging waterways, climate change (drought and fires caused by drought), degradation of habitats.

Currently, in the forest management, there are distinguished the following trends (20):

- a) The globalization of policies and institutions in response to the increasing interest of the international community on the status of forest resources;
- b) Improving forest management;
- c) Expanding the circle of participants in the decision-making process in forest management.

Measures and actions to combat negative phenomena affecting forests include:

- National Forest Strategy 2014-2020, which aims "to ensure sustainable management of the forestry sector in order to increase quality of life and ensure the present and future needs of society in a European context" (10) .

- The plan of the Department of Waters, Forests and Fisheries on preventing and combating illegal cutting, including (10):

- Intensifying the actions of control;
- The draft law amending and supplementing the Forest Code (Law no. 46/2008);
- The draft law amending and supplementing Law no. 171/2010 regarding the establishing and sanctioning of forestry offenses;
- Harmonization of national legislation with that of the European Union regarding the field;

- Monitoring system in real-time of traceability of timber (the goal being reducing illegal cutting of timber and tackling tax evasion in the field) which will become mandatory across the country, from October 8, 2014 (11)

- National Afforestation Program
- National Program to establish protective forest belts on highways and on national roads
- Measures for training forest consciousness, action recovery and reconstruction of tree and forest, significantly affected by illegal cutting, is a hard work, of long continuance, very expensive and often unreliable (Florescu and Spârche, 2012)

- Support for small woodland owners, individuals, in their legal obligations incumbent on forest guard (currently, for about 500000 ha of forest there are not provided security services)

- Extension of forest roads

- Increasing the number of FSC certified forests, this bringing a number of benefits to producers of raw certified materials and also to companies producing certified local products, to the employees in the forestry sector and to local communities.

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# ORGANIZATIONAL CHANGE STRATEGIES IN THE CURRENT ECONOMIC AND SOCIAL CONTEXT

Iuliana, Talmaciu<sup>1</sup>

## **Abstract:**

*The purpose of this paper is to analyze the main strategies for implementing organizational changes in the current social and economic context, characterized by an unprecedented dynamism. As a result, the paper presents the results of the research that have led to the identification of the factors determining the application of a particular strategy or even the usage of their mix.*

*To achieve the established objectives set we have used as a research method the content analysis of various Romanian and foreign authors' work.*

**Keywords:** organizational change, change management, organizational change strategies

**JEL Classification:** M10

## **1. Introduction**

The last decades have been characterized by periods of unprecedented transformations in all areas of activity and no one is immune to the revolutions. The world is changing and change will happen with or without us. (Ridderstrale J.; Wilcox M., 2010 : 13)

Change is in the law of nature, the weather and the times change, and so does our environment (economic, social and political), attitudes and mindsets also change. In our opinion, no one (person or organization) cannot progress or even survive unless he succeeds in being open to what is "new" and tries to readapt himself.

In the paper entitled "Strategy" (1998), the guide issued by "The Economist Book", the concept of change is explained as follows: "Learn to love the change. Feel comfortable with your intuition. Turn compassion, care, harmony and trust into the cornerstones of your business. Fall in love with new ideas!"

In a continuously changing world, managers must constantly rethink their action strategies in order to adapt themselves to changes, especially to the external ones and to prepare their staff for new ones. It should be kept in mind that change strategies are conditioned by the situation in the organization and there are no universal recipes. We cannot say that there is an effective strategy in any event, a so-called recipe for success. The approach or the combination of approaches reflects their own assessment of what best suits to a particular change.

To meet these objectives, the paper was structured as follows: introduction, a section in which we detailed the typology of organizational change strategies, one in which we present the factors that influence the choice of strategy to achieve change, conclusions and bibliography.

## **2. The typology of organizational change strategies**

The strategies for change are forced to take into account many variables: the size of the organization, the competition relationships, the changes in the environment etc.

According to Stanciu Ș., Ionescu M. A. (2005 : 88), the most common questions to be answered by a change strategy are:

- What is changing?
- How is change operated and what is its rhythm?
- What favorable or unfavorable conditions can explain the change?
- How does generally change operate over time?

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- Who are the actors that open, maintain, support or oppose the change?
- Can change be planned?

The elaboration of the change strategy of an organization is a complex and dynamic process that requires good knowledge of the influential internal and external factors. In a unitary conception, the actions to be conducted in terms of priorities, deadlines and resources at their disposal should be determined. Understanding and then entering the change processes out of conviction will be able to reach the objectives that are consistent with the organization's mission. (Tripon A., 2008)

The criteria on which we can construct a typology of the organizational change are the following:

**a) The implementation modality:**

- *Empirical-rational strategies*, based on communication with the supposedly rational members, able to accept the changes useful to the organization;
- *Normative-reductive strategies*, defining values and norms, focusing on the relationship between the needs of the organization and the external environment;
- *Strategies of coercion*, including orders and sanctions.

**b) The orientation modality:**

- *Directive strategies*, imposed by management (payroll, rules of conduct);
- *Strategies based on negotiations*, recognizing the legitimacy of group requests (internal agreements etc.);
- *Normative strategies*, focused on norms, standards, principles of general validity (quality standards, ethics etc.);
- *Analytical strategies*, based on a clear definition of problems, deep analysis (projects to locate workshops, information systems etc.);
- *Action-oriented strategies*, based on a clear vision - targeting specific effects (increased involvement, knowledge management etc.).

When it comes to management of change, it is useful to distinguish between five different general approaches identified by Keith Thurley and Hans Wirdeus in 1973 (Moldoveanu G. & Dobrin C., 2008). They vary depending on the degree to which change was imposed on the subjects and these are:

▪ *Dirigiste strategies*. According to this approach, managers rely on their right to manage change. When using this approach, managers resort to their authority to impose change with little involvement from other people. This strategy has the advantage that it can be implemented very quickly. The major disadvantage is that it takes into account the opinions and feelings of those affected by the change and so can lose sight of the valuable information and increases the likelihood of resistance to change. Increased resistance to change may reduce the pace of change and sometimes even undermine it.

▪ *Expert strategies*. This approach is often applied when the change results from a "technical" problem whose solution requires an expert. A change of this nature is likely to be implemented special project teams, often with precise instructions from management and usually with little involvement from the susceptible to the effects of change. Expert strategies meant to achieve the organizational change have two main advantages:

- the use of relevant experience as leverage to influence the change problem;
- the change can be implemented quickly as the problem is addressed by a relatively small group of experts.

A possible disadvantage is that the people on whom it has repercussions could not see this as a technical problem only. The subjects of change might have different views from those of experts and might not accept the legitimacy of the solutions adopted by the experts. Therefore, resistance to change can occur again.

▪ **Negotiation strategies.** This approach requires the willingness to negotiate with other groups and to accept that it may need some adjustments and concessions. Choosing this strategy does not absolve the responsibility of managers to direct and initiate change, but recognizes that the people affected by change are entitled to have their say on the matter, or that they have the power to resist change if they were not convinced to adhere voluntarily to change. The potential advantage is that the people affected by the change, since they are able to express their views, will be less likely to oppose. The disadvantages are that the implementation may take longer and the results cannot be easily predicted.

▪ **Educational strategies.** Change management consists in emotional and rational attraction of all those affected by change in the organization. This strategy involves changing the system of values and beliefs of the people, so that they can help change and adhere to a common set of organizational values. The focus is on the emotional and rational conquest through a combination of activities such as persuasion, education, training and selection. Sometimes organizational development consultants - specialists in the behavior of individuals and groups - are brought to contribute to this process of change. The advantage of such an approach, if it is successful, is that the positive effect will typically occur on a period of time much longer than in the case of the above strategies.

▪ **Participative strategies.** This change involves those who are the subjects of the change process. Although change can be initiated by managers, the groups responsible for its implementation will be less dominated by the person with managerial authority and will include all those affected by the changes or their representatives.

Participative strategies have several potential advantages resulting from:

- implication of more people, so change is more likely to be generally accepted;
- the fact that they are actively engaged will determine people to adhere more strongly to the change;
- the organization has the opportunity to learn from the experience and ideas of a greater number of people;
- people have more choices and opportunities to learn from the process of change.

The main disadvantages of the participative strategies are those that change may take longer, be more complex in terms of management and require more resources, and the final results are usually more varied and less predictable.

Depending on the **modality of implementation**, the change literature (Eugen Mare, 2006) presents four groups of change strategies, grouped as follows:

▪ **Top-down strategies** – the organization management informs employees about the need to produce a certain change. The disadvantages result from the fact that the desired changes are not clear to everyone, while attachment and availability necessary for effective implementation often miss;

▪ **Bottom-up strategies** - place the responsibility of making changes based on the hierarchical pyramid. The main advantage resulting from attachment is to obtain a much larger change than the top-down strategies. They are strategies that are applied with good results only to achieve changes within the organization functions therefore aiming at segments with a limited number of problems. The main disadvantage is the lack of overall approach and collaboration of all members;

▪ **Strategies for representative positions** – involve recruitment of representatives for the positions where there are persons affected by the proposed change. The main advantage lies in broadening the horizon of the issues affected by changes in several positions and obtain a broader collaboration in achieving it. The main disadvantage lies in the fact that the employees directly affected by the change are not significantly involved in the process and they never understand the changes that are made or why they are needed;

▪ **Pilot strategies** – start to identify and define a specific part of the organization as a leader of change. In the process of change, only the employees selected as the leader of change are strongly involved, their results being reflected throughout the organization. The main advantage is the benefit of building a team of employees that are entertaining and useful way to change this. The disadvantage lies in the widening gap between workers in the pilot areas and the rest of the organization, sometimes even sabotage may occur to determine a final low efficiency of change.

It is important to observe that the organizational change strategies are not mutually exclusive and usually organizations use them in different combinations.

Michael Jarrett (2011 : 149) identified the following areas of change:

- The first one is **the equilibrium area**, characterized by a calm unchanging or predictable environment; it becomes a highly structured context. This area tends to be dominated by companies that prefer gradual change initiatives, which, in terms of performance, have low benefits. The company finds a segment or operates on a structured market where things do not change in a radical way. The opportunities are that the organization increases its efficiency, exploiting what they have learned and build a bigger and deeper learning specialist to make things increasingly better.

- The second one is **the risk area**. This is a turbulent, uncomfortable area due to the lack of synchronization between the applications of the rapidly changing external environment and the organization's inability to change. The changes in the external environment that inspires the need for change often come without warning. The rapid pace of change in the external environment requires a response from the inside of the organization. The imperative for change in this area is strong: survival.

- The third one is **the comfort zone**. The external environment tends to be calm or at least, the changes are predictable or slowly done. Unlike companies located in zone one, shown above, in the third zone, companies are subject to change. The problem is that they do have the advantage that they offer their change capabilities. Companies are familiar with the environment, are blocked in self-esteem, they lose the sense of urgency and get a false sense of vulnerability. The area is a lack of synchronization between the demands of the external environment and the organization's strategic change capability.

- The fourth one is **the Zen area**. The organization synchronizes with the external environment and its apparent resilience. Organizations that embrace and enjoy the challenges of large scale changes will tend to have internal dynamic capabilities by which to consider the situation a welcome challenge, not a painful experience. In this area, the operating internal organizations that have the ability to find position and return to the outside world with a quick adjustment. The organizations of this type act boldly and are often market leaders or among the first innovators.

These areas require different strategies to achieve the organizational change. (Table no.1)

**Table no. 1. Strategic options regarding organizational changes**

Areas	Adaptive strategies to change	Strategy features	Risks and negative responses
<i>The equilibrium area</i>	“Compliance” – is based on the existing competence recipe	Development of stability; Progressive change; Process improvement	Complacency, rituals and excessive control lead to ineffective bureaucracy and rigidity.
<i>The risk area</i>	“Reformation” or recovery – removing old and imposing the new	Punctual change: rapid, centered and “aggressive”	It is only a temporary “voyage”, it implies the old modalities and the potential failure; high risks
<i>The comfort area</i>	“Deformation” – redefining or reframing	Need to create an unconfirmed reality and	Complacency and loss of the competitive advantage

Areas	Adaptive strategies to change	Strategy features	Risks and negative responses
	the values and behaviors – “sails in the wind”	challenge of the current assumptions; engagement and involvement of key factors	
<i>The Zen area</i>	“transformation” – moving from “a tanker to a fleet of boats”	Strategic oriented change with impact on the culture and structure	The obsessed one sees the action as being more important than the change of perception.

Source: Jarrett Michael, 2011: 150

We observe that Michael Jarrett analyzed the dynamics of the change strategies depending on the organization’s capacity for change and transformation occurring in its external environment. Since the dynamics of both the external environment and the ability to change are low, the organization is in the balance. If the external environment is dynamic and the high exchange capacity remains low, the organization is placed in a hazardous area. If the change is high capacity and dynamic external environment is low, the organization is in the comfort zone. If both variables are high, the organization is in the Zen, transformation and renewal. (Figure no. 1)

**Figure no. 1. Dynamics of the change strategies**

<b>Dynamics of the environment</b>	high	<b>Risk area</b> Responds and restructures	<b>Zen Area</b> Transformation and renewal
	low	<b>Equilibrium Area</b> Elementary change and process improvement	<b>Comfort Area</b> Strategies of modification and disturbance
		low	high
<b>Capacity to change</b>			

Source: Jarrett Michael, 2011: 287

In Fred Nickols’ vision (2010) the strategies to achieve organizational change are:

- **empirical-rational strategy.** People are rational beings and they will follow their interests once they are identified. Change is based on communication and incentives. This strategy is characterized by: a plan for change, communication of information, the use of incentives based on the results.

- **normative strategy – of rehabilitation.** Humans are social beings who adhere to cultural values and norms. Change is based on redefining and reinterpreting the existing norms and values and commitment to creating new ones. The strategy is based on: redefining and reinterpreting the existing norms and values, initiating a series of activities that lead to the development of trust.

- **coercive strategy.** People generally obey and do what they are told or may be determined to perform certain activities. Change is based on the exercise of authority and imposing sanctions.

- **strategy of environmental adaptation.** People oppose interruptions and losses but they can relatively easily adapt themselves to new circumstances. Change is based on creating a new organization and gradually transferring people from the old to the new. This

strategy is based on performing a sequence of organizational changes that occur in response to changes in the business environment

### **3. Factors that influence the choice of the change strategy**

In general, it is not applied a single strategy to achieve the organizational change.

An organization can adopt a primary strategy (“the main strategy”) and for certain activities it can use a mix of strategies. Choosing strategies that will be used in combination is made considering a number of factors. Among these, the following are considered to be the most important:

➤ ***Objectives and their amplitude.*** These can range from minor issues involving a single process to the complete transformation of the entire organization. As the objectives are more important and broader effects, a mix of strategies for change is preferred, which have the coercion strategy as a central element.

➤ ***The degree of resistance.*** A high level of resistance to change requires combining the coercive strategy with the one regarding the adaptation to the environment. A low resistance to change and supporting it requires a blending of the rational strategy of rehabilitation.

➤ ***Target population.*** The existence of a large number of people involved in the change usually leads to the need of a mix of strategies for change. Each of the four strategies presented finds supporters and cannot easily reach consensus.

➤ ***Time.*** Short periods of time require the application of coercive strategy, while for longer periods of time to apply a mix of the empirical strategies: the rational, normative-of rehabilitation and adaptation to the environment.

➤ ***Experience and expertise.*** The existence of appropriate expertise to achieve the change leads to a mix of the strategies presented above. Given that there is no experience of change management, in most cases, coercive strategy is applied.

➤ ***Level of dependence.*** This can be a double-edged sword. If the organization largely depends on its employees, the managers’ control power is limited. If employees are dependent on the organization, their resistance to change is reduced.

### **Conclusions**

Changes can sometimes generate just a slight adjustment from a functional and structural point of view or quite the opposite; they can lead to a major redesign of the organization. Change in an organization can aim at the strategy, vision, structure, policies, budget, products/services, suppliers and customers, costs and prices, resources, technologies, etc. All these factors determine the competitiveness and the organizational performance, influenced both by the external and the internal environment of the organization.

Change must be consistent and lasting to produce positive effects, and the biggest challenge when initiating and leading change at both the organizational and individual level is to change mentalities and paradigms in thinking. Paradoxically, many studies show that, though at first declarative, people are open to change, in time they do not want to embrace it any longer.

In our opinion, the degree of success for the organizational change will only increase in direct relation to the type of attitude that both managers and employees have regarding the changes in the organization, requiring proactive, training and development programs that produce change.

What we think to be very important in the development of an organization is reviewing management strategies, training and motivation of human resources to accept and promote change, communication and expertise in the design, development and evaluation of change, which decision makers must take account for the success of the approach.



Organizations should pay more attention to the evaluation of the process of change, to analyze how the measures imposed by change were implemented, to identify any deviations from the proposed objectives and to identify the new development directions of the organization.

We consider that there is a direct and powerful link between the methods and the strategies for efficient change management and organizational vision. People must be offered a destination to accept and support the change, to have a clear picture of what awaits them and feel that they are partners in this direction.

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<p style="text-align: center;">Section V <b>MARKETING AND TOURISM</b></p>
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**A STUDY OF THE IMAGE OF TULIP SYMPHONY - A DEFINING  
INGREDIENT IN THE DEVELOPMENT OF THE URBAN BRAND  
OF PITEȘTI**

**Mihaela, Asandei**<sup>1</sup>  
**Elena, Enache**<sup>2</sup>

**Abstract:**

*The city is a fundamental element of the identity of contemporary society, fulfilling in each urban community complex functions that depend on the needs, interests and aspirations of the people and of the political and economic system. The urban identity of Pitesti is defined by a set of features with certain significance for each inhabitant of the city. The Tulip Symphony is a symbol that has been created, developed and promoted during the past four decades by the urban community. The present study aims to study how residents of Pitesti perceive the urban product named the Tulip Symphony is and present the conclusions of a statistical survey conducted during the 37th edition of the event.*

**Keywords:** *research, urban marketing, urban image, urban brand, the Tulip Symphony.*

**JEL Classification:** M31, M38, H83

**1. Introduction**

Recent decades saw many urban communities increasing their focus on defining a city brand in order to develop and promote local and national cultural values. The global world revealed strong competition between countries, cities and regions that are striving to attract more tourists, more investors and support the community through various activities and events tailored to suit each place where people live.

The city is a set of traditional and modern values, of human and material resources that help people identify with the city's values. Just as, for example, a product is not necessarily bought and sold for the raw material it's made of, but for its perceived value, a city is more than a combination of streets, buildings, institutions, parks, shops, restaurants: it goes through a long and complex process to become a brand and the *sum of all perceptions and associations that people have in relation to a specific city* (Popescu, 2007). These refer to previous experiences, movies, news, advertisements, access to information, climate, prices, friends or citizens' views.

Addressing issues of design and organization of cities, regions or nations, urban marketing, also known as strategic urban marketing (Kotler, 1993), requires a design that meets the needs of a community's main constituent groups (citizens, workers and companies, visitors, new traders and investors) that have an interest in urban development and are, from this perspective, target markets of marketing activities (Kotler, 2001).

Promoting the values and image of a place so that potential users become aware of its advantages is a core activity of urban marketing, while urban marketing becomes a tool for managing urban space and creates a conceptual and theoretical framework for the urban brand, which projects into the urban image. It is estimated that urban marketing achieves its

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purpose when the community is satisfied with the urban and socio-economic environment and when visitors and investors' expectations are met.

In this context, Pitești is a city that sells itself through *tangible attributes* such as physical infrastructure, public services, taxes, but also by promoting *intangible attributes* such as city values, feelings of citizens and visitors. Regarded as a *creative city* in the future (Suciu, 2010), Pitesti aims to align the dimensions of its development to the attributes of a commercial and industrial city, with an urban brand whose marketing communication is controlled by city authorities. (Kavaratzis, 2006).

In the last four decades, the Tulip Symphony has become an element of the city's image.

## **2. The Tulip Symphony, a symbol of the urban brand of Pitești**

Each city distinguishes itself by certain physical, geographic, economic, and demographic traits, which give it a certain personality and set it apart from other urban settlements on the map of the country or even the world. All cities can be identified in a precise way, but not all have specific elements, an urban identity. *Urban identity* is a consistent set of features that is able to bear the same meaning for each inhabitant of the city (Brunet, Ferras, 1992) and is reflected mentally by a symbol that has been adopted and built in time by each generation and that ensures the consistency and continuity of life for that urban community (G. Dematteis, 1994).

A strong urban brand shapes the personality of a city through two key dimensions: material aspects, *perceived as hard by residents and tourists* (infrastructure, taxes, expenses) and intangible aspects, which are *perceived as soft by population* (mentality, art, culture, health), both dimensions serving to prove the value of resources and the quality of life (Popescu, 2007). Any city brand presents the advantages and unique features that set it apart in the current marketing environment.

City branding assumes that there is already an image (positive or negative) to be developed or changed. The image of the city is perceived subjectively and cannot be dissociated from the object it represents - once there's an image, it is responsible for people's perceptions (Cretu, 2010). An urban brand is based on information about the city, tourist perceptions, and ratings of other cities and is created with the aim of promoting a particular city.

The elements of an urban brand are its internal climate, historic image, attractions, culture, social factors, and the separation of political factors (Tai-lok, 2008), but creating an urban brand involves adding an emotional element to the image of the city through a positive impact on a significant number of people with different levels of education, from different social groups, on residents, tourists, entrepreneurs, investors.

Pitești is located 100 km from the Romanian capital, with a relatively well-represented industry, with a positive impact on regional development, with great potential for business, and an educated, medium income population. The City Hall of Pitești included a program for creating local brands in its post-accession development strategy. Among the items associated with the image of Pitesti, flowers (tulips in particular) became a symbol that is frequently recalled by residents and visitors of the city. In 2007, the Tulip Symphony was identified by 55% of citizens as a defining element of the city.

Since its first edition, the Tulip Symphony has become a venue for flower growers and a symbol of the city, offered by local administration to beauty lovers in the country and around the world.

Organized for the first time in 1978, the event is held annually each spring. The history of the Tulip Symphony can be accessed on <http://www.simfonialalelelor-pitesti.ro/>, a website created in 2007 and on which the Tulip Symphony was broadcast live since 2008 using 5 surveillance cameras placed in vantage points.

The Tulip Symphony is registered at OSIM under number 102 211 since 2009 as a combined brand (name and color graphic element), ensuring its worldwide uniqueness. Designer Dan Pavel designed The Tulip Symphony logo in 2007 as a project for the master thesis he defended at the National University of Arts in Bucharest and later presented to the City Hall of Pitești as a potential symbol of the city. Designing the logo required a comprehensive documentation in an effort to assess how the tulip was related to the city and how easily it would be acknowledged by residents. A statistical analysis of the values considered relevant by public and of the relationship between public perception and the city symbol was carried out before creating this design concept. In the analysis, the color purple was nominated by 90% of respondents as being related to Pitești. The first written mention of Pitesti on 20<sup>th</sup> of May 1388 was reflected in the answers of only 2% of surveyed subjects and the tulip became a symbol on the heraldic emblem of the city along with the caduceus (astrological symbol for trade), the oak leaf (Trivale Forest) and the eagle (a symbol that was borrowed from the old logo of the city between the two world wars).

### **3. Research design**

The *decision problem* that became the starting point of our research was that in talking with friends, acquaintances, people in or outside the country, I noticed that many of them thought of Pitesti as the city of tulips, as a result of the Tulip Symphony event that had been organized every year since 1978.

The *objective of the study* was to investigate the opinion of visitors in general and of residents in particular about the Tulip Symphony event organized annually by the municipality of Pitesti, aiming to capture the image of the symbol of the city in the last years (2008-2014).

This paper is part of a larger independent project, initiated 7 years ago along with defining the coordinates of the post-accession strategy of Pitești for 2007-2013 and aims to collect data needed in building an effective urban brand for Pitești.

Our research method was a survey conducted before and during the event, from 11<sup>th</sup> to 13<sup>th</sup> of April 2014.

The *objectives of the research* on how Pitești residents think about the Tulip Symphony are:

1. determine the degree of knowledge and the perception on the event organized by the City of Pitesti;
2. determine the significance visitors place on the Tulip Symphony event;
3. identify the characteristics of the event (the building blocks of the image of the event);
4. identify the main tools for promoting the event that helped visitors receive useful information about the Tulip Symphony;
5. highlight the strengths and weaknesses of the event.

The *hypotheses* of the research, resulting from personal experience, are that the inhabitants of Pitești know about the Tulip Symphony event and consider it a part of the modern heritage of the city, defining it as a major event in their existence in recent years. I was also interested in finding out how interested the citizens of Pitești are in the events organized by the City Hall of Pitesti and I assumed that, out of all the events organized by the City Hall, they know and appreciate the Tulip Symphony best. These assessments are in part the result of how the City Hall involves in organizing outstanding events for the city.

Visitors believe the event is a tradition and that the floral exhibition is a distinctive element of the event.

Another hypothesis was that the event has a positive impact on the people of Pitești and its surroundings thanks to the promotional tools employed by City Hall (adds on local

radio and TV, posters, banners, online promotion), with posters and banners displayed in heavy traffic areas of the city being the most effective promotion tool.

The sample includes individuals who visited the exhibition organized in the Book House complex, the venue of the April 2014 Tulip Symphony. We used simple random sampling and an identical observation and survey unit: the individual.

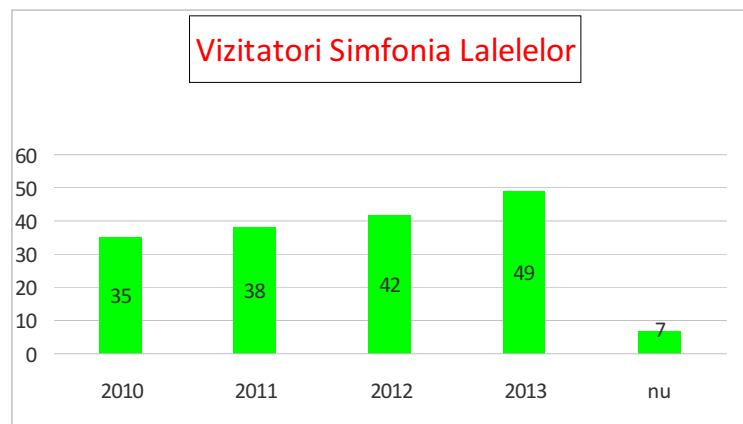
We employed a questionnaire consisting of 14 questions, both open and closed, as a data collection tool. The last part of the questionnaire consisted of questions related to the socio-demographic characteristics of the respondents (gender, age, occupation, education, residence).

#### 4. Study findings

The first question sought to establish the degree of awareness of the Tulip Symphony event and asked respondents to name an event organized by the City Hall of Pitești. Most responses (90%) indicated the Tulip Symphony and the answer was considered normal since the questionnaire was applied during the event and while visiting the floral exhibition. Other answers nominated other events organized by the City Hall, such as the Pitești Autumn, etc. The results to this question indicated that the image of the Tulip Symphony has spontaneous notoriety, one of the image indicators.

When asked if they visited the exhibition in recent years (2010-2014), most visitors answered that they visited the exhibition in 2013 and 2012 and only 7 respondents said that they made their first visit in 2014 (Chart no. 1), showing a growing interest in the event in the last two years. This is due to the fact that people remember recent events and realize their permanence in the life of the city.

**Chart no. 1 Number of visitors to the Tulip Symphony per year**



The attributes respondents associate to it describe the image of the event. To get information about the personality of this urban brand and about advantages and disadvantages we used an open question and received various responses: *spring, flowers, beauty, tradition, cheerfulness, tulips, color, relaxation, art, passion, Pitești, tenderness*. Further research using focus groups could determine the attributes that should be maintained and developed in the process of creating a competitive urban brand.

Promotion is necessary for this event to be successful. The most effective means of promoting the 2014 Tulip Symphony were posters and banners placed in visible places in the city (39%), friends or acquaintances (25%), the city's promotion department (24%), and local TV and radio stations (12%). Online promotion was less used and was not reflected in the responses of interviewed visitors.

The intensity of the event's image is another indicator, as all respondents appreciated the Tulip Symphony and there were no adverse responses; this indicates that the event is well organized and is perceived positively by all respondents.

We wanted to get the visitors' feedback regarding event organization and the answers were distributed as follows:

**Table no. 1 Distribution of feedback regarding event organization**

<b>Qualification for organizing the event</b>	<b>No. of people</b>
Very well	15
Well	30
Satisfactory	12
Poor	2
Very poor	1

75% of visitors appreciated the organization of the event, while 5% of visitors gave negative qualifications, demonstrating that citizens have high expectations of the local public administration.

Another question sought to identify the characteristics of the Tulip Symphony as defined by visitors, offering respondents with three possible replies. The hierarchy of responses was as follows:

**Table no. 2. Identifying the characteristics of the Tulip Symphony**

<b>Characteristic</b>	<b>No. of answers</b>
Floral exhibition	54
Pitești trademark	48
Traditional event of the city	44
Socio-cultural event	14
Touristic event	14
Commercial event	7

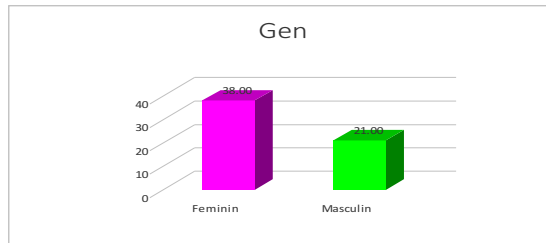
Based on information gathered we managed to define the features of the event, as follows: floral exhibition, emblem of the city and traditional event. These features will be developed and refined during a future program of urban marketing.

Respondents had to pick a strength and a weakness of the event. The analysis of these responses surfaced strengths such as: Tulip Symphony has become a traditional event of Pitești; it is an emblem of Pitești; it is a commercial event; the presence of tulips in green spaces in the city center. These assets can be further developed and are the starting point of future strategies for developing the urban brand of Pitești.

Some weaknesses of the Tulip Symphony mentioned by respondents are: unfavorable time during the event (rain); the 2014 parade was hampered by adverse weather; there were fewer tulips compared to previous years; higher prices for flowers displayed for sale; lack of parking spots; monotonous display of the exhibition; trite arrangements and plants/flowers; uncivilized, Balkanic, cheap trade; lack of tulips in the successful arrangements.

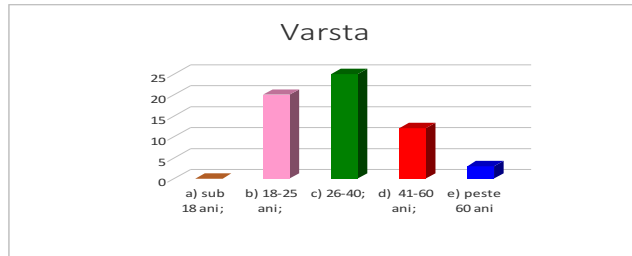
The study results highlight the socio-demographic characteristics of people who visited the exhibition and answered the questionnaire. Thus, 38 women (64%) and only 21 men (36%) agreed to answer questions; this is due to the fact that women are more interested in flowers and are responsible for making purchases (Chart no. 1).

**Chart no. 1 Sample structure by gender**

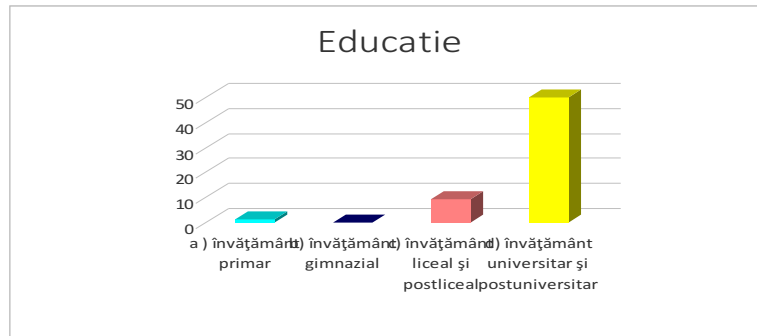


Regarding the structure of the sample by age, 40% of visitors were aged 26-40 years, 30% were aged 18-25, while 3-5% were children and old people (Chart no. 2).

**Chart no. 2 Sample structure by age**

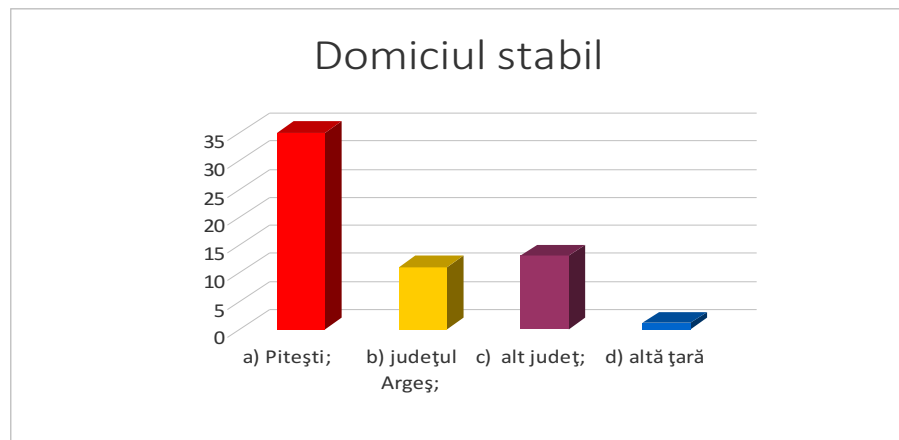


**Chart no. 3 Sample structure by education**



The distribution by level of education shows that people with higher education prevail in the sample (83%), indicating that people who visited the exhibition and wanted to answer questions have above average education.

**Chart no. 4 Sample structure by residence**



Regarding the respondents' address, visitors from Pitești are predominant in the sample, showing that especially residents of Pitești visited the floral exhibition.

### **Limitations**

This study is exploratory in nature, being a pilot study, it doesn't allow the extrapolation of data on the analysed community and needs refining the research methodology following the integration of results by adding new objectives and relevant assumptions on a representative sample of the community that can contribute to designing the urban brand of Pitești by future community development strategies.

### **Conclusions**

The following conclusions emerged from the analysis:

- The city of Pitești is seen as a commercial, modern city, with potential to become a creative city in the economy of the 2020's;
- Pitești is perceived as a city with locally known events, with an image of a city of flowers;
- Pitești can become a destination for employment, industry, and attractions offered by various events;
- The brand of the city involves ideas and ways to determine the involvement of the entire community to build an image of the city they want to live, work and invest in.

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# GENERAL ISSUES CONSIDERING BRAND EQUITY WITHIN THE NATION BRANDING PROCESS

Denisa, Cotîrlea<sup>1</sup>  
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**Abstract:** *The present work-paper was written in order to provide an overview of the intangible values that actively contribute to brand capital formation within the nation branding process; through this article, the author tried to emphasize the differences existent between brand capital and brand equity within the context of the nation branding process, which has become a widely approached subject both in the national and international literature. Also, the evolution of brand capital and brand equity was approached, in order to identify and explain their components and their role, by highlighting the entire process of their evolution under a sequence of steps scheme. The results of this paper are focused on the identification of a structured flowchart through which the process of nation branding -and the brand capital itself- are to be perceived as holistic concepts, integrator and inter-correlated ones, easily understood. The methodology used in order to write the present article resumes to all appropriate methods and techniques used for collecting and processing empirical data and information, respectively to observing, sorting, correlating, categorizing, comparing and analyzing data, so that the addressed theoretical elements could have been founded; in the center of the qualitative thematic research addressed in the present article lie general elements belonging to Romania's image and identity promotion.*

**Keywords:** *nation branding, brand capital, brand equity*

**JEL Classification:** M31, M30, Z19

## 1. Introduction

The geopolitical context and, implicitly, the current geo-cultural context require a redefinition – or a more complex circumscription – of the “national branding” concept.

Globalization has bound nations in a complex interdependent system of which no nation, however powerful it would be, cannot realistically exclude itself. Therefore, recent decades have brought prosperity to several nations and complex problems to others. (Tinbergen et. all, 1976).

It is already known that the process of branding helps a nation to define its identity, to promote itself, to draw attention and to differentiate from others. Is, within this context, the brand of a nation -and, consequently, its brand capital- the loophole that facilitates economic growth and turns, in this way, to a driver of increased wealth?

If we assume that the central role of nation branding is to homogenize and organize public perceptions of the world - both for financial and social gain, the response to the above question should be a positive one. This idea is holistic explained by Wally Olins: "Nations are struggling to consolidate their political power, but now they also have to answer a challenge within a difficult competition, which involves quantifiable factors: export, inward investment and tourism. World states seek to promote their individual personality, their own culture, history and values, presenting themselves as idealized and easily recognizable entities".

But which is the process that hides behind the brand capital of the nation and what does it involve? The present article tries to answer to several simple questions behind which lies a complex and lengthy process.

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## 2. Methodology

In the centre of the present qualitative thematic research lie general elements belonging to brand capital within the nation branding process. Information base of the present paper work is represented by the research results, by the performed studies and by other editorial sources exhibited in periodicals and in foreign and local authors' works.

*„Nation branding: concepts, issues, practices”* written by Dinnie Keith and *„Competitive identity: the new brand management for nations, cities and regions”* written by Simon Anholt represent two of the main references of the present article. Also, worth mentioning is the work written by Kapferer, entitled *“The strategic brand management: creating and sustaining brand equity long term”*, where are drawn some guidelines regarding the brand capital and brand equity.

Useful to its elaboration were also the interviews given by specialists in the field and published over time in online media. From all connoisseurs of the branding process, Wally Olins stands out through creativity, cheerfulness, efficiency and success.

Taking into account the various approaches regarding nation branding and brand capital, for writing the present paper the author reviewed the literature in the field, among which books situated at the confluence between marketing, accountancy, public relations and economy.

All these have been said, the research methodology is mainly summarized to all appropriate methods and techniques used for collecting and processing empirical data and information, respectively to observing, sorting, correlating, categorizing, comparing and analysing data so that it can be founded the addressed theoretical elements.

## 3. Brand capital within nation brand

The term “branding” has only recently been used in order to describe a process – more commonly were used the terms of “place selling” or “place promotion”; on one hand, describing place branding as an unclear concept and suggesting that “almost nobody agrees on what, exactly, branding means” Simon Anholt sustains the idea that there is a lack of consistency in defining which the constituents of the place branding are. He defines the process of branding as being “[...] the process of designing, planning and communicating the name and identity, in order to manage the reputation” (Anholt, 2004).

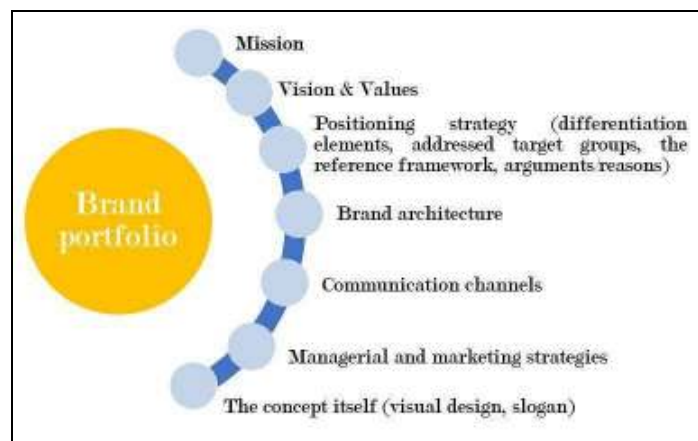
A nation branding or rebranding campaign begins, first of all, through the identification of an opportunity: the possibility of exploiting relevant internal resources, which provides competitive advantage and differentiation, which draws attention, instigate desires and sell. The whole process gravitates, thus, around the “zero kilometer” identified, among whose attributes are included: the reliability, relevance, differentiation, uniqueness, creativity, focus and simplicity of the brand.

Considering this, the nation brand must be *credible* in order to attract and sell, in order to provide safety and satisfaction - the credibility consisting in constantly giving what is promised. *Differentiation* means to provide experiences, products and outstanding services that arouse admiration and constant concern for the brand, being characterized by high quality and helping to overcome consumer expectations. Moreover, the brand must be *relevant* both on internal and external plan - is necessary to ensure a balance regarding the way of addressing both internal and external publics. The *uniqueness* attribute should characterize any nation brand, the truth meaning of this concept involving credibility, relevant differentiation and competitive advantage. The brand itself must be characterized by *creativity*, reflected into that particular way through which public sympathy can be gained; boosting the senses of the target group, a nation brand differ through the way it attracts and captures – thus, becoming memorable. It is considered that “a clip and a well-executed and even creative slogan will not be enough in order to change the image of a

country, but creatively highlighting an unique aspect of the country is likely" (Nicolaescu, 2008). *Focusing* shows interest in a certain direction, on a certain idea, highlighting a specific aspect relevant to the brand and country - but always, in order to have the expected impact, it must be characterized by *simplicity*.

These have been said, we truly believe that "creating, implementing and communicating a vision regarding the image of a country -that has to be, at the same time, unique to differentiate from others, competitive to attract and realistic to reflect the truth actually represents the essence of branding country" (Nicolaescu, 2008).

Exploiting the existing opportunity materializes, above all, into a **brand portfolio**. This includes, in addition to the stated mission, vision, values and positioning strategy (which, in turn, contains elements of differentiation, the addressed target groups, the reference framework and several arguments regarding the choices that have been made): the brand architecture, pathways/channels/means of communication, managerial and marketing strategies and, last but not least, the concept itself – the visual design and the slogan (Fig. 1). It is easy to understand that the success and reputation which the nation brand will acquire in the future depends on the way through which the promised experiences are "delivered" and the competitive advantages are highlighted. Furthermore, knowledge regarding the consumers and their desires, the trends and marketing strategies successfully applied in similar processes significantly contribute to a positive visiting decision.



**Fig. 1. Brand portfolio's main components**

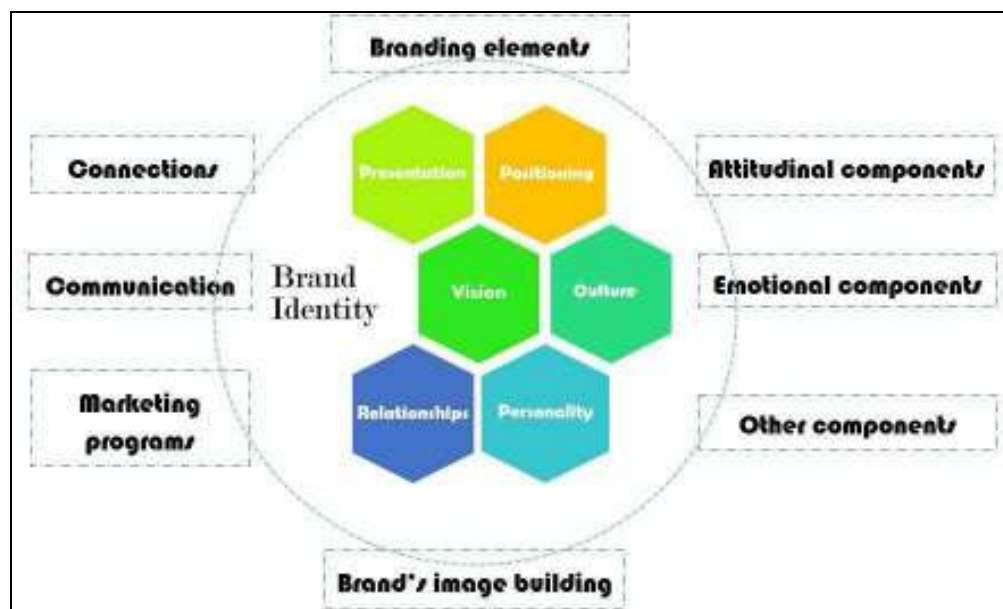
A starting framework that leads to the brand portfolio formation can be shaped only by optimizing and developing specific resources and issues - such as the human capital, the existing heritage, the specific culture and traditions of the concerned nation, the infrastructure and quality of life –overall-, the domestic policy and the interest shown by investors -both internal and external ones-. However, measures taken in order to reduce brain drain phenomenon, careful management of the image that the exported products give to their origin country and the constant image analysis of Romanian citizens and foreigners regarding the country in question provides objectivity in building brand portfolio. To these are added, however, the exploitation of the cultural, historical, religious and tourist heritage.

It is easy to understand that the developing of a brand portfolio represents a long, comprehensive and complex process. Also, we need to note that the final result (and thus, the quality of the brand portfolio itself) is influenced by the branding micro-processes existent within a regional/city/destination's level. With a well-managed brand portfolio and with a process that points out the expectations of the target group, the purchase decision will be influenced not only by the perceived quality and perceived price-quality ratio, but

also by the importance of the country of destination and its influence, together with the familiarity that the tourist has in relation to that specific country.

By brand personality itself (characterized by essence, uniqueness and differentiating elements) the attitude towards the brand is created. This is formed based on the differences between brand image and brand identity.

Relating to **brand identity**, this lays at the confluence of researches made in several distinct fields such as sociology, ethnography and anthropology, consisting of "the heritage and the origins of the brand, its values, the stated scope and ambitions, but also of its visual identity" (Gelder, 2005). According to Kapferer, the brand identity is the one that creates a brand-consumer relationship, proposing a value consisting of both functional and emotional benefits. Items related to brand identity include, among others, elements related to positioning and presentation, to relationships and personality, to culture and vision. Based on the brand identity is built a cyclical process that leads to brand's image building - through marketing and communication programs, through associations and by analyzing the mix of elements belonging to branding process. We include here the emotional and attitudinal components, but also the other components that build the brand's image (Fig. 2).



**Fig. 2. From brand identity to brand's image**

Brand image represents the mental projections –belonging to consumers- concerned about the brand itself. Are included here the expectations, thoughts, feelings, meanings, significances, importance and relevance of the brand to and for consumers - all these being filtered through their own experiences and interpretations.

It is necessary to understand that a country's image is formed, generally, without directed actions to this intent; it appears "spontaneous, in a natural manner in the world's consciousness", while the country brand represents "the image of the country in consumers' mind, formed as a result of efforts made for this purpose, which is consciously influenced and pointed in a favorable direction for the country [...], materialized in a historical and cultural product" (Nicolaescu, 2008).

Along with the modification of a single element of the above, the process of building the brand image is resumed, considering that the image itself will suffer small changes – that, over time, can lead to changes in purchasing behavior. Thus, for a strategic management of a country's image, is necessary to consider:

- what truly determines the country's image;
- which are the guiding principles for the creation of that specific image;
- which tools can be used to broadcast it;
- how can it be evaluated.

The experience one had with the brand plays an extremely important role being situated at the confluence of human interactions: tourists-locals, visitors-human capital, received satisfaction-offered quality. Given that the level of satisfaction obtained from an experience is as expected, the confidence in the nation brand will increase and it will easier be associated, on the one hand, with the self and, on the other hand, with the social image of the self. Is formed, in this way, the attachment to the brand, which is based on two major components: tourist-brand relationships and loyalty. Of these, tourist-brand relationships are those that generate word-of-mouth and the willingness of revisiting – which, in time, leads to familiarity; loyalty increases brand value, while reducing competitors' success.

The whole process, summarized above, involves the formation of associations regarding the brand, the awareness of its strengths and weaknesses, the identification of the perceived quality of the received experience, the existence of a certain degree of trust, attachment and/or loyalty regarding the brand.

All these "intangible assets" form the **brand equity**, without which the nation branding process itself could not exist. It consists, according to Kapferer, in "the assets and liabilities related to that brand and which form its value". (Kapferer, 2008)

#### **4. Brand capital vs. brand equity within the context of nation branding process**

"The authentic globalization involves a subject that can only be the international community. Which is the identity of this community and which are the institutions that are able to represent and express it? Since it promotes the idea of freedom -in its various forms-, globalization must itself be a subject under this requirement: it has to be accepted, assumed and not required". Therefore, nation branding process became so important in the current context. It reveals a country's competitive advantage and helps it to differentiate from others; basically, it tries to harmoniously combine and preserve the identity and values of a nation with the characteristics of globalization, which tends to erode both the general inter-ethnic climate and the national identity through the intense "regionalization and ethnicization processes of social problems" (Ciobanu-Băcanu, 2010)

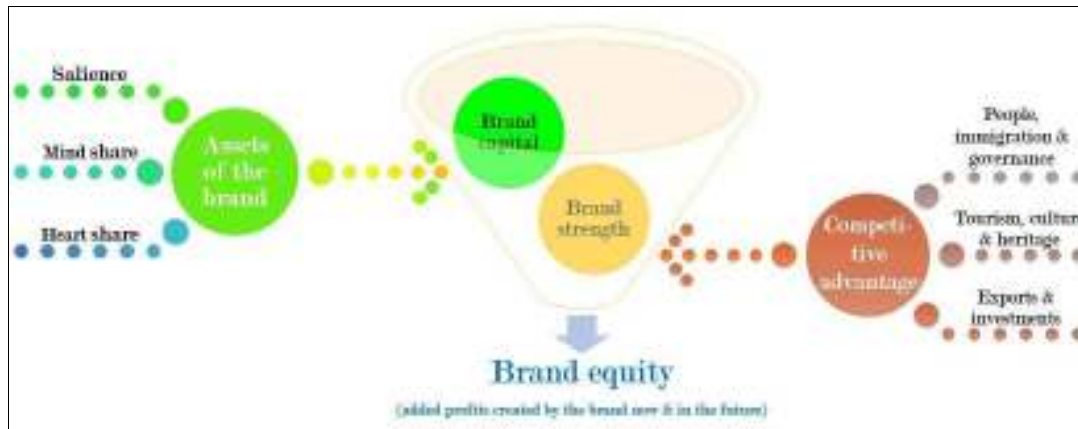
Perceived as being one of the most important and sustainable assets that assures continuous development, the subject of nation branding became a widely approached one; thus, due to its complexity, the process that gravitates around the brand capital has to be simplified in order to be deeply understood. Also, considering that there exists a slight difference between the concept of "brand capital" and "brand equity", we decided to approach these two concepts, in order to identify their main characteristics.

The brand capital within the nation branding process represents the commercial value that derives from consumer perception of the brand name of a particular product or service, rather than from the product or service itself. Summarizing, it refers mainly to the assets of the brand, being constituted by the qualitative values that form the brand equity; it can be said that it includes all the key-elements that will support the imminent growth trajectory of an iconic nation brand.

Together with the strength of the brand, it forms the brand equity, translated into "the added profits created by the brand now and in the future" (Kapferer J., 2008). The brand strength itself is given by the uniqueness, essence and differentiation elements or competitive advantages of a particular nation in order to portray brand's personality on which tourists' future attitude will be based on. Wally Ollins talks about nation branding by attaching an emotional dimension concretized in the deliberate actions of a nation for

building prestige and reputation by designing national identity in a consistent manner, respecting a certain ideology.

Considering this, and taking into account what Kapferer states, the brand capital has as starting point the salience - the mind share and heart share among the population and trade (awareness, image, values, consideration, conviction) and is more connected to the qualitative associations with a brand –framing the consumer’s perspective-, while brand equity also involves the financial perspective (Fig. 3).



**Fig. 3. Brand capital and brand equity**

Source: composed by author according to Kapferer J., *The strategic brand management: creating and sustaining brand equity long term*, Kogan Page Publishers, 2008, p. 143;

**Brand equity** represents an important driver of consumer’s preferences and captures the value of the amount of brands originating from a particular country. Factors that contribute to brand equity are:

- brand associations (which are deep seated in consumer’s mind in connection with the brand and come first into the mind of consumer when the brand is talked about),
- brand loyalty (can be defined as relative possibility of customer shifting to another brand in case there is a change in product’s features, price or quality),
- brand awareness (the probability that consumers are familiar about the life and availability of the product; includes both brand recognition and brand recall),
- perceived quality (refers to the customer’s perception about the total quality of the brand)
- other properties (those assets which prevent competitors attack on the organization and help in maintaining customer loyalty as well as nation’s competitive advantage).

As [Chiranjeev Kohli](#) and [Lance Leuthesser](#) stated in their article in 2001, „brand equity rests on a solid foundation of brand vision and brand identity. Given a strong foundation, brand knowledge can be built. Important dimensions of brand knowledge include brand awareness and brand image. Finally, brand equity results in superior performance, that is, the ability to earn long-term economic profits. Two key indicators of a brand’s ability to earn economic profits over the long run are brand loyalty and the ability to command a price premium” (Fig. 4)

Even if, during time, many authors tried to emphasize a specific tool used in order to measure brand equity, there has not been universally accepted yet a method for measuring it. This is given to the fact that both tangible assets –measured through the quantitative equity values- and intangible ones –measured through the qualitative equity



values, emphasized by the consumer's perspective- need to be counted. As being expected, the qualitative elements (brand capital) –such as mental associations, awareness, differentiation, customer loyalty- are difficult to measure. Because of this, both authors and practitioners tend to take a more qualitative approach regarding brand equity.

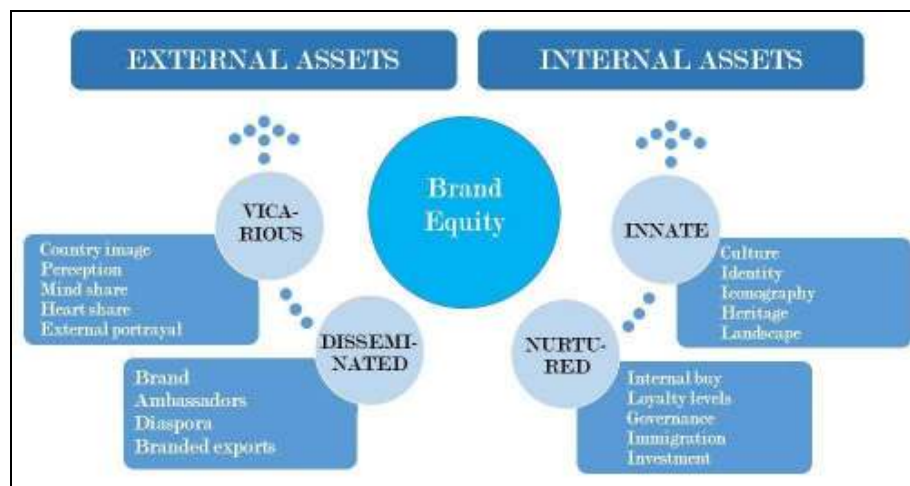


**Fig. 4. Managing brand equity**

Source: [Chiranjeev Kohli](#) and [Lance Leuthesser](#), *Brand equity: capitalizing on intellectual capital*, available online at <http://iveybusinessjournal.com/topics/the-organization/brand-equity-capitalizing-on-intellectual-capital#.VASP-6MasYs>

Also, brand equity is widely described as being the value of the brand; what we need to know is that it has two different perspectives, given by the internal and external assets that form it (Fig. 5).

Perceived from two different perspectives, brand equity requires a holistic view: from *customer perspective* (individual of different and multiple audiences, like potential tourists, investors, employees, students, domestic and international consumers), we need to take into account: the awareness of that specific brand, the image, quality and uniqueness that characterize the specific country, the differential effect that the brand itself has on tourists and investors, their insights and feelings, the ideas and thoughts generated by the brand itself, visitors' visual manifestations and the representative constituents of what is being branded: imagery, iconography, culture, heritage, landscape etc., the nation's flag and/or anthem, the inhabitants' standard of living, the currency and the attachment towards nation brand loyalty. From *financial perspective*, practitioners in the field need to attach a financial value to the brand using methods based on brand's historic costs (investments that have been made until the present time), replacement costs (the cost of creating an equivalent brand) and on future earnings – future cash flows associated with the nation brand (Keith, 2008).



**Fig. 5. Brand equity within nation branding process: internal and external assets**

Source: composed by author according to Lahili R., *An effort to understand Nation Branding*, available online at <http://www.slideshare.net/RupaLahiri1/thesis-on-national-branding>



These being said, is quite easy to understand why there is so difficult for authors/practitioners to find a general accepted formula in order to calculate the value of brand equity in nation brands. Even so, specialists like Branding Consultancy Interbrand (100 Top Brands published by Business Week magazine) or Simon Anholt use different methods for identifying the financial value of a nation brand. For instance, Interbrand uses a method based on the future cash flow technique, while S. Anholt uses the Royalty Relief Method, helping the governments to cultivate their nation-brands in an increasingly globalized economy. Considering this, National Brands Index gives “a sense of the real contribution of the brand to the nation’s economy” (Anholt, 2007).

Based on this, he developed the *Good Country Index*, which, as the author states on his website, intends to “measure what each country on earth contributes to the common good of humanity, and what it takes away. Using a wide range of data from the U.N. and other international organisations, we have given each country a balance-sheet to show at a glance whether it is a net creditor to mankind, a burden on the planet, or something in between. It is important to explain that we are not making any moral judgments about countries. What I mean by a *Good Country* is something much simpler: it is a country that contributes to the greater good” (Anholt, <http://www.goodcountry.org/overall>).

Given all this, it is easy to understand why, over time, practitioners and scientists have not reached to a consensus regarding the nation brand’s objective financial assessment. However, extensive research in the field of nation branding allows evaluation from different perspectives, but it is certain that complex researches need to be done before establishing an universally accepted valuation method.

## **5. Conclusion**

Considering all the above, for understanding, managing and evaluating a nation brand’s capital as good as possible, the slight difference between brand equity and brand capital needs to be emphasized. Being focused on the identification of a structured flowchart through which the process of nation branding -and the brand capital itself- are to be perceived as holistic concepts, integrator and inter-correlated ones, easily understood, the authors tried to resume the entire process of revealing nation brand’s capital in Fig. 6.

Considering that the brand capital refers mainly to the assets of the brand, being constituted by the qualitative values that form the brand equity and, together with the strength of the brand, it forms the brand equity (translated into the present and future added profits created by the brand), it now seems easier to understand why practitioners in the field could not agree regarding a single method of measuring/evaluating a nation brand’s value.

Even within this context, the difference between the two approached concepts (“brand capital” and “brand equity”) needed to be emphasized, considering the fact that, usually, there is some confusion about their meaning and interpretation - either based on the translation/language conversion, either based on misinterpretation. Regardless of reason, is to be noted that the analyzed terms construct only a partial synonyms pair.

## **6. Acknowledgement**

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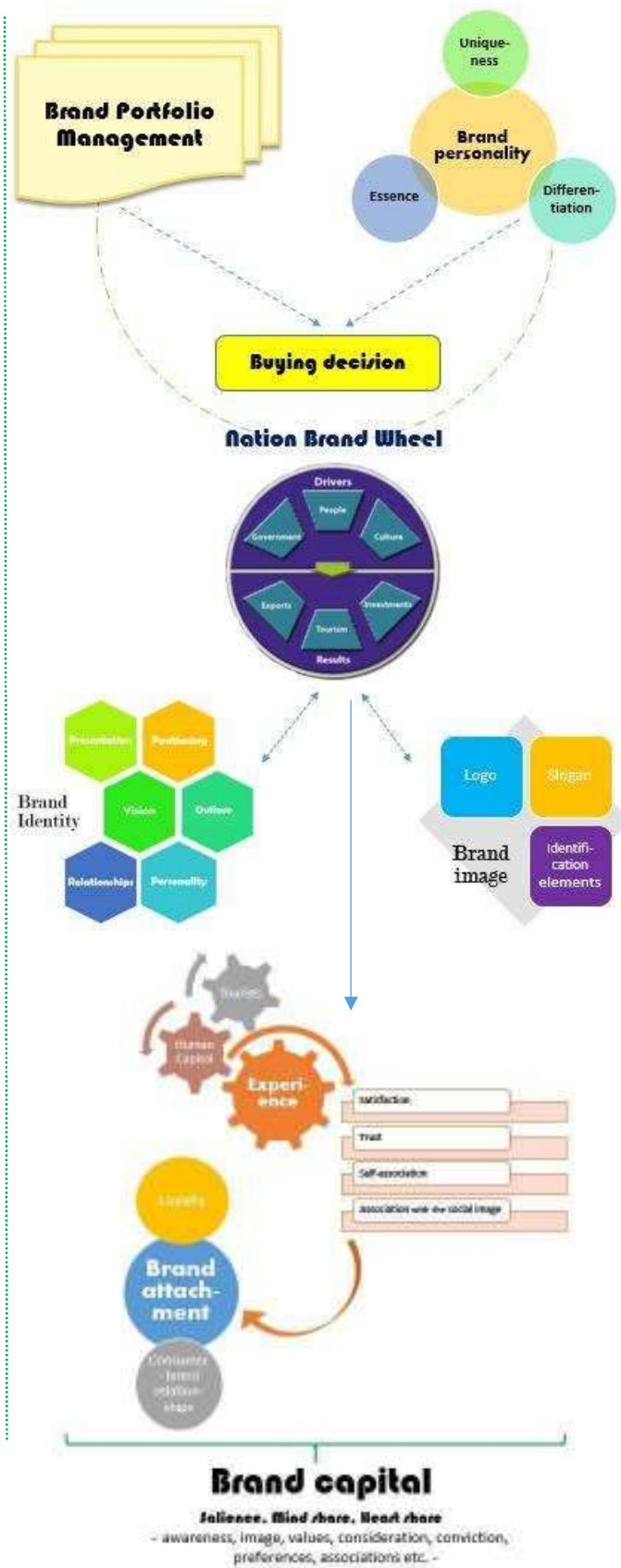


Fig. 6 – Brand capital within the nation branding process

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# DEEPENING SOCIAL INEQUALITIES AND SLOWING DOWN ECONOMIC GROWTH DUE TO CORRUPTION, UNDERGROUND ECONOMY AND TAX EVASION

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*The best knowledge is the one that gives you power to fight against the ignorance*  
Pythagoras, Greek philosopher and mathematician,  
n. [580 î.Hr.](#) - d. [495 î.Hr.](#)

## Abstract:

*The article highlights some sources of inequalities in a globalized world which does not only generate positive impact. In the event it is mismanaged, globalization can give life to a mechanism facilitating tax evasion and, in the same time, ensuring for a small group of individuals, a power position not only when negotiating inside a company but also across the political life of a society. Moreover, the most important traits of corruption and underground economy are marked out in relation to the deepening of social inequality in Romania. These negative phenomena are also present due to the malfunctioning of the market, strengthened monopolies, hindered competition and excessive use of asymmetric information. In the current context of an economic and financial crisis, one much linked to trust, phenomena such as corruption, underground economy and tax evasion have become omnipresent, hot topics in both Romania and Europe. This is how the economy is taken over and significant resources of the public budget are missed by the state. The consequences are severe and can lead to incapacity to ensure a decent standard of living and ultimately social peace. A continuous attempt to curb these phenomena could and should be a priority and a method to settle the public financial equilibrium in Europe and in Romania in particular.*

**Keywords:** *trust, economic crisis, underground economy, corruption.*

## 1. Introduction

The current economic and financial crisis may seriously affect, or restore the strength of the current democracy values, of human rights and the rule of law in many states, either by associating the current crisis with a crisis of Western-style democratic system, either by imposing any conditionality of Western-style democracy, to emerging powers, which are generators, at a different scale than ever before, of attractive resources.

One aspect, which must be regarded with a special attention is the relevance of human behavior's morality, in the area where the society has invested its highest confidence - the financial system. In fact all measures related to the regulation and supervision of financial markets hide, finally, the concern about this crisis' causes, less commented but crucial to what we call the confidence crisis. The crisis has unveiled the doubt about morality, the antithesis between greed and integrity, because what the risk's propensity is related is the appetite to win! If some people have it, why should others abstain? But forcing good luck, either in the real economy or in the financial economy is slipping from integrity to greed, the last one unfortunately prevailing. Does this sliding, marked by the financial crisis of 2007 can not raise a culture issue in the broadest sense, affecting moral values?

We want to remember that the great economist Adam Smith wrote his famous study "Wealth of Nations" when he was dean for moral philosophy at Glasgow University.

George Friedman, from the "geopolitics Intelligence Report" says that the economy can not be considered an independent science, but is closely related to politics, which means its approach from a moral perspective. After all, the wealth of a nation is based on

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the two pillars represented by the economic and the politics, whose decryption resorts to the assumptions about human nature and good behavior. We believe that the analysis of the current crisis can not ignore the human nature, which raises again the issue of unifying the subject and object in economic theory.

Admitting the hypothesis that a crisis can produce cultural changes, in the broadest sense, we must seek by default viewpoints from other professions about the nature and the crisis' manifestation. If the economy is the result of human action undissociated by the human nature and behavior and if cultural changes can generate new philosophical ideas, than the philosophers and historians opinion it is absolutely necessary. When crisis faces us with the doubt about the moral values of individuals, blinded by an exuberant attraction to risk, as side of greed, then an opinion of theologians seems necessary. From the perspective of the alleged multiple effects of the current crisis, having different nature, regarded as the world order resetting argument, the answer must appeal to a multidisciplinary approach effort.

But, the extension in time of crisis, despite significant political and financial efforts already made for its cleaning, leads many political analysts to construct the most unreliable scenarios. The probability that the world be thrown into a political chaos, similar to the 30s one, of the last century, seems to be great. The chaos expected for a not too distant future has an economic source, meaning either the disability of financial resources insurance or the ineffective spent of financial resources, with the risk of increasing social insecurity, which implies the necessity of a power intervention. In what form? It is not difficult to guess, at least for that part of the world where state interventionism inertia has not disappeared yet.

## **2. Corruption undermines confidence in economy**

Generally, corruption makes its way on the background of development issues and finds a fertile ground in situations of transition from one form of organization to another, indicating the existence of a malfunction. More complicated are cases where political corruption meets the administrative and bureaucratic one, being the most visible and dangerous when is supported by specific conditions of political competition, of a slowly and uneven economic development and an underdeveloped civil society.

Political and administrative or bureaucratic corruption have slightly different characteristics, but both are in fact serious cases, becoming extremely destructive phenomena when are combined and when they meet in an organized, ubiquitous and monopolistic form.

Corruption, because this destructive disease is found in an organized form when there is internal coordination, transmission and exchange of information and benefits, facilitates the existence of internal savings, which is not always visible, known as the informal economy, black or underground economy, linking leaders of performers.

In a country corruption can have a very wide range of distribution, being found at substructures-levels too, so there are few alternatives to tackle corrupt officials issue, which gives its ubiquitous status.

From the political corruption can recall situations where acts centrally acts as laws, decrees, government orders, government decisions and local decisions such as local councils decisions, mayor provisions, are promoted and adopted taking into account the personal and group interests of political structures representatives.

There were plenty of situations in wich through legislation voted by politicians, were advantaged companies, firms or individuals to provide services, deliver goods, to be assigned preferential operating licenses, to be leased in a doubtful way services of local public interest, to unclearly returne property, all those without being followed by serious investigations to clarify the situation.

A very common form of corruption, mainly seen when citizens interact with government when they apply for permits, licenses, certificates, approvals, represent the bureaucratic one, and it's specific for the countries and economies moving from one organization system to another or during their transition's period.

If we add the decisive and almost inconceivable influence of political factors in appointing heads of central and local government, then we could understand the existence of the mechanism of propagation, maintenance and manifestation of corruption, and its endemic nature.

There were many situations where the access exams in some decision-making of the state have been hit by corrupt practices or by modified tests, or by changing the conditions for participation therein, in order to reduce or annihilate the competition of course with seriously impaired result. What followed is understandable, people came in such positions eliminated potential competitors in those structures, imposing their well known practices.

In these circumstances it is hardly conceivable that highly trained young people will be able to find a place in the central state or local government, or those who still have their place, are usually subjected to pressure from those who got unfairly and dishonestly these functions, which stills propagate dishonesty, evil deeds, almost unbearable to those who enter in the system correctly.

Those who resist and continue the fight could be considered rare flowers, fruit trees in a field covered with weeds. These rare flowers and fruit trees, although are found in small number, are the true followers of good works spreading.

It seems that in our time the parables are missing. In the old days, when there were difficulties and everyone was trying to follow the other one, evil and indifference could not find their place. Back then there were many virtue parables, but as I said there were difficulties, and people became united to overcome them. Therefore one can note that the careless one could not remain among the best because it was crawling taken from them, but today the vice versa is becoming valid. It would be better to heed the wise teachings of **Venerable Paisie Aghiorîtul**<sup>1</sup> so beautiful exposed in his spiritual work *Spiritual words I, with pain and love for contemporary man*<sup>2</sup> where he shows "... I remember once, in Thessaloniki, waiting at traffic lights to pass from one sidewalk to the other. At one point I felt like a wave that pushed me forwards, because everyone went in that direction. As soon as I raised my foot, I have forwarded. I mean to say that when all people go to one side and one would not want to go though, he couldn't not to go because it is lead by the others. Today, if someone wants to live honestly and spiritually, no longer fits the world, it's hard. And if you do not take heed, you will go down the path of worldliness. Once was more good, more virtue, as well as the parables and the evil was drown in good and the little disarray that exists in the world or in monasteries, not see, nor hurt. But what happens now? Example hurt much, and the little good that exists is despised. Now the contrary is used: some good drowns in evil and so much evil reigns. " Here he says too that "... We have to take good heed to it, because people have got contemporary, unfortunately, to a

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<sup>1</sup> Venerable Paisios (Greek Γέρον Παΐσιος ο Αγιορείτης, born Arsenios Eznepidis) (25 July 1924 - 12th July 1994) was an Orthodox father who lived at Mount Athos. It is buried in the monastery "St. John the Evangelist" in Suroti near Thessaloniki. Paisios is most famous for his spiritual teachings. Many people around the world, particularly in Greece and Russia, they greatly revered Paisios and is expected was formal canonization as a saint in the near future. He made many prophecies about World War III and end of the world, according [http://ro.wikipedia.org/wiki/Paisie\\_Aghioritul](http://ro.wikipedia.org/wiki/Paisie_Aghioritul). Paisios (Eznepidis) the Elder Paisios of Mount Athos (Greek: Γέροντας Παΐσιος ο Αγιορείτης) (25 July 1924-12 July 1994) the monastery of Mount Athos WAS. An ascetic, HE WAS known by His gentle manner and visitors for His acceptance of Those Who Came To receive His advice, counsel, and blessing. His words of counsel continue to be published, [http://orthodoxwiki.org/Paisios\\_%28Eznepidis%29](http://orthodoxwiki.org/Paisios_%28Eznepidis%29).

<sup>2</sup> Venerable Paisius Aghiorâtul - spiritual words I with grief and love for the contemporary man evangelismos Publishing House, Bucharest, 2012, p. 19-20.

*point, as they do soften laws and require the needy to comply ...".* After the Blessed Elder Paisios assessment, quoted above, the current times are not marked by peace and consensus, the saying that "*... his years traversing very heavy and very dangerous ...*"<sup>1</sup> anxiety being expressed by a number of economists and others in the world, feeling an increased pressure which urges us to attention, care and which is best resort to wisdom, and by appealing to the moral teachings of theologians note that opinion is essential, they urged us that the temperance, prudence, moderation can be reached by faith.

Corruption is seen as a complex, multi-structural and multidimensional phenomenon an economically, socially and politically phenomenon, whose complexity is determined by various factors, which can be grouped into economic, institutional, legal, political, social, educational and moral.

Regarding the **corruption's consequences**, official statistics and those provided by non-governmental organizations specialized in the field of scientific and socio-criminology research results, , law enforcement data, statistical data judicial and media draw the conclusion that corruption affected areas as: political and institutional, economic, judicial and law, training and education, social and medical assistance, investment and international trade, severely undermining state authority, citizens losing confidence in state institutions.

This phenomenon is generating tax evasion too, because the honest citizen or trader is not motivated to pay taxes seeing that the money collected in special funds and budget sources are spent badly and in an ineffective way. The economic impact of corruption is manifested in various ways.

The documents bureaucratic delay, the state's inability to provide manufacturers security, but also lobbying, protectionism, trading in influence, unfair competition, excessive government regulations and controls, affect the market economy mechanisms and free competition, discouraging potential investors and entrepreneurial initiative, lead to an increase of the public projects costs, to an economic efficiency loss, to tax evasion extend, reduce payments to the budget and economy development.

Social and political effects of corruption are manifested by functional, political and moral central and local authorities degradation, which is the result of the expansion of political corruption by reducing the competence of a transparent and accountable political, the impoverishment of the population and increasing social tension.

In the executive activity, corruption has the following effects: reduces the public administration's quality, a informal decision's system, tied links between organized crime and the corrupt officials and politicians etc.

The corruption effects externalizes in the international relations, manifested by the incompetent, irresponsible, provocative and conventional subjective behavior of persons in responsible positions, which in relations with foreign partners, promotes personal and corporate interests primarily, to the detriment of national interests, which irreparably undermines the country's image and credibility in its capacity as a partner of international relations.

In my opinion all those are due to the failing to adopt a prudent attitude from the part of decision makers or at streamlining the belief that deregulation would be a condition of development and increasing capital. Thus was heavily relied on increasing profitability elaborating development models and formulas, without taking into account the individual's behavior, its inclination towards greed, its trying by any means to obtain gain, regardless of the assumed risk, even by practicing and promoting attitudes that sustain the underground economy, tax evasion, maintaining it even through corruption.

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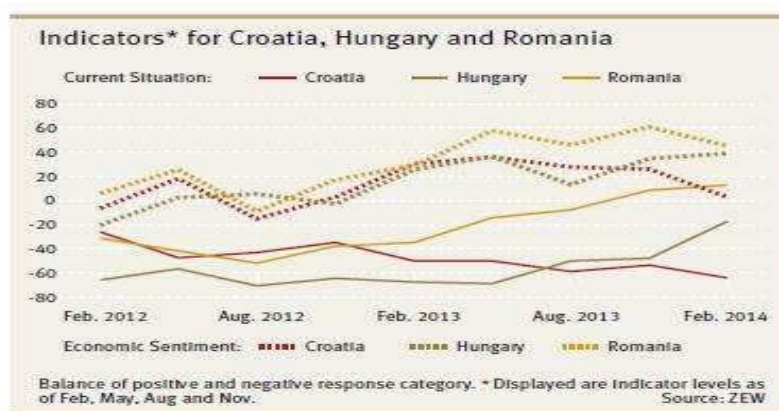
<sup>1</sup> Ibid. 2



To this is added the promotion to administrative or political decisions of some people to defend and support such practices, which in many cases support the incorrect legislation or appointments of poorly prepared people or blackmailed to support such negative phenomena.

Also such practices were extended to the judiciary, where appointments to various structures were marked by scandals, in which the media widely reported, but were seized international bodies such as European Union's structures. Along with obtaining the membership status in the European Union on 1 January 2007, when Bulgaria and Romania joined the European Union countries, these countries still had to solve certain objectives related to judicial reform to reduce corruption in state institutions and putting under control the organized crime. In order to help the two countries to resolve these serious problems, the European Union decided to establish a "*mechanism for cooperation and verification*" specially designed to ensure a harmonious joining process and also bringing protection for the policies and institutions. So starting December 2006, the European Commission has established a number of criteria ("benchmarks") for assessing progress in these areas. So in order to limit phenomena acknowledged mentioned above phenomena, was set the Mechanism for Cooperation and Verification that is a process that regular checks the progress that Romania and Bulgaria have in terms of judicial reform, corruption and organized crime. Since Romania has applied to join the Cooperation and Verification Mechanism, regular assessment processes occurring about the described above phenomena, so their progress is constantly monitorized, aiming to reduced those facts to a reasonable level. The latest Report from the Commission to the European Parliament and the Council, presented in Brussels on January 22, 2014, about progress in Romania<sup>1</sup>, noted some progress, but many efforts are needed especially regarding independence of the judiciary, reform of the judiciary, the integrity, the fight against corruption.

They result in decreasing confidence in the economy, so raising funds to support investments is complicated because of the increased risk, and when embodied is performed at high price, meaning high interest due to environmental uncertainty in the economy that is affected by corruption, shadow economy and tax evasion. The confidence evolution in the economies of the three countries neighboring Croatia, Hungary and Romania positioned our country in a better position, all though it has to take many efforts especially in some sectors vulnerable to corruption.



**Picture no. 1 Degree of confidence in the economy**

<sup>1</sup> Report from the Commission to the European Parliament and the Council on Progress in Romania under the Cooperation and Verification Mechanism, Brussels, 22.01.2014 COM (2014) 37 final, {SWD (2014) 37 final}, [http://ec.europa.eu/MCC/docs/com\\_2014\\_37\\_ro.pdf](http://ec.europa.eu/MCC/docs/com_2014_37_ro.pdf).



Confidence in the economy is measured by the ZEW indicator, ZEW investor sentiment (ZEW Economic Sentiment).

This indicator is published by Zentrum für Europäische Wirtschaftsforschung (Center for European Economic Research). The indicator expresses the institutional investor sentiment. Participants are asked if they feel optimistic or pessimistic about state investment and economic situation in the next six months. The indicator compares the percentage of investors who feel optimistic about the economy, to those who feel pessimistic and then those who do not expect any change. If 40% of investors are feeling optimistic about the economy, 30% are pessimistic, and 30% expect no change, the indicator will be 10. The investors feeling - particularly institutional investors - may affect general economic sense, such a positive trend in this indicator has a positive influence on the economy and the currency region.

### **3. Asymmetry of information can cause vulnerable areas to corruption in Romania**

Corruption in Romania has preoccupied long time our society undergoing a long process of transition from centralized economy, existing before the end of 1989, to the market economy, the process of continuous development today.

Corruption makes its way on the background of development issues and find a fertile ground in situations of transition from one form of organization to another, society and economy, indicating the existence of a malfunction. More complicated are cases where political corruption meets the administrative and bureaucratic one, it is the most visible and dangerous when is supported by specific conditions of political competition, by a slowly and uneven economic development and underdeveloped civil society.

Political and administrative or bureaucratic corruption have slightly different characteristics, but both are in fact serious cases, becoming extremely destructive phenomena when are combined and when they meet in an organized, ubiquitous and monopolistic form.

The fact that some individuals, some entities have a number of privileged information in the competitive processes positioned them from the start as winners.

Information asymmetry is an approach that has been brought to the forefront of prestigious economists like George Akerlof, Michael Spence and Joseph Stiglitz who won the Nobel Prize for analysis of markets with asymmetric information, may be an argument that this area should be carefully investigated towards different segments of the economy and because it's based on economic analysis might aim to optimize competitive strategies. The fact that business models based on the idea that access to information is perfect has been shown that are often inaccurate.

In daily life, some market participants have bilateral transactions and often use superior information, which is known as the information asymmetry.

By understanding this concept must be improved the way it is perceived the functioning of markets and it should be undertaken a theme that leads to optimize competitive strategies and especially in drawing attention to the importance of transparency.

So the concept of information asymmetry is not new it has its origins in the fact that one of the parties to a competition holds more information than the other one, it is known as the phenomenon of information asymmetry. The fact that it succeeds as a part of those who participate in the competition to have incorrectly more information than the other participants shows that for real the competition is not manifested, its place being taken by monopoly abuse.

Competition is the activity in which economic agents are engaged when they are bidding or offering goods competition of any kind on the market. It is a manifestation of

private initiative and reflects the specific interest of economic agents behavior, that through their actions and respecting the rules of the market game, always looking to gain maximum benefits.

Since resources are limited and have alternative uses it's needed a criterion for appropriate (effective) allocating. Further reactions of economic agents to changes of goods demand and supply conditions on the market or prices, provides such a criterion for the allocation and efficient use of other resources, essentially defining the role of competition. Competition stimulates economic performance and overall progress. It incites to creativity and innovation that leads to supply's diversifying and reducing costs, increasing overall economic efficiency and a better meeting the needs. Competition differentiates economic agents, favoring the creative and enterprising ones and eliminates or redirects the immobile and ineffective to other fields.

Logically, we can not compete without competitors or forbid them to take action to promote their interests and to maximize their results, then we promote inefficiency and ineffectiveness which is suppressing the best possible use of existing resources. Moreover, actually we destroy the self efficient economic activity, we place them in a weak position that causes destruction of the engines that provides the national economy growth.

The bid and competition offer has rules of the game that involves providing equal opportunities and freedom of action of economic agents, including the available information and control and use of their resources to promote their own interests. Specific competitive market economy system, characterized by the dominance of private ownership of resources is the free price formation process. Only in such an auction system to buy and offers to sell to competition interact to determine prices to guide the choices made by all economic agents, their behavior in the efficient use of economic resources and ultimately lead to economic growth.

In the administrative corruption a vulnerable area is that of public procurement of goods and works, often unnecessary, ineffective or exorbitantly priced, being noted the ineffective use of state resources. An increased vulnerability is found in the acquirement of some medical devices that can not be operated in the areas for which they were purchased, the purchase of construction works for which opportunity is being seriously questioned - land unsuitable sport locations, parks existing in forests at a large distance by the settlements, for wich is not provided security and so the facilities disappear or purchasing some of them dishonestly transactions suspected of impropriety and illegality, of course, with the complicity of state officials in public administration.

All these in the manifestation of an immoral, incorrectly and greedy behavior, that is unconsciously promoted.

Unfair practices that state resources are appropriated by some companies participating in procurement processes in conjunction with unpaid taxes to consolidated budget in all kinds of illegal or improper practices leading to social inequality in Romania.

This contributes to social insecurity increasing, economic sustainability endangering and finally leads to social tensions increasing.

#### **4. Conclusions and recommendations**

Eventually it has to be highlighted the importance of credible institutions has meant to fill gaps where governments are unable to provide accountability and to promote and protect the rights of citizens. These institutions include independent and vehement press, an independent judiciary, independent overseers such as ensuring financial control of the state, a functioning parliament, which is not influenced or controlled by the ruling party, and an executive or head of State decided to show good governance.

For the public procurement by the State to increase the transparency by involving in the process of procurement of civil society in the sense that the public procurement beyond a

certain value to be announced mandatory on the websites of acquiring institutions and the process to be transparent throughout over it. To be allocated for a sufficient period of time to allow binding and expression and publication of opinions regarding that acquisition of the interest and motivation of the acquisition committee appointed to decide that acquisition.

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# CROWDFUNDING PROMOTING – AN ALTERNATIVE FINANCING SOURCE FOR SOCIAL ENTREPRENEURSHIP

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## Abstract:

*Through crowdfunding an activity is financed by the contribution of a lot of people, initiators of innovative projects, people or organizations with beneficial ideas, coming to support the others, but who have no money for that, are put in contact with citizens, with thousands of users willing to support such proposals. Donors feel involved in the community and help to make a change.*

*This activity fits perfectly into the category which is recognized in practice and theory as "solidary economy", "the third sector of the economy" or "social entrepreneurship". In fact, it is a form of offering new and innovative solutions for older needs, proving its ability to contribute to satisfying some needs such as social, economic and environmental problems, which the countries of the world, their economies and population are confronting.*

**Keywords:** *entrepreneurs, crowdfunding, financing, social economy, life conditions, economic sector*

**JEL Classification:** A13

## 1. The social entrepreneurship, solution which is supporting vulnerable people

Although the contemporary idea of economy and social entrepreneurship is rooted in the socio-philosophical concepts which are specific to the nineteenth century, referring to three directions of ideological thought, respectively socialism, liberalism and Christian solidarity, only in the last decade it has been widely promoted and applied.

The motivation for passing in the foreground is related to the global crisis that mainly requires more effective economic solutions, including the labor market insertion.

It is well-known that the consecrated, traditional employment possibilities of capable persons and the increasing employment are no longer available. If for a person with no physical, social or any other problem, finding a job is getting harder, the situation for disadvantaged people is more difficult. Solutions are no longer viable, attractive, employees and employers are no longer satisfied.

A major constraint on growth is the low disposable level of income, which is derived from the structure of employment. Of the 8.365 million jobs in Romania, only 4 million are salaried. The very high level of independent activities (2.1 million, 25% of total employment) is rather associated with subsistence agriculture and with the lack of alternatives, than with entrepreneurship. Other 1.4 million (20% of total employment) represent unpaid family activities, a category that in more developed EU economies are barely mentioned. Over the past ten years the growth has been more tilted to Bucharest - Ilfov Development Region, which became the main functioning market economy, with a mixture of jobs in manufacturing and services and a GDP per capita exceeding EU average. ([http://www.fonduri-ue.ro/res/filepicker\\_users/cd25a597fd-62/2014-2020/acord-parteneriat/AP-10.02.2014.RO.pdf](http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/2014-2020/acord-parteneriat/AP-10.02.2014.RO.pdf))

It is probable for vulnerable individuals to remain captive in the social assistance system, for those, entering or reintegrating into the labor market being very less possible. The state hardly copes with the financial burden, which is required to support this system, with a constantly growing number of assistants.

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There are also included people who are out of the system, but who don't have appropriate sources of income.

Thus, there is a chance for the social economy to provide opportunities to obtain employment and reduce social exclusion. In our country, the number of private organizations activating in the social economy has considerably grown during the transition period: 2,000 cooperatives, 3,000 mutual benefit societies of employees and retirees and 20,000 other non-governmental organizations active in all areas of the national economy. From these, according to experts, over 3,000 achieve regular economic activities, meeting the criteria to be classified as social economy enterprises, many of them created workshops protected units for employment of persons with disabilities and 2,000 provide social and employment services, including work integration of disadvantaged people in Romania. (Elena Enache, Cristian Morozan, 2013).

The future is associated with the idea of corporate social responsibility - CSR, which refers to the inclusion of social and environmental issues in the business, to the simultaneous solution of several issues related to customer satisfaction on one hand and expectations of other categories (employees, providers and community residents in general), on the other hand.

Romania is the 11th state that has signed with the European Commission the Partnership Agreement 2014 - 2020 ([www.fonduri-ue.ro](http://www.fonduri-ue.ro)). The Ministry of European Funds (MFE) in our country aims through the Agreement 11 thematic objectives funded by the five large funds (ERDF, ESF, CF, EAFRD, EMFF), except for the territorial cooperation. The social economy is reflected as a priority in Objective 9: Promoting social inclusion and combating poverty or any other form of discrimination. Within this objective, Romania has aimed as a target to reduce by 580,000 the number of people in poverty in the 2008-2020 period. The financial allocation for this purpose amounts to 3.4 billion euros, of which ERDF 0.52, ESF 1.13 and EAFRD 1.75. We have the following priorities: Development of the social assistance system; Integration of vulnerable groups and communities, including the Roma; to support the social economy and social enterprises; to promote and support the national health reform.

The Ministry of European Funds has also sent to the European Commission the official versions of three programs through which Romania will attract European structural and investment funds in the period 2014 – 2020 including the social economy. These are: Human Capital Operational Programme, Competitiveness Operational Programme and Technical Assistance Operational Programme (<http://www.ies.org.ro/info-stiri/vrs/IDstire/999/t/antreprenoriatul-social-si-economia-soci>).

Social entrepreneurship and social economy are clearly reflected in the Human Capital Operational Programme, in the Investment Priority "Promoting social entrepreneurship and vocational integration in social enterprises and the social and Solidarity Economy in order to facilitated access to employment". The current version of the document considerably limits the spectrum of interventions. The expected results are:

- increasing the number of social economy entities / developing the existing entities;
- increasing the number of people employed in the social economy entities.

Actions will be aimed at providing support for the establishment of the insertion social enterprises. Social entrepreneurs will benefit from counseling / mentoring activities as well as training in the social field. In addition, there will be the possibility of accessing financial instruments (eg. In the form of micro-loans and guarantees for business development).

## **2. Definitions**

The social economy has become an important subject, from the academic debates or research studies to a European priority in the period 2014-2020. Europe aims to rethink

and reinvent economic and social models. Social enterprises are placed in the foreground and should become engines of change, of social innovation, of inclusive and sustainable economic growth. The potential of the social economy is recognized at an European level, thus the Social Business Initiative and the Strasbourg Declaration from 16-17 January 2014, practically creating the terms, starting and calling for action to promote and develop this sector(<http://www.yunussb.com/social-business>).

Recognized as "solidarity economy" or "the third economic sector" the social economy has proved its ability to contribute in an innovative way in satisfying certain needs of the social, economic and environmental challenges which the countries of the world, their economies and population are facing with. Those needs are either ignored or inadequately solved by the public and private sectors, which cannot find effective settlement possibilities.

The definitions were steadily developed, desiring to include as accurately as possible the content of this activity.

In 1990, Romania discovered the social economy in modern versions, along with the market economy.

The definition provided by the Walloon Council of Social Economy from Belgium shows that: the social economy „consists of the economic activities of companies, especially cooperatives, mutual societies and other associations in which ethics is consistent with the following principles: the ultimate goal is rather in the service of the members or the public, than for profit, management autonomy, democratic decision process, priority given in the income distribution to the people and labor over capital” ([http://www.encyclopedie-enligne.com/e/ec/economie\\_sociale.html](http://www.encyclopedie-enligne.com/e/ec/economie_sociale.html)).

After more than a decade, in 2002, at the European Permanent Conference of Cooperatives, Mutualities, Associations and Foundations a complete definition for the social economy was suggested as a result of its evolution: "Social economy organizations are economic and social actors, active in all sectors mainly characterized by their specific goals and form of entrepreneurship. The social economy includes organizations such as cooperatives, mutual societies, associations and foundations. These companies are particularly active in areas such as social protection, social services, health, banking, insurance, agricultural production, local services, education and training, culture, sport and recreation. " (<http://www.alternativesociale.ro>).

Muhammad Yunus, Nobel Peace Award winner, who is very familiar with this problem shows that the "definition of the social enterprise is very wide. A social enterprise can be any initiative to help people. The initiative can be economic, non-economic, that aims the profit or not. The distribution of free medicines to the poor can be a form of social enterprise. On the other hand, a social business is a special deal. It is a business with a social purpose, not monetary. It can be said that social business is a subset of social enterprises. " (<http://economie-sociala.org>).

A Social business is a cause-driven business. It must be financially sustainable and mission-oriented. The company must achieve its social objective and at the same time cover all costs through a revenue model. The success of the business is not measured by the amount of profit made in a given period, but through the impact of the business on people or the environment. Investments in social businesses purely support the accomplishment of a social objective, and an investor should desire no financial gain. In fact, in a social business, investors/owners can gradually retrieve the money invested, but cannot take any dividend beyond that point. In short, Social businesses are non-loss, non-dividend companies created to solve social or environmental problems. Examples of social objectives are: healthcare for the poor, housing for the poor, financial services for the poor, nutrition for malnourished children, safe drinking water, renewable energy, etc. (<http://www.yunussb.com/social-business>).

In summary, the social economy is a form of offering new, innovative solutions to older needs.

### **3. National legislation**

Unfortunately, Romania has no legislation specifically dedicated to this third sector yet, but there is a regulatory and public policy framework defined by a series of regulations governing the establishment and operation of social economy organizations (cooperatives, insurance and mutuality, mutual benefit societies, protected units, NGOs) (<http://www.ies.org.ro/resurse/legislatie>); laws governing business activity in general (Tax Code, the Public Procurement Act, etc.); legislation governing specific fields as social services and employment - labor insertion of people with disabilities or, more generally disadvantaged groups (sub-contracting, outsourcing procedures); special measures dedicated to the social economy provided by regulations or new types of social enterprises (businesses insertion, social cooperatives etc.).

Since the beginning of 2014, the Social Economy Act has been debated in specialized commissions of the Senate, and then reached the Chamber of Deputies, as decision forum. In its current form, the draft of Social Economy Law:

- will define for the first time the social economy, social enterprises and insertion social enterprises,
- will regulate how a social enterprise will be certificate and will receive the social mark or the mark of an insertion social enterprise,
- will define some generic support measures for insertion social enterprises.

The main concern of the organizations was that the law will not bring any concrete measures in support of those who are active in this field and, through a number of uncertainties, will perpetuate confusion in this area. Therefore, the Institute of Social Economy, the Insertion Social Enterprise Network - RISE Romania, various foundations and the National Association of Credit Unions of Employees - UNCARS drafted numerous amendments which, if they were adopted, would make the Social Economy Law to come more in support of the sector.

The SOPHRD Management Authority published, in order to clarify even partially the problems, the document called Specific Terms no. 168 "Developing the social economy", in which, the company involved in the social economy represents:

- a) any company owned and controlled entirely or partly (more than 50% ownership) by social economy organizations (associations, foundations, cooperatives, unions of employees and retirees) or
- b) any large enterprise or SME (micro, small or medium) according to the national legislation, which can prove, according to the line of business, that it operates in the market including the social domain, by making at least one of the following activities: providing social services, providing health services, providing services for education, providing jobs for people belonging to vulnerable groups. (<http://www.ies.org.ro/info-stiri/vrs/IDstire/992/t/ amposdru-transforma-intreprinderile-mari>).

### **4. Crowdfunding – o short overview**

It is an evolved form of fundraising, which eliminates the classic donation system and replaces it with a reward type methodology. The initiators of the project create around them a network whose members offer money in exchange for services or products generated by the project.

The principle is one known in Romania due to the successful campaign that was „Give one leu for the Athenaeum!”. Very often used in the common language, embedded

in the Romanians minds, it became virtually a saying, though sometimes it is not used in the proper sense.

Specifically, through crowdfunding an activity is financed activities by a lot of people, are put in contact originators of innovative projects, people and organizations with beneficial ideas that support our fellow men, but who have no money, with citizens, thousands of users willing to support such proposals. Donors feel involved in the community and help to make a change.

By making a comparison, from a point of view, crowdfunding looks like the support for an investment in the classical way: if there is a business idea that deserves to be realized, the first step is to identify a source of funding, an investor.

This can be a bank or a person which became "business angel".

But there are also two big differences. The first one is that instead of existing relationship with just one person or entity there it is getting in contact, a relationship with a lot of people easily converted to investors. The second one is the fact that it expects not cash profit, but significant social results.

In crowdfunding the competition exists, because there are many problems to be funded and transformed into projects, and money is not easy to get. The pressure is therefore on the promotional campaigns. It matters a lot how convincing they are to make someone provide the money. Crowdfunding expert, Sally Outlaw explains some of the basics that a promotional campaign needs (<http://ideideafacerei.manager.ro/articole/piata-marketing/poate-concura-campania-ta-crowdfunding-11007.html>):

- **getting interest from the media.** It is important for journalists to understand in order to send the right and motivating message, to explain why the idea is current;

- **producing a "must-watch pitch video"**. The requirements for this film are high: to be captivating, informative, but mainly short - to attract people for 30 to 60 seconds;

- **creating value.** A crowdfunding campaign is a negotiation, and the potential donor must be motivated to act from the beginning, to get something attractive that cannot be obtained elsewhere, to be convinced that his money goes to noble goals. It is required in besides to originality, sincerity and persuasion;

- **keeping interest.** This is necessary for both sides, both the applicant and the sponsor. But the first has greater obligations, starting with the continuity to obtain necessary funding to permanently inform the donor about the situation of the utilization of the money he or she invested. It is important that aid should not be forgotten, and the effect should be presented as a donor effort.

The most important strengths of crowdfunding activity are:

- **financing sources with medium or low effort.** Physical labor is not overwhelming, but intellectual work must give 100% yield. It depends both on the project and the initiator;

- **the social media power.** Today power means globalization, social networks that provide access to information with little financial effort, meaning Facebook, Twitter etc.;

- **safe distribution and promotion,** only that they entirely depend on raising money to create the final product.

As normal, we can identify some **weaknesses**:

- **reduction at a certain point of the power of social created network.** It is important to choose the target audience, to set the exact niche and to communicate within the network, thus creating fast, efficient and long lasting links;

- **the required sum cannot be very large.** Suspicions exist almost always about using large sums and the well-known solution in such cases is the bank loan;

- **the credibility of the final product.** The more credible the product is, the easier it is to raise funds;



- **equal opportunities of success or failure.** Therefore, a risk strategy and a backup plan must be developed;

- if **the reward system** is not well organized, there is the risk not to raise the required sum. Rewards must be personalized and differentiated, organized in a well implemented hierarchical structure. For example, for amounts of 100 lei, a shirt with a printed message is enough, but for 1,000 lei it is needed more than a souvenir.

## 5. Romanian experiences

At the end of 2013, the Institute of Social Economy, desiring to find new solutions, new themes for financing entrepreneurship and social economy oriented towards crowdfunding. IES has become one of the PotsiEu.ro crowdfunding platform supporters, which aims to finance, social entrepreneurship initiatives in particular.

**PotsiEu.ro** is a tool through which social entrepreneurs mobilized funding from individuals, in order to obtain the minimum capital needed to start a business that aims to solve social problems. By PotsiEu.ro safe and transparency conditions are guaranteed.

Supporters of a campaign choose between the rewards offered by the initiators and contribute to its corresponding amount, thus having the opportunity to do good things with minimal effort, and at the same time, to receive a product or service that they want. They are involved and help to solve a problem that matters to the community.

Among the projects on this platform lists:

- **the Entrance of the cello:** creative Center of cultural and urban expression, funded with 7638.02 lei, by 99 supporters; Specifically, they were built from recycled materials an eco- pavilion and a summer garden for organizing various events: educational activities, creative recycling workshops, exhibitions and other socio-cultural activities.

- **Homefest Campaign,** a cultural event with 20 shows that takes place in the houses of the people of Bucharest, willing to temporarily transform their living space into an open art one. It was funded with 7190.16 lei, by 77 supporters.

- **Yes we can!** Five technology high schools with weak results to baccalaureate were selected, the Zburd program - Education through coaching was added, and they were activated by volunteering for over a year. The graduation rate has doubled or even tripled in these high schools from Bucharest, Sibiu, Braşov, Iaşi and Câmpulung (compared to the 20 % nationally increase average)! The 67 supporters contributed with 29,520 lei.

Another example is the platform **Sosisesa.ro** - Sociability, Sympathy, Service, Rescue which, since 1996, raises money and uses it to integrate into society the poor, marginalized, disabled people etc.

Among the projects we mentioned:

- **"Cleaning brings Smiles".** A considerable quantity of automatic detergent was donated to: Center for Elders "Cuvioasa Paraschiva" Bucharest; National Institute of Infectious Diseases "Matei Bals" Bucharest; Hostel for elderly persons - Periş, Ilfov; National Sports Complex "Nicholae Navasart" Snagov, Ilfov; Placement Center Tâncăbeşti - Snagov, Ilfov; Municipal Hospital - Olteniţa, Călăraşi; Centre for Elders "Sf. Gheorghe" - Olteniţa, Călăraşi; City Hospital - Găeşti, Dâmboviţa; Placement Centre for Children with Disabilities - Găeşti, Dâmboviţa and other locations;

- **"I want to go to school!"** Every year, fully equipped school bags are provided to children from placement centers or from dysfunctional families, with low incomes.

## 6. Conclusions

All around us there are more and more problems of ordinary people or the environment, for which is seeking a solution. The market economy is based on profit, so

businessmen are not willing to support what the state is unable to provide: a decent life, public health, environmental cleanliness etc.

There are always solutions, one of them being crowdfunding or crowdsourcing.

It is that accessible way to do something for ordinary people, using that ordinary people's money, who understand that the expected "money from heaven" is an illusion!

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# THE ANALYSIS OF TOURIST CONSUMER'S PERCEPTION ON THE IMPORTANCE OF COMMERCIAL IN TOURISM

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## Abstract:

*The demarcation of perceptions with regard to ad's role in tourism means a typical process for contouring the positioning of tourism's product promoted in consumer's mind. For this reason, the construction of tourist commercials as a function of consumers' perceptions, but also the relationship which they have, reported to experience sensations that make up tourist, is essential in building a positive tourist images. In this respect, it has been carried out a quantitative marketing research, on a sample of 63 respondents, with the aim of knowing the perception against the main sources of information in the purchasing tourist product, the degree of involvement in the search for information on the tourist's product, the commercial influence on the promotion of tourist destinations, the main supports of the ad where they take over the information, the degree of involvement by type of advertising, sufficient information presented in a report, the relationship between the quality of ad's decision and the inspection, the elements which help to distinguish better the information on a tourist destination and the impact of provided informations by advertising about a tourist destination.*

**JEL Classification:** L83, M31, M37

## 1.Introduction

The open borders, the decrease of transport costs, the emergence of a culture of leisure and entertainment, advanced communication and social media have determined, in the past few years, the rapid growth of tourism activity. The OMT, international tourist arrivals reached 1087 million in 2013 (as compared to 25 million in 1950). Tourism ranks 4 in the top of the most traded goods and services in the world (after fuel industries, chemical products and auto products) and represented 30% of world exports of commercial services (UNWTO, 2014). As a result, tourism has become one of the sectors of export with the fastest growing, the main generator of jobs, income and local taxes for destinations.

This extremely rapid increase of tourism activity involves a strong competition between the different tourist entities which offers a wide range of products, in relation to natural conditions, cultural, economic or specific policy. The competitive environment at global level requires a management of these entities, efforts to promote in order to create a portfolio of attractive tourist products to potential tourists.

Tourism sector is a heterogeneous sector, with a wide variety of travel products (Matias et al, 2011) and, of course, only a strategic policy supported by advanced marketing tools, e-tourism technology, awareness campaigns to the environment and a very good conceived advertisement, may respond effectively to consumer requirements tour (Wall and Mathieson, 2006). On the other hand, the transformation process of tourism in a mass phenomenon, which started in the mid of the twentieth century, has led to tourism demand segmentation, depending on different criteria (nationality, cultural environment, social status or education, incentives, etc.). Duality of this process - the heterogeneity of tourist products and the segmenting of tourists determine a pretty fierce competition between tourist entities to attract potential tourists, increasing the level of competitiveness of entities. To meet various customer segments of the population it is necessary that the offer to include tourism products with as many attributes that provides utility.

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Communication and marketing are two important modern tools to direct tourist flows to certain domestic tourism products, being considered as basic competitive weapons: to inform potential customers about the benefits of a particular product tourism and, at the same time, to create a sense of loyalty.

## **2. The methodology of research**

The methodology of research is based on two main steps: 1. Identification and selection of information required by the literature; 2. carrying out an investigation and processing of results. From literature we've selected items, such as: the information that center section in the planning holidays, and advertising as a tool for the transmission of the information. Subsequently frame identification and analysis conceptually, we have made a research on quantitative perception tourists on the importance of a commercial tourist product.

## **3. Information-central element for holiday planning**

An effective strategy of distribution of information is important to the success of any product tourism project. Information proved to have a significant influence on the choice tourist product, as a result, the sources of information are essential for tourists when they want to plan vacation. For this reason, marketerii must ensure that developing an effective strategy for the provision of information to their target audiences (Shanka & Taylor, 2004). The information is the first connecting element of potential consumer and the entity providing tourist services (Buhalis, 2001), is the one that attracts the visitor into the product (Hall, O'Sullivan, and O'Sullivan, 2003) by creating Staying motivated the travel and offering a convincing support for a purchasing decision (Smith K. A. , 2008).

Potential customers can access the various sources of information for domestic tourism products which are untouched, and they can only be tested in advance. They can access information in order to increase your knowledge of products and tourist destinations in the early stages of the buying process (Bieger & Læsser, 2000).

For holiday planning and tourists use different sources of information (under quantitative and qualitative aspect). Searching for information starts in consumer memory. If any of the information found in the internal memory are considered to be sufficient for abuse than potential, then there is no need to search for, but, usually, there is a search for the continue external information.

Consumers looking for information from various sources that will help you to plan the process of consumption better, so as to reduce the level of risk perceived (Murray, 1991).

Information sources may come from the non-media (institutional, brochures, travel agents and internet) sources and mass-media (advertising, reports media). Travel Organizations produce information sources in non-media, in general, at the local level. Mass media refers to sources of information which are transmitting at national level by television, the press or radio. This dichotomy is based on the assumption that consumers can reach information in two ways: either in active mode and non-active (Midgley, Dowling, & Morrison, 1989). In the first case, and tourists looking for information for a purpose: to reduce uncertainty testing with the new product (Kotler & Armstrong, 1998). They seek through brochures, go to travel agencies or search for information on the Internet to gather its own information about destinations. In the case of information from sources mass-media, consumers do not require the information (Seabra et al, 2007), they receive in earth messages while read the newspaper, looked to the TV or listen to radio (Gensch, 1970 ; Newman & Staelin, 1973).

Fodness & Murray (1999) have defined sources as: personal sources (family, friends, colleagues) , commercial sources (advertising, tourist agents, dealers) and public sources (websites with impressions, comments, opinions about the different entities touristic, blogs focusing on tourism). Beatty and Smith (1987, quoted in Crotts, 1999) has defined four

basic categories of information sources for consumers: personal advice from friends and relatives), the market (brochures, advertisements), neutral (travel agencies, travel guides and sources experientale (previous visits).

Over time, on the basis of some market researches, have been drafted different demographic features of travellers related to the behavior in searching for information (tab.no. 1)

**Tab. no.1 - Demographic features of travellers related to the behavior in searching for information**

Gitelson & Crompton, 1983	People with education above average looking for information about a tourist destination in the literature
Woodside & Ronkainen, 1980	People from the class with a higher socio-economic level who often use the Internet
Seabra et al., 2007	Elderly persons use most likely a travel agent for information
Capella & Greco, 1987	It is based on information from friends and close people
Raitz Şi Dakhil, 1989	Young persons may base on a larger volume of information, and those originating in large part from friends.

Destination's selection is very important in the decision taken by Lianas, therefore, understanding factors affecting the process of choice of decisions is significant for the travel industry (Molina A. et al. , 2010). In order to remain competitive in this industry, tourist entities should understand decision-making process of each category of tourist, depending on target markets on which acts (cost and Ferrone, 1995). There are differences in the process of research to pre-travel, when they are very careful in the choice of the destination, by searching for the information, in order to compare them with any other offers. Due to the nature of the intangible tourist product, has to be understood the search behavior of the information by tourists. Horses et al (2003) investigates the touristic information preferences, from the point of view both of the moment trip and as a source of information, as well as what is the impact of sources of information on the decision of the journey.

Vogt and Fesenmaier (1998) suggested four aspects that define the information's functionality:

- Purchase of product knowledge as a way to help consumers in the decision-making process;
- Increasing certainty that will benefit of a product which will bring the level of satisfaction, thus reducing risk of consumption;
- Information collection as a surplus of knowledge what spectrum won the consumer's cognitive potential;
- Consumer belief that will identify the most convenient choice, both in economic grounds and emotional nature.

They will conclude search when their knowledge is perceived as being sufficient and/or search costs exceed benefits.

#### **4. Communication by advertising - instrument for the transmission of the information**

Communication is of particular importance for the activity tourist entity whereas, by means of which are transmitted to potential consumers, information concerning the characteristics of the products/services offered, promoted brands, the events involving the entity as well as itself.

Among the preoccupations of their potential to provide tourists to know in detail the structure and the content of the products tourist and to foster a more compelling picture as possible with respect to the destinations of the holidays, tourist entitatile must ensure a complex and multiangle information to potential customers, according to the market

segments which it is addressed. At the same time, in their action initiated, account will be taken of the fact that the image of the product is also influenced by tourism promoted in particular by the quality (high degree of comfort, classification category) and diversity additional services, as well as the level of excitement of tourist objectives (natural resources, cultural).

A substantial bridging the means used in the tourism sector as a source of information, is a tourism advertising, which, by means of a joint between a harmonious text information and an illustration compulsive, through different forms of it (advertising via TV or radio, leaflets, brochures, catalogs, guides, and tourist maps, posters and billboards, advertisements in the press), allows you to view tourist products. It is considered to be one of the most influential sources of information for visitors potential and existing (Kim, Hwang, and Fesenmaier, 2005; Gretzel, Yuan, and Fesenmaier, 2000; USTA, 2011).

Through advertising, any entity of tourism proposes to identify target markets and preferences prospective customers which could become loyal consumers. To achieve this objective, the entity must carry out a constructive and consistent amount of all information which could be the basis for the determination of reaction product purchase tourist. Advertising is useful customer during the process of purchasing decision because he helps to eliminate or reduce the distrust in tourist product and at the same time to have the guarantee a high level of satisfaction by purchasing tourist product respectively.

Advertising in the tourism sector has a few basic features, which require a different approach as far as it is concerned:

- *It must represent the product in the tourism sector.* Because the product is intangible tourist, advertising should generate desire and acceptance in the absence tangible records. It substitutes the product until the time of consumption, and can add value tourist product.

- *It is seen as an activity for the construction of identity* for agents, tourist destinations, hotels or tourist objectives. Can be designed as a short-term activity (for a day, a week, a season or a year), but also in the medium or long term, in order to create an identity consistent and reliable.

- *Reduce the risk perceived* in purchasing a tourist product whereas for a holiday is required greater amounts of money (it is as a rule an investment planned with longer before); emotional involvement makes fear of failure to be greater than, causing many uncertainties with regard to the place of destination, accommodation, transport, the table, the program of entertainment, etc. In order to reduce these risks, use either discrete strategic design that has in view of each individual approach risk perceived, be global, which involves strengthening entity's identity, and confidence in its name, which is used as an umbrella for all business activities (Morgan N. ; Pritchard Annette, 2000).

- The strategy of designing a commercial *involves understanding how tourists shall take decisions*, so how long before decisions are taken to make tourism, which are steps taken, who is involved, when and how final decisions are taken, etc. In this case, it is found that two useful conceptual tools, namely: decision-making units, represented by existing users, persons of reference (friends, colleagues, the members of the club, etc. ), persons of reference for the media (writers of literature of travel, publishers), business decision makers (opinion leaders, etc. ) businessmen in the industry and buyers, who paid, and reference groups of which they are part the core family, extended family, friends, colleagues, business partners, etc.

- *Advertising and cultural constraints.* It involves a Direct mail marketing tourist cultural, a marketing destination code, of breeds of lifestyles, history etc, all transformed into "merchandise". Advertising tends to work with cultural cliches as long as they give reasons for tourist trips. Often, the difference between tourism image created and the reality seen by indigenous, causes voltages in that local people do not recognize it in those service packs (many times the reality be masked, because tourists, that any people, do not bear it always).

Advertisement product taking shape, it provides physical and emotional dimensions and adds value perceptually. The advert, whether it be in the form of the most complete - tourist booklet or folder, or that it is in a format printed or audio-visual in the media, sends key elements for image formation.

Most of the times they are able to give lots of information without a trace something through them. For this reason, commercial tourist objectives should follow classic of communication (Learn, Like, Do) respectively: learning objectives, targets and emotional behavioral objectives. After the pleasant commercial, tourist potential must be able to offer three benefits which they will have if it consumes the product: to describe the main facilities available and be familiar with their services, to know the operating schedules of objectives and what are the costs involved.

Emotional objectives are the most important in marketing, and they are more and more in the tourism project. These objectives make the visitor to feel that it will be a great viewing experience, nor can a miss; they may be the most easily achieved through the images.

Behavioral objectives, are the most important because they lead to purchase. Prospective tourists should be persuaded to visit its objectives, to make tours offer highly proposed to buy souvenirs, to tell others about what they have seen and get back in those places.

Tourism marketers must take into account the fact that an advertisement of quality can work miracles, that receive advertising message, target audience must retain the objective tourism promoted and that the ad must have a distinctive style to draw attention.

## **5. Quantitative research on tourists perception on the importance of a commercial tourist product**

Under the conditions in which tourist activity on national and international level has intensified in the last period, the battle between destinations is still more fierce, each trying to attract a higher number of tourists. In this context, most of the times, an activity of marketing efficiency is the one that makes the difference, and the promotion of a product becoming tourist not only relevant, but also mandatory. If operators in the tourism sector have in them this, tourists have, in many cases, different opinions and a different perception on the significance of the promotion they should take in tourist activity. Starting from this, we have made a research on tourists perception against the main sources of information in the purchasing tourist product, the degree of involvement in the search for information on the product the tourist, commercial influence on the promotion of tourist destinations, the main supports of the ad where I am taking over the information, the degree of involvement by type of advertising, sufficient information presented in a report, the relationship between the quality and commercial inspection decision, the elements that help them to levy better information on a tourist destination and the impact of the advertising information supplied about a tourist destination.

At the bottom of this research has been a study, in which it was used as a tool for working on a questionnaire structured and were used students as operators of an interview. Persons who undertake to search for information about destinations may be considered potential tourists and represents population of interest for this study. Therefore, the location for the attainment of this study was fair Tourism Bucharest, organized in the period 13-16 March 2014, the study will be absent on 100 people. Survey respondents were asked to express their opinion on advertising in tourism and to respond to a series of questions relating to it. It was considered that whether the sample is supported by the fact that all those who go to the fair of tourism are persons in search of information for possible destinations of the holidays. Sampling of the reference group was random, using a step mechanically in persons, i.e. from 5 to 5 persons, from the last was interviewed.

This research limits are related to the relatively small size of the sample (of Arad) as well as the fact that those who have visited the fair was for the most part with a higher education (almost 80 %).

Demographic profile of respondents showed that on the basis of sex, 42.5 percent are female and 57.7 % male. As regards age, 48% of the respondents were between 25 and 34 years, and 29% represent the segment between 35 and 44 years. Most of the respondents are unmarried - 51,2 % and only 34.9 % married. Respondents are highly educated: 77,8 % of them have higher education and 22.2% of them are high school graduates (v. Figure 1).

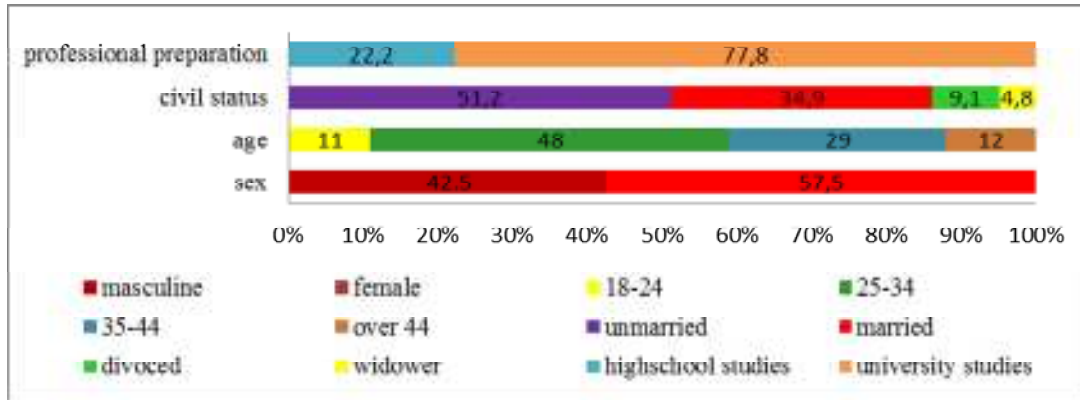


Fig. no. 1 - The structure of the investigated sample

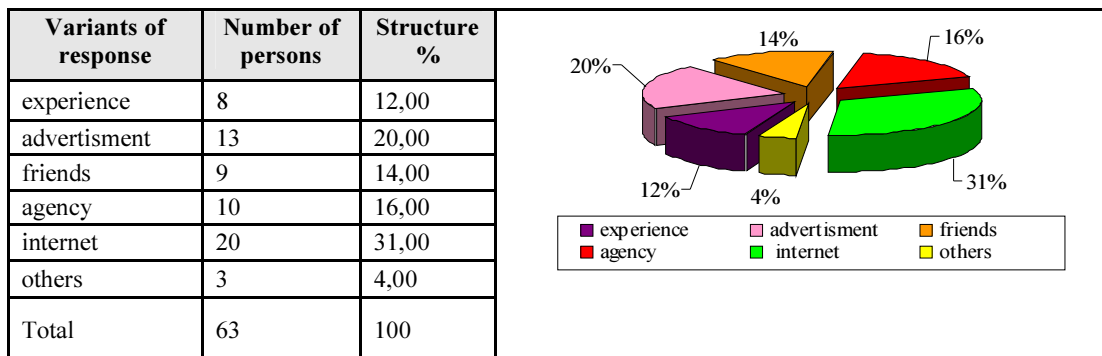


Fig.no. 2 – The distribution and structure of the respondents after the main sources of information in tourist purchase

For 31% of the respondents, the main source of information is the Internet as a result of much more easy accessibility of this source on different media (computer, laptop, tablet or phone) (v. Figure 2). Advertising is the option of 20% of persons, as the source of information considered to present the best benefits that you will get as a result of selection for those uses. It is noted that agencies, friends and experience have a weighted relatively close, but with a weighted respectable, on average 14 %.

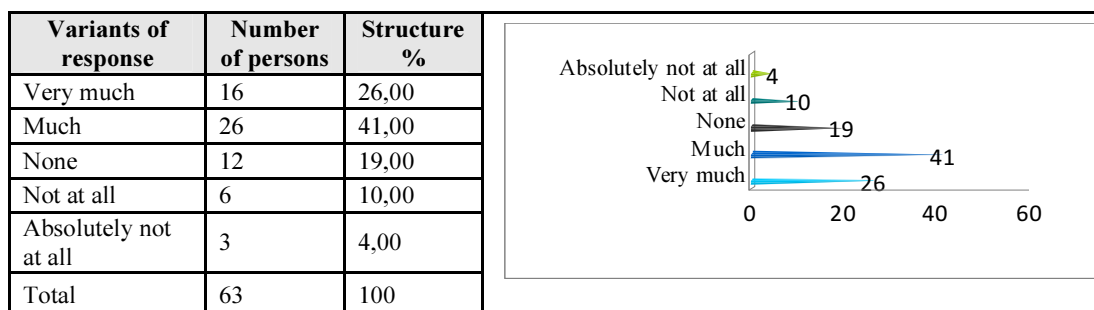
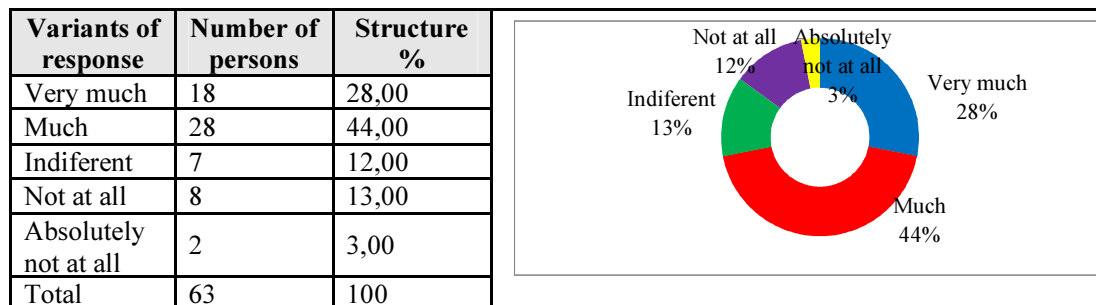


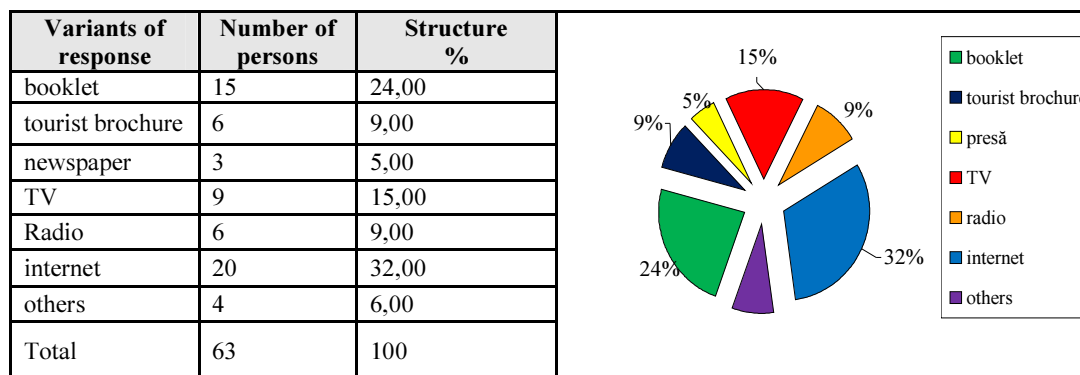
Fig.no. 3 – The distribution and structure of the respondents depending on the degree of involvement in search of tourist information on the product



Almost 70% of those who practice tourism prefer to get involved very much in his quest for information on destination, which means that Lianas became very carefully when planning holiday, especially because it is not a product of current consumption but also seek to satisfy higher order needs. Very few are those who don't get involved at all in the search for information, corresponding to 4 % (v. Figure 3). Probably the percentage on respondents who does not get involved at all, or hardly at all in the search for information relating to the product derived from tourist group core, in which this task it is for other members of the group membership.

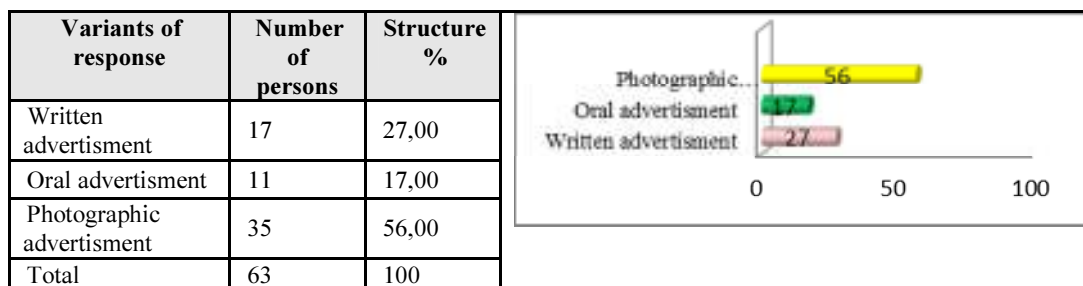


**Fig. no. 4 – The distribution and structure of the population surveyed after commercial influence on the promotion of tourist destinations**



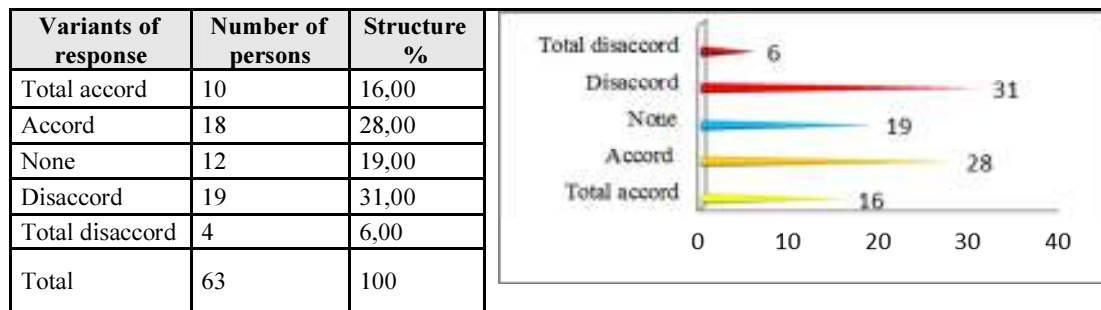
**Fig. no. 5 The distribution and structure of the respondents on the basis of the main supports of the ad where retrieves information**

More than 70% of the respondents are convinced that advertising has a considerable influence on the promotion of tourist destinations; only 15% considered that this would have no impact (v. Fig. 4). If main source of information is the Internet, it was expected that and the main instrument of tourist ad's to be all this, having about the same weight and in this case - 32 %. A weighted quite important matter, as a holder of information, has a brochure - 24 %, a large part of them being made by tour operators, travel agencies, hotels, etc. to provide information about concrete theme promoted (v. Fig. 5).



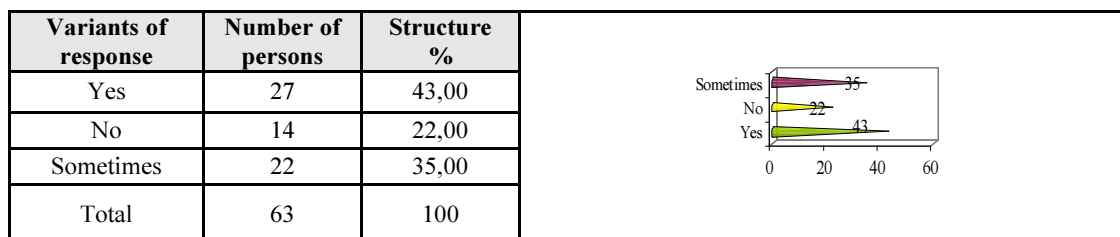
**Fig. no. 6 – The distribution and the structure of the respondents depending on the degree of involvement by type of advertising**

As it was expected, in the case photo ad, for 56% of the respondents, the degree of involvement is high, the photograph is the only language understood in all parts of the cosmos. 27% of the respondents are involved in studying advertising information provided by written and only 17% are involved in the case ad's written statements.



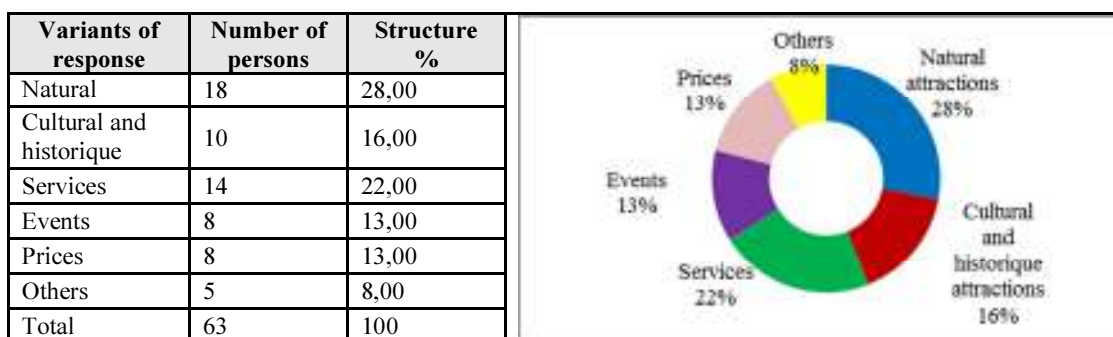
**Fig. no. 7 – The distribution and the structure of the respondents sufficient information submitted in adverts**

Information submitted in adverts are considered to be sufficient for about 44% of the respondents (v. Figure 7), which means that marketerii must think very well the strategy the design of ad. Let's not forget that an advertisement efficiency can only be achieved using a mix of staff from different areas: marketing, communication, photography and even consumers. Over a third of the respondents consider that the information submitted in the adverts are sufficient.



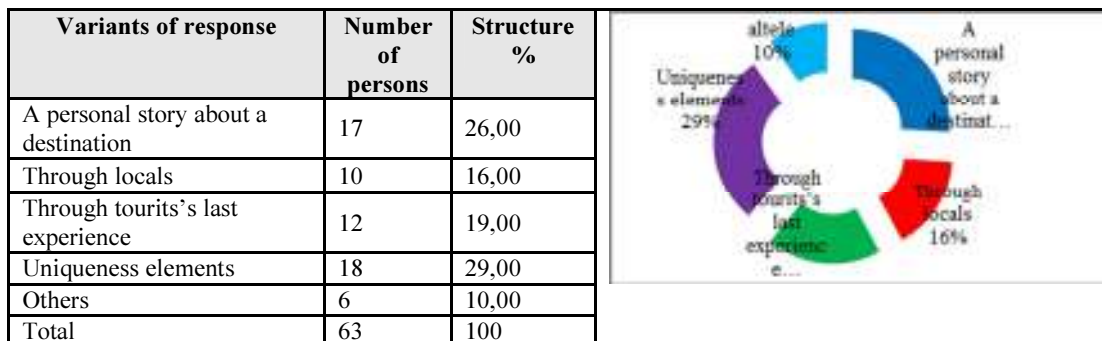
**Fig. no. 8 – The distribution and the structure of the respondents depending on the relationship between the quality of the ad's and decision sight**

In Figure 8 it is observed that more than 40% of the people surveyed say that there is a relationship between the quality and commercial decision to sightseeing, 35% respondents have chosen to answer option" sometimes", and 22% of those polled believe that there is no link between the quality and commercial decision to visit.



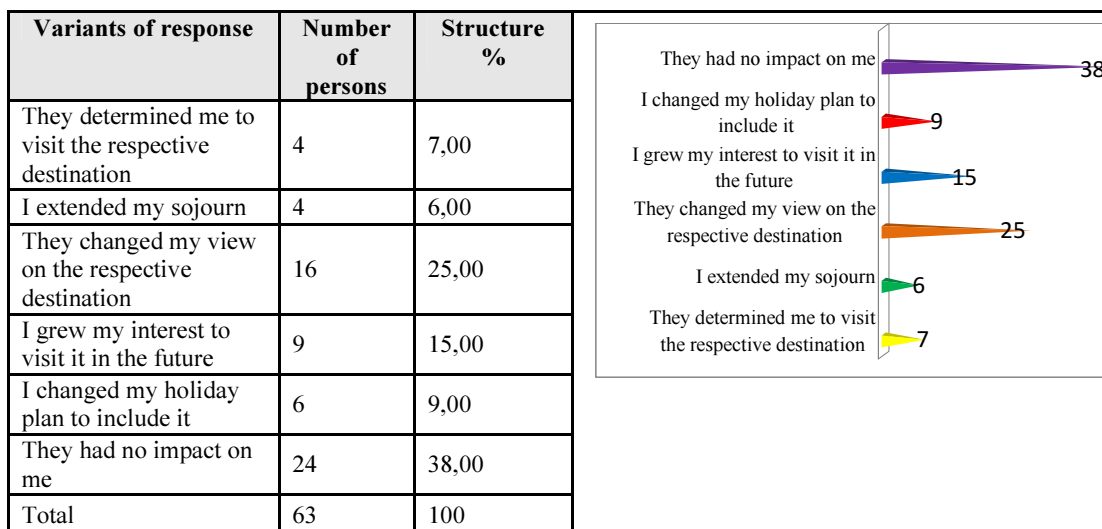
**Fig. no. 9 – The distribution and the structure of the respondents after essential elements of a destination which I am telling in adverts tourist**

Research shows that most respondents consider that items that can be transformed into images represents the main mobiluri to attract in adverts tourist attraction. According to the data in Figure 9, on the first place are natural highlights, followed by services and objectives cultural-historical. Prices and events shall be located at the same position, with 13 %.



**Fig. no. 10 - Distribution and structure of the respondents after elements which help to levy better information on a tourist destination**

Elements that offers originality destination are those that draw attention the most of the potential tourists (29 %), prompting them to levy much better information from an advertisement. A personal story about a destination constitutes a second item (26 %) which makes potential tourists to understand the information, because they are trying to transpose as characters in that story. A weight of 19% shows that past experience of tourists makes to better understand information, but in this case, we are talking of tourists experience, who have a culture of tourist services and who were very well tourist product. The villagers contribute to the extent of 16% to a better understanding of the information, they will be the ones which transpose the best specificity of site.



**Fig. no. 11 - Distribution and structure impact of the respondents after information provided by advertising about a tourist destination**

Information provided by an advertising determine only 7% to go to that destination, which means that 1 of 11 potential customers tranforma in customer actually. This percentage is not discouraging, taking also into account that according to some studies, ad's effectiveness by brochures, for example, is a sale 25 brochures distributed, but if it is a case of complex travel products, and the promotion is less expensive and then efecienta

must be higher (e.g. in the case addressed to cruises Germans, efficiency ratio is 1 to 5). It is also interesting that 9% shall amend the plan to include holiday destination tourist potential in the circuit, and 6% even he extended his sojourn. Tourism from the practice was deducted as tourists who consumes a stay extended, be benefited from a one-time promotional offer (e.g. pay 5 nights and stay 7), be visited and other destinations in the place where they have made his sojourn. On the 25% of them, that I determined to change his image of destination, which may have been negatively perceived or even have never been formed. But for the most part (38 % ), advertising has not had no impact, a fact that should make the marketer to shift their strategies to design commercial and to boot the essential elements that interest influencing the travel (uniqueness, history, local people and many times the price). The choice of these components is motivated by a desire cognitive dissonance of the people to get to know new places, new cultures but also of the possibilities reduced materials for many of those who consume tourism.

## 6. Conclusions

From the results of the research it has been found that most tourists are involved in searching for information when planning vacation, which is the main source of information is currently under the internet. Advertising may have a considerable influence on the promotion of tourist destinations, is involved so much more than in the case photo ad, and the information presented in an advertisement shall be deemed to be sufficient for half of the respondents. Also, there is a relationship between the quality and commercial decision to visit. Components which may be implemented in the images are the main mobiluri to attract in a tourism advertising, and, in the case of those who offer originality destination are those which draw attention to the largest of the potential tourists and that only 1 of 11 potential customers tranforma in customer actually.

In view of these results, tourist entities do not need to plan its work only on the co-ordinates of aggressive policy sales but also in combination with a policy-oriented concept of marketing, tourist interests which take precedence. As a result, sources of the information should contain information which confer authenticity for a worthwhile tourist potential, to induce emotional states to transpose into the atmosphere presented advertising and to reveal economic benefits of tourist consumption of the product.

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# ASPECTS OF SUSTAINABLE DEVELOPMENT OF THE TOURISM IN MEHEDINTI COUNTY IN TERMS OF QUALITY IMPROVEMENT

Roxana, Marinescu<sup>1</sup>

## **Abstract:**

*Tourism is an important component of the economic and social life of a country.*

*The importance of the role of tourism in the national economy is given by the complexity of this phenomenon, the scope of activities necessary for its emergence, maintenance and development.*

*Tourism plays an important role on the human level too, due to its positive effects for the tourists and also for the population of the host countries. For tourist, the tourism means creating conditions and opportunities for rest, relaxation, culture or getting in touch with other people, and for the local people tourism is a mean of raising the standards of living, improving the living conditions.*

*By its nature, the tourism represents an economic activity located at the crossroads of other branches.*

*In this tourism universe, the power of the consumer does not cease to exist, that is why the quality is one of the first requirements as customer or tourist satisfaction is greatly dependent on the quality of the services.*

*In order to enter into the international tourism competition is needed the modernization, recovery and development of the Romanian tourism and creation of modern and competitive tourism products on the tourism market.*

**Keywords:** *tourism, quality, development, results*

**JEL Classification:** L83, L80

## **1. Introduction**

The tourism industry is the most complex in the world involving the entire society. The tourism reflects the state of the society, like a barometer of it.

As a social, economic and cultural phenomenon, the tourism development depends to almost all fields of activity of the society, while influencing them in their evolution, defining its criteria, concepts, forms and factors (Ionescu I., 1999).

Tourism is considered to be one of the priority sectors of the Romanian economy being included in government's strategies. The main objectives (TOUREG, *Competitiveness and Knowledge in the Tourism Sector*) for the tourism sector are:

- a) the increase of the tourism circulation on the Romanian territory;
- b) the diversification and improvement of the tourism services quality.

Regarding the quality of the services in the hospitality industry, the question is "*Who generates/closes the quality of services in a unit?*" (Mazilu M.E., Marinescu R., Sperdea N., 2010, pag. 977-983) and the answer relies in:

- the owners of the business;
- the management;
- the employed personnel;
- the utility providers: chosen or imposed (the monopolies);
- the business partners;
- the central and local state authorities;
- the Parliament, the Government and the governmental agencies through laws (with a positive or a negative effect on the tourism sector);
- the local councils through decisions on the development plans, the taxes and the fees, the investments in the infrastructure, utilities etc.;
- the forces of the tourist market (internal and external);
- the clients - the guests.

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Also, the quality of the human resources is the key to the success of the tourist services. A special attention must be paid to the *training, recruiting and employment of the specialised human resources*, task achieved by:

- the vocational system;
- the professional training system of the adults;
- the apprenticeship at the work place;
- the evaluation of the acquired skills using other methods than the formal ones;
- the lack of practical abilities of the ones from the university educational system;
- the lack of transferable credits systems, for the access to a carrier;
- the economic operators' lack of interest to ensure the access to a productive practical course for the students;
- the families' lack of interest to financially support the access to a carrier of the young people who turn to the industry of hospitality;
- the lack of national marketing policies for the tourism carriers (similar campaigns to those for the military carriers);
- the expenses with the professional training etc. of the human resources considered, unfortunately, expenses not investments - from the employees part: approx. 1% from the total of investments;
- the human resources are not perceived as "assets", but as employees, thus it is very difficult or impossible to apply the principle "HR Assets Management".

## **2. Problem solution**

The quality tourism development is possible in Mehedinti County, as in Romania, also due to the competitive advantages (Melinda C. et al., 2009, pg. 374-384) of the hospitality industry in Romania:

- the Relatively positive attractiveness of the basic jobs;
- the still cheap work force - a trap for the employers;
- tourism and the hospitality industry: are not gathered by the EU under one company, they function based on the subsidiary principle;
- Romania - still unknown to the European public, who travels, so this becomes a target for the coming years;
- very many natural products: vegetables, fruit, dairy products etc., which can, by their revaluation, in hotels and restaurants, ensure the quality of the Romanian tourist product
- the Romanians have a preference for the services, having as proof their success in the employment in the hospitality industry from EU countries, especially Italy, Spain, Great Britain, Germany;
- the ones who come back home and work in the same sector - over 75% - will bring added value to the quality of the services provided, based on the exigencies for quality of the citizens of the countries where they have worked for a short while;
- the tourist potential, the improvement of the infrastructure, the coming of the great tour-operators and of the international chains will push forward the development and the competition; hence they will generate the acute need for quality of the performances and of the hospitality services (Mazilu M.E., Marinescu R., 2009, pg. 367-372).

The official policy of the Romanian government aims to capitalize the national tourism potential and so, some of the main actions are (TOUREG, *Competitiveness and Knowledge in the Tourism Sector*):

- Definition and promotion of a national tourism brand to attract both consumers and investors;
- Tourism and general infrastructure development;

- Cooperation between the government and the private sector to promote the cross border investments, improve tourism training and protect the natural environment;
- Improvement and financing tourism educational institutions (tourism high schools, specialized university programs, research centers);
- Use of information technology within the action to promote tourism. At this point it should be mentioned that small businesses, declare that can't afford the implementation costs for new technologies; they consider as necessity the authorities support through special policies and public financing.

Regional priorities for tourism development are:

- a) To modernize and develop tourism infrastructure;
- b) To support the enterprises that activate in the tourism field;
- c) To raise the region's visibility, to develop the regional marketing;
- d) To develop the human resources in tourist sector.

While the range of the Mehedinti County tourism is large, there are many very attractive and requested touristic sub-segments, such as: archaeology, architecture, art, churches tours, hydro-technical museum, festivals and folk events and holidays and even pilgrimages. It is easy to identify these sub-segments on the map of the Mehedinti county tourism as "potentially" exploitable!

It is essential to define **what is unique** about the touristic destination and to offer the opportunity to the visitors to screen the destination's characteristics and traditions through their knowledge and own experiences.

It is very important that the community also involves into tourism's development, once the product is identified, and also to create an interest towards the product. Tourism may be a tool to tighten the relationships within the community and also to attract new investors and new businesses (Severineanu R.C., Mazilu M.E., 2007, pag. 1149-1151).

Another element of the local and regional tourism development is represented by the **cross-border cooperation** which comprises those regions placed near the states' common borders: "Creating a tolerant and prosper Europe it is not only up to the cooperation among the member states. It also relies on cross-border cooperation between local and regional collectivities, respecting the constitution and territorial integrity of each state." (The Declaration of the First Summit of chief s of states and governs of the member countries of the Europe's council - Vienna, October, 1993).

The Mehedinti County, by its geographical position but also by its cultural and spiritual patrimony, represents a favourable area to the cross-border development. One of the natural values belonging to the Mehedinti County is represented by the Mehedinți Plateau Geo-park which, by its particular relief forms born from limestone erosion and numerous monasteries, churches and Dacian and Romanian settlements, represents a patrimony unique in Europe and is a favourable environment for recreation and spiritual nourishment. The natural values, to which are added the cultural values of the Mehedinți Plateau Geopark and of Djerdap National Park, united by the Danube, are a bridge between Romania and Serbia, arguments in favour in this Euro-region for the development of a psycho-sano-genetic ecotourism. Promoting the natural patrimony will encourage the local infrastructure's development, regarding the ecological tourism, the small manufacturing industry, traditions and popular culture, which will bring benefits to the local communities. By promoting the natural common values among the local communities, the representatives of the public local administration, the profit sector, the tourists and the general public is intended the durable use of the natural resources, being necessary a common approach for the populations of the two shores of the Danube.

Concentrating on promoting the tourism emerged in the region and providing the communities' engagement regarding the renewal of the interest for culture, history and



common riches of the 2 countries, there was “born” the project "Premises for a durable tourism in the Mehedinți Plateau Geo-park". The coordinator of the project was the Mehedinți County Council, the project being co-financed by European funds. The project's purpose was to facilitate the cooperation in the field of making aware the public and ecotourism between the neighboring natural protected areas: Mehedinți Plateau Geopark – Romania and Djerdap National Park – Serbia. Also, by the means of this project, was intended an experience transfer from the Kladovo City Hall and the National Park Djerdap – Serbia to the Mehedinți Plateau Geo-park – Romania. The project was important because it aimed to aware the trans-border public about the importance of the natural and cultural values of the Mehedinți Plateau Geopark and Djerdap National Park and to promote the lasting tourism by making know-how exchange between the 2 protected areas.

The named project was also born from the needs and constraints of the Mehedinți cross-border region: the need of national, trans-border and even on global scale recognition of Mehedinți (natural and cultural) tourism values, existence of an uncontrolled tourism, inexistence of the indicators and informative signs, lack of integrated tourist itineraries, lack of informative materials and of informing-research possibilities about the importance of the trans-border region Romania-Serbia.

The problems intended to be resolved and the needs to be met through project's execution were: an adequate marking of the main tourism objectives, informative materials like brochures, posters, maps and a calendar of popular traditions with a trans-border impact by being printed in 2 languages: Romanian and Serbian, 3 tourism routes marked accordingly, 4 information-research points.

The tourism sector in the region is intended to have access to information making possible the implementation of concrete measures to align it to market's requirements: the European rural tourism. The access of the local community's members from the trans-border region to informative materials is proposed to increase the feeling of local pride, fact that contribute to resolving the problem regarding the population's aging and the young population's exodus to the city.

The project was also important by its multiplying effects which consist in generating ideas for making educational and optional projects (curriculum at school's decision) having as theme the Mehedinți Plateau Geo-park. According to the model proposed by the project, there were also signaled other tourism routes, emphasized other natural and cultural values with impact on growing the tourism potential of the area.

The know-how exchange will go both ways, on the both sides of the Danube and multiplied. The collaboration with the National Park Djerdap contributes to the inclusion of the trans-border region into the European and international tourism circuit.

In conclusion, having in mind the authorities' role to create the background of cooperation, not only for the own use but also to facilitate the cooperation among individuals, institutions and communities on this territory, we can speak of actions of cooperation in fields of common interest: economic, education, cultural, social and touristic aiming the regional and euro-regional development and European integration.

Also, a quality tourism means (besides the tourism potential and infrastructure) measuring continuously the quality obtained by the tourists while consuming the tourism products.

Over time, there were used many quality models to quantify the satisfaction perceived by the customers of tourism services, and one of these models is the Servqual model.

The Servqual model has been used successfully over time in the tourism sector, where there were conducted some important researches, studies which have shown that in different parts of the world, quality is perceived differently by the tourists. Thus, Atilgan and collaborators in 2003 have studied the different perceptions and expectations of the German and Russian tourists on the service quality in tourism.

Ingram and Daskalakis in 1999, used the Servqual model in their researches of the hotels in Crete that had adopted the quality standard ISO 9000 (International Organization for Standardisation). They found a difference between guests and managers perceptions of the service quality, the largest differences being found in hotels with the highest quality classification. O'Neill et al. used in 2000 the Servqual model to study five tour operators in Australia and found that "secure" was the most important indicator of the service performance.

Juwaheer and Ross (2003) using a modified version of the Servqual model to measure the service quality in the hotel industry in Mauritius, have identified nine dimensions of the quality, "responsiveness", "reliability" and "assurance" being considered as main determinants of the service quality.

However, the model proposed by the researchers Parasuraman, Berry and Zeithaml in the '80s, have five components in evaluating the service quality. According to the three researchers, the five main dimensions that customers use in evaluating the service quality are explained as follows:

- Material assets (tangible): appearance of equipment, personnel and communication materials.
- Reliability: the ability to perform the promised service safely and accurately.
- Responsiveness: willingness to help the customers and provide prompt services.
- Safety: the knowledge and courtesy of the employees and their ability to instil a sense of trust and safety.
- Empathy: the care, individualized attention that the service organization provides to its customers.

To assess these five aspects of service quality, Parasuraman and all. have designed the "Servqual" model which includes a questionnaire with 22 questions. Half of the questionnaire is related to expectations of the customer concerning the services and the other half is related to the customer perception of the consumed services. Hence, it appears that the service quality is given by the relationship: perceptions - expectations = quality.

For each of the 5 dimensions of quality (tangibles, reliability, receptivity, secure, empathy) there are determined the customers' expectations before using the services, and, after the service consumption, there are determine the customers perceptions.

In the questionnaire (Sararoudi M.B., 2008), customers respond on:

- tangibles, referring to: attractiveness of the exterior structure; new and modern hotel facilities; staff discipline and cleanliness; attractiveness of the hotel interior decorating
- reliability, referring to: room service; adjust the room to customer expectations; adequacy of the available room facilities; speed in answering to customer orders
- receptivity, comprising: hello and welcome; response to the guests requirements; the rate of customer information by the hotel staff; the operational speed of the staff serving the clients
- secure, referring to: the skills and experience of the staff; politeness of the staff; the rate between services and their price; providing a calm place; the efforts of the staff in providing and maintaining a secure environment
- empathy, referring to: access to the hotel; the attention of the staff in establishing effective relations with the tourists; the flexibility of staff; the predictions and perceptions of the top management regarding the customer needs.

Each dimension (tangibles, reliability, receptivity, secure, empathy), which was evaluated by the tourists, receives points from one to five, the highest score representing the maximum degree in customer satisfaction.

The difference between customer expectations and perceptions regarding the material assets, reliability, receptivity, secure and empathy, ultimately reflects these items' quality which was felt by the guests.

For example, a hotel that presents the data from the table 1, is a hotel that was not able to provide quality services in order to satisfy its customers, the poor quality being reflected in all the five dimensions.

**Table 1. The gap between customer expectations and perceptions on service quality judged on the five dimensions of the Servqual model**

Quality dimensions	Expectations (E)	Perceptions (P)	Quality felt by the guests (P-E)
Tangibles	3,96	2,90	- 1,06
Reliability	3,90	2,63	- 1,27
Receptivity	4,78	3,20	- 1,58
Safety	5,19	3,93	- 1,26
Empathy	3,87	2,88	- 0,99
<b>TOTAL</b>	<b>4,34</b>	<b>3,11</b>	<b>- 1,23</b>

In the present case-study, the value between the total perceptions and total expectations is negative. In conclusion, the overall quality is not reaching the customers expectations.

By using the Servqual model, the hotel management has now the necessary information regarding the weak points of the services the hotel provides and can take the necessary actions to improve hotel's service quality.

The Servqual model has many applications (it can be used both in marketing studies, and in comparison among similar services offered by competitors, as Parasuraman and all. said in 1988). The most important use of it, however, is keeping track of the changes happened in the service quality provided by an organization, fact that is done through a regular survey of the customers.

Over time, the Servqual model had and still has supporters, but also opponents. Thus, some authors reproach that the scale of the model is not sufficiently comprehensive, as other reproaches refer to how relevant the model is for the quality in situations involving multiple stakeholders due to the fact that the model ignores several stakeholders (Saraoudi M.B., 2008).

Although the Servqual model has been criticized on theoretical and operational criteria, Ausbonteng et al. concludes that "until there will appear a better model, but as simple, the Servqual model will prevail itself as a measure of the service quality".

The conclusion is: *quality is a goal, an objective which must mobilize all the units of the service organization. Quality shows the direction towards which the action must be oriented.*

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# CUSTOMER ORIENTATION IN THE MARKETING ACTIVITY OF ROMANIAN COMPANIES

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## Abstract:

*Market orientation is used to describe the actual implementation of the marketing concept or in other words induces the idea that organizations which are market-oriented act according to the marketing principles. The scope of this article is therefore to investigate and empirically assess the perceived impact of customer orientation as main component of market orientation on business performance using a sample of Romanian companies. The research results reveal the importance of this dimension and of the items used to assess customer orientation on business performance and represents a starting point for further research in the field.*

**Keywords:** market orientation, customer orientation, business performance, Romania

**JEL Classification:** M31

## 1. Introduction

A constant concern of economic literature was to identify the recipe for business success. What makes some businesses to grow faster than others, to be profitable in an increasingly competitive environment, to survive in times of crisis rather than others?

It is today widely accepted that in the face of increased competition strongly accentuated by phenomena such as economic and financial integration and globalization, performance cannot be achieved otherwise but giving the marketing activity an important role in the overall strategic approach to business.

Based on marketing principles crystallized in the literature in the 1960-1970's and continuing with more nuanced concepts as market orientation and further customer orientation, studies, both theoretical and empirical, proved that a long-term strategy cannot be set up without taking into account the needs, the characteristics and the types of customers the company addresses, without keeping in mind the market (competitors, political environment, specific conditions as national or regional particularities).

International flow of scientific research has shown since the 1990's an increasing interest for the concept of market orientation / customer orientation especially in relation to business performance.

In Romania, the absence of a competitive environment for forty years before 1990 annihilated the capacity of individuals and companies to conduct business taking into account the basic principles of market economy.

The Romanian economic environment has been characterized by a rocky evolution during the last twenty five years: major political, legislative and structural changes, the need to learn the market economy principles, several financial, and economic crises, the adhesion to the European Union in 2007, and the increased competition due to the accession in the common European market. Under these conditions, the researchers' interest for entrepreneurship in Romania began to emerge after 2000.

In this context the researchers, the practitioners, the entrepreneurs, and the companies became interested in developing marketing activities, build strategies or strategic orientations in order to successfully face the challenges posed by the economic environment.

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Building market orientation or more specifically, customer orientation as a strategic approach has been a widely debated topic raising many directions of research: how to define the concept, which are the components of such a strategic orientation, how to measure the market/customer orientation and how to determine the existence and the nature of the relation of these concepts to business performance. All these directions benefit of very little or no scientific investigation for the Romanian companies.

In this paper we intend to investigate how customer orientation impacts company performance. The paper is divided into two sections: the first part represents a review of the literature that addresses the concepts of customer orientation as the main component of market orientation, while the second part presents the results of an empirical study conducted on a sample of Romanian companies, aiming at testing the impact of customer orientation on perceived business performance.

## **2. A dual conceptualization market- customer orientation**

The market orientation concept is a relatively new one in the literature but it benefits from an extensive research work over the last three decades, proving, on one hand the importance of this concept for the business activities developing in a growing competitive environment, and on the other hand, the fact that research conclusions did not draw the line but instead opened constantly new directions for investigation.

The market orientation concept initiated many debates in the literature: is it a philosophical concept or on the contrary is it the operational side of a wider philosophy? Is it a different concept or is it identical to the marketing orientation concept? What are the components of this concept? Which items might be investigated in order to obtain a clear proof that market orientation is present as a strategic baseline in the general business strategy?

The starting point in defining the market orientation is represented by the work of Narver and Slater (1990, p. 21) considering market orientation as the *“organizational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus, continues superior performance for the business”*.

Subsequently, Kohli and Jaworski (1990, p. 6) conceptualized the market orientation as a firm behaviour rather than an organizational aspect stating that market orientation is the *“organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it”*.

Narver and Slater (1990) defined market orientation as a one dimensional construction combining three components: customer orientation, competitor orientation, and inter-functional coordination, with two items of decision making criteria (long term perspective and profit focus), and were pioneers in the process of measuring the market orientation. In their opinion to determine the existence of a market orientation and the liaison with the firm profitability it was relevant to include in the research 15 items out of which six regarded customer orientation and the rest were related to competitor orientation and inter-functional co-ordination.

Kohli and Jaworski (1990) and later Sin et al. (2003, p. 912) considered three dimensions of market orientation – intelligence generation, intelligence dissemination, and responsiveness to market intelligence.

The customer orientation as part of the market orientation according to Narver and Slater (1990, p. 21) *“includes all of the activities involved in acquiring information about buyers...in the target market and disseminating it throughout the business(es)”*.

Prior to that Shapiro (1988) designed a more specific definition of customer-orientation as *“the dissemination of information about customers throughout an organization, formulation of strategies and tactics to satisfy market needs inter-functionally and achievement of a sense of company-wide commitment to these plans”* (Shapiro, 1988).

In the same way that market orientation was investigated in extensive empirical researches mainly regarding the relationship to business performance, several authors linked customer orientation to firm profitability. Deshpande et al. (1993, p. 27) defined customer-orientation as *“the set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders such as owners, managers, employees, in order to develop a long-term profitable enterprise”*.

Since the 1990's the discussion regarding the components of market orientation evolved and new directions of investigation were raised. The initial opinion that seemed to be generally accepted seeing the customer orientation as a part of the market orientation found opponents as Deshpande et al. (1993) who considered customer orientation as part of the corporate culture and almost similar to the market orientation concept, or supporters as Grinstein (2008, p.117) who concluded in his study that the literature viewed market orientation as *“the organizational elements – culture and behaviours – that implement customer orientation”*.

The work of several researchers investigated the link between customer orientation and business performance. The results were heterogeneous even though a significant number of studies proved an association between customer orientation and profitability/business performance (Piercy, Harris and Lane, 2002; Liu, Luo, and Shi, 2003).

### **3. Research methodology and results**

The research was aimed at assessing the perceived impact of several factor related to customer orientation on company performance. The study was conducted as an e-mail survey targeted at owners/managers of companies from Constanta County, between 30<sup>th</sup> of June and 15<sup>th</sup> of July 2014. The companies were contacted both via the local Chamber of Commerce and using the contact data from online companies catalogues. Finally, after eliminating the incomplete questionnaires, the analysis was conducted on a sample of 30 companies using SPSS (Statistical Data Analysis, version 20).

Customer orientation was measured using a five item scale considered to embody its' essence, partly adapted from Blesa and Ripoles (2009) – i1: research conducted in order to investigate customer satisfaction; i2: periodical meetings with customers to investigate their opinion on the company, company products/services, and means to improve company offer; i3: complete information offered to customers on company products/services; i4: periodical revision of products/services in order to meet customer needs; i5: monitoring closely customer relationships and taking action to communicate the advantages of company products/services. The importance of each item within the marketing activity of the company was evaluated using a five point semantic differential scale (from 1 – very low impact to 5 –very high impact). Regarding the business performance, we took up the subjective approach and relied on the perceived business performance. The respondents were asked to provide (also using a five point semantic differential from 1 (very poor) to 5 (very good)) an assessment of their business performance based on previous two years results in terms of profitability and sales growth.

*The objectives of the research* were therefore to assess the importance for marketing activity and the impact of the items considered to objectify most appropriately customer orientation on perceived company performance, and grasp the eventual differences of assessment due respondent characteristics.

Subsequently, the following *hypotheses of research* were formulated:

H<sub>1</sub>: There is a statistically significant relationship between customer orientation and company performance.

H<sub>2</sub>: There are statistically significant differences in assessing customer orientation importance due to the socio-demographic characteristics of the respondents.



### *The sample*

In table no.1 there are presented the socio-demographic characteristics of the respondents. Most of the respondents are male (76.7%); as far as the age is concerned, the best represented interval is between 35 and 44 years old (46.7%), followed by 33.3% aged between 45 and 54 years old.

**Table no. 1. Socio-demographic characteristics of the respondents**

<b>Characteristic</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	23	76.7
Female	7	23.3
<i>Total</i>	<i>30</i>	<i>100.0</i>
<b>Age</b>		
26-34 years	3	10.0
35-44 years	14	46.7
45-54 years	10	33.3
55-64 years	3	10.0
<i>Total</i>	<i>30</i>	<i>100.0</i>

The profiles of the companies are presented in table no.2. Most of them are service providers (health services, consultancy and management services, tourism, security services, and IT), while the rest represent the fields of commerce, constructions and agriculture.

**Table no. 2. Profile of the companies**

<b>Company profile</b>	<b>Frequency</b>	<b>Percentage</b>
Services	16	53.3
Commerce	9	30.0
Constructions	3	10.0
Agriculture	2	6.7
<i>Total</i>	<i>30</i>	<i>100.0</i>

Most of the companies have less than 49 employees (80%), while 5 companies have between 50 and 249 employees and only one company has more than 250 employees (table no.3).

**Table no. 3. Size of the companies**

<b>Company size</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 10 employees	13	43.3
10-49 employees	11	36.7
50-249 employees	5	16.7
More than 250 employees	1	3.3
<i>Total</i>	<i>30</i>	<i>100.0</i>

### *Reliability test of the used scale*

In order to test the reliability of the scale the Cronbach's Alpha score was computed. The score was 0.678 thus indicating an overall reliability of the utilized scale.

### *Importance of customer orientation scale items*

Analysing the answers provided by the owners/managers of the companies in the studied sample, one may conclude that all items subject to investigation were appreciated as important. The most important item was considered to be *i5: monitoring closely customer relationships and taking action to communicate the advantages of company products/services*, with an average score of 4.77.

### *Correlation test – Customer orientation and company performance*

A Pearson's correlation test was conducted for the customer orientation and company performance and the test results (table no.4) indicate positive correlations between the variables, significant at 0.01 level.

**Table no. 5. Pearson Correlation**

		Customer orientation	Company performance
Customer orientation	Pearson Correlation	1	.498**
	Sig. (2-tailed)		.005
	N	30	30
Company performance	Pearson Correlation	.498**	1
	Sig. (2-tailed)	.005	
	N	30	30

\*\* . Correlation is significant at the 0.01 level (2-tailed).

### *Testing the hypotheses*

In order to test the first hypothesis a regression analysis was performed. The results (table no. 6) indicated that there is a statistically significant relationship between customer orientation and company performance, thus confirming the first hypothesis.

**Table no. 6. Regression analysis**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.015	1	3.015	9.226	.005 <sup>b</sup>
	Residual	9.151	28	.327		
	Total	12.167	29			

a. Dependent Variable: Company performance

b. Predictors: (Constant), Customer orientation

The second hypothesis was split into two, taking into consideration the two socio-demographic characteristics of the respondents present in the study: gender and age. Therefore, the resulted hypotheses are:

H<sub>2a</sub>: There are statistically significant differences in assessing customer orientation importance between the two groups (female and male respondents).

H<sub>2b</sub>: There are statistically significant differences in assessing customer orientation importance due to the age of the respondents.

The results of the Independent Samples T-test conducted in order to test the first of the two hypotheses are presented in table no.7.

**Table no. 7. Independent Samples Test**

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
CUSTOMER ORIENTATION	Equal variances assumed	.520	.477	-.539	28	.594	-.466	.865	-2.237	1.305
	Equal variances not assumed			-.505	9.084	.626	-.466	.923	-2.551	1.619

The test revealed no statistically significant differences between male and female respondents in assessing customer orientation importance ( $t=-0.539$ ,  $df=28$ ,  $p>0.05$ ).

For  $H_{2b}$ , an ANOVA analysis was conducted and the results are presented in table no.8.

**Table no. 8 ANOVA**

CUSTOMER ORIENTATION					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12.852	3	4.284	1.107	.364
Within Groups	100.648	26	3.871		
Total	113.500	29			

Considering the test results in the table above, the null hypothesis is accepted.

### Conclusions

Considering the high importance of market orientation on business performance, the present paper aimed at assessing the importance of customer orientation and at empirically testing its' impact, as most significant component of market orientation, on perceived company performance, using a sample of Romanian companies.

The customer orientation scale used contained five items and all were considered as important by the respondents. The research results revealed that the respondents were aware of the importance of customer orientation within the marketing activity of the company and that there is a positive and direct relationship between customer orientation and perceived company performance.

Considering the rather reduced size of the sample used in this research and that the companies were based in only one region of the country, the study represents merely a first attempt and starting point for further research and analysis.

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# DESTINATION BRANDING THROUGH BUSINESS TOURISM

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## Abstract:

*Considering the fact that a rate of up to 70% of tourists visiting Romania have a professional motivation, the present paper intends to provide an overview of the advantages held by Romania for offering tourists the proper conditions for spending quality time in this emerging country. Within the present article, the authors provide to readers an overview regarding destination branding, business travel and the critical elements in achieving economic advantages over competing regions/countries; the article emphasizes the fact that -intelligently exploited-, business tourism can be an element of prosperity within the tumultuous period of time through which Romania and other emerging states are crossing nowadays. The results of this paper work are focused on the identifying, analysing and correlating the main factors that can influence a destination's development through its propulsion as a brand destination for business tourism. Generally speaking, the paper approaches aspects regarding business tourism. The methodology used in order to write the present article is limited to the collection and processing empirical data and information. In this regard, the literature in the field has been reviewed, so that the authors could identify and expose the importance of destination branding through business travel for sustainable development in Romania.*

**Keywords:** business tourism, destination branding, Romania, tourism;

**JEL codes:** M31, M30, Z19

## Introduction

Business tourism or professional tourism is an important component of the tourism industry, being considered the most stable segment, which can generate prosperity within the economy. The tourist accommodations which are able to adapt to the new requirements of potential customers, to the issues generated by the economical and social factors and, last but not the least, to the competition, will undoubtedly overcome the economical crisis.

This form of tourism is neither influenced by the fluctuation of the prices on the marketplace nor of the income of consumers, therefore, it is less affected by the economical crisis. Business tourism is in continuous improvement, especially in countries such as Romania, where the hotel industry has developed considerably since the country joined the European Union. Tourism industry has become a distinct sector of activity in various countries, thus several countries have become dependent on tourism and they rely only on their incomes generated by touristic activities. This fact is briefly illustrated by countries situated in the Caribbean regions, but also in others geographical regions.

Tourism industry cannot develop by itself. In order to accomplish tourists' requirements, tourism industry needs various goods and services which can be offered by the other branches of the economy. Consequently, a modern tourism cannot be reached as long as the economy does not offer the appropriate factors in order to do so.

As a consequence, tourism has the features of an interference branch, because between the tourism industry and the other sectors of economy can be noticed multiple connections. Thus, tourism development is conditioned by the other branches of economy and involuntarily it contributes to economic growth.

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### **1. Business tourism- concept and features**

The human desire to socialize and change opinions, ideas is as old as mankind. However, an industry which provides these kind of activities has only developed since the 20th century. The origins of this kind of tourism can be found in Europe and Nord America, but regions such as Asia and Pacific have developed considerably when it comes to tourism.

Rogers mentions the fact that countries which are currently in development are not strong enough in order to be able to generate international corporations as the ones produced by the classic players and also, they do not have developed an “intelligent market”. Business tourism is one of the most dynamic components of tourism activities and thus, the development of international relations and, especially, of the economic relationships can be clearly noticed in the increased number of requests for business travels (Davidson, 1992). Business tourism is concerned with people travelling for purposes which are related to their work. It represents one of the oldest forms of tourism, man having travelled for this purpose of trade since very early times (Davidson, 1994).

Business tourism, often called professional tourism, represents a form of tourism with commercial, governmental or educational purposes. In general, business tourism represents the travel of a tourist in a region located at least at 50 kilometres away from the tourists' usual environment. A business traveller makes day trips for business purposes and are therefore not true tourists in the conventional meaning of the term. In some cities over 40 % of the tourists are in a business travel (Ilieş, 2008).

This kind of tourism involves an interesting issue, because one cannot explain how business tourism has become a form of tourism as long as business travellers are still working and also, they are getting paid.

The main factors which have determined business tourism to be considered a form of tourism are the following: ( Postelnicu, 2008).

- The organization of this kind of travels involves tourism accommodation
- Since 2007, 20% of the international travels have had business purposes
- Business tourism represents almost ¼ of the touristic activities organised all around the world.
- Business tourism currently represents the most dynamic component of touristic activity.

In general, business tourism involves travels with work and business purposes and destinations can include small to larger meetings, including conventions and conferences, trade fairs, and exhibitions (Minciu, 2004, pg 14). Business tourism involves individuals who travel for a short period of time from their usual environment or work place to a different region and the travel expenses are paid by the company where the specific individual is employed ( Baltăreţu, 2006).

Business tourism has its own forms of manifestation and motivations. The connection which establishes between the demand and the offer during fairs, exhibitions, business meetings, conferences can be perceived as a source of motivation for business tourism. A business travel can have the following purposes: sales and acquisitions; meetings, conferences, fairs and exhibitions, governmental purposes, foreign language courses or training ( Morariu, 2006).

Moreover, business travellers have to accomplish the requirements imposed by the business travel (destination; period) while tourists have the freedom to choose the destinations of the holiday and its period. However, the importance of business tourism has increased considerably and thanks to the fact its purpose is represented by work and business, it is not influenced by the local weather. What is more, individuals who travel for business purposes are used to visit cultural touristic objectives and also, they attend the best hotels and restaurants. In a few words, business tourism provides a source of income which is considered to be of utmost importance for the local economy.

## 2. Forms of business tourism

Business tourism is a sector which is often forgotten due to the fact that tourism is involuntarily associated with beautiful weather. Business travels can be divided into two categories : internal and external.

Internal business travels involve the employees of a company and their purpose is represented by the motivation of the staff, while external business travels usually involve training courses, conferences, exhibitions. Professional travels can be analyzed according to their purpose : participation to a fair; an exhibition; a scientific, political or cultural event (Zaharia,2000).

Business tourism or professional tourism is called on the market MICE (Meetings, Incentives, Conferences and Exhibitions), also having this name in official documents of international organizations such as the United Nations World Tourism and World Travel & Tourism Council.

Therefore, business tourism can be classified into the following categories ( Minciu,2001):

a) **General business tourism** which refers mainly to the individuals who work, for a short period of time, in a region away from their usual environment (for example journalists). In general, these are individual travels and can have the following purposes: sales of products; find the solution to a computer problem encountered in the company of a client; visiting a branch of the multinational company.

The components of the MICE segment are the following:

b) **Tourism of meetings**, involves the participation to a certain event such as conferences, congresses, meetings and it is considered one of the most common forms of business tourism. Therefore, tourism of meetings is often defined as an organised event which gathers individuals, who share opinions regarding a certain subject.

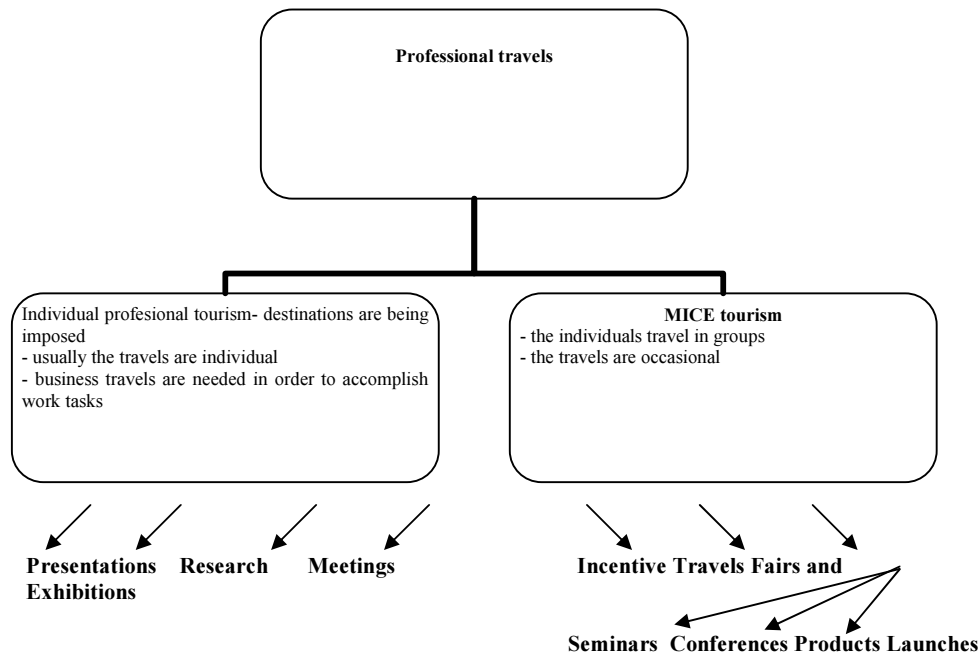
The qualitative tendencies registered on the tourism market segment refer to the pronounced segmentation of business tourism, the growth in institutionalisation and the modification in importance of the issues discussed during international meetings ( Webber et al. 2002).

c) **Fairs and exhibitions** are defined as “ presentations of products and services which have the purpose to inform the clients and also, to persuade them to buy those products/ services”. Another definition of fairs refers to their applied side, namely to presentations of products and services, which are organised with the purpose of inducing a sale or to inform the visitors ( Davidson, 1994).

d) **Incentive travel** is a short holiday or trip, organised for the employees of a certain company, in order to award them and also, to motivate them. This branch of business tourism is extremely dynamic, being a reward for professional performance and therefore it represents a link between business tourism and leisure tourism (Davidson et al, 2003).

## 3. The entities within business tourism

The request for business tourism is influenced by the following factors: the frequency of the travels; the number of requests for a certain destination; the number of requests for certain hotels; age; gender; nationality; the purpose of the travels. The buyers of touristic business services are : companies and the public sector. Companies are obviously the main consumers who perceive business tourism as being vital for their activity. Also, the researchers and the representatives of the government rely on business tourism as they have to travel in order to accomplish tasks required by their jobs, therefore they become important customers on the tourism market (Swarbrooke,2001).



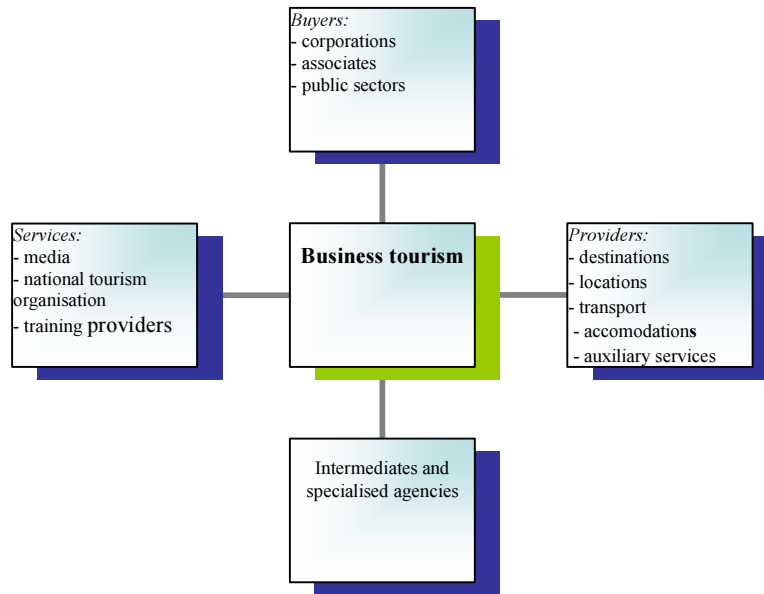
**Figure nr. 1: The structure of professional tourism**

Source: after Davison, Rob, *Business Travel, Conferences Incentive Travel, Exhibitions, Corporate Hospitality and Corporate Travel*, Pearson Education, 2003.

The public sector is also present on the MICE market, where it is a supplier and also an intermediate. For instance, a variety of centres of conference are the proprieties of the local authorities and the marketing organisations are exclusively financed by the public and the private sector. The partnership between the public and the private sector is necessary in order to assure the success of every business travel no matter its destinations. This point of view is also shared by Dwyer and Mistilis specialists ( quoted by Rob Davidson and Beulah Cope in the book „Business Travel”) who argue that the development of MICE tourism relies on the partnership between public and private sector. The factors which influence business travels are distributed according to destinations and regions preferred by tourists.

The main industries which organise events for business tourism are the following : energetic industry; medical indutry; IT industry and financial services. The research shows that business travellers might have a variety of professions and even so, they have little knowledge about business travels. A research of the UK Conference Market Survey has proved the fact that the events in the corporatist sector are planned days or weeks before the specific event (and not months or years before); 50 % of the people who are satisfied after buying a product, become trusty clients. Countries which have encountered an increase in the number of requests for business tourism are the followings: Nord Korea; Taiwan. The offer for professional tourism is a complex phenomenon thanks to the various forms of professional travels, each of them having its specific chain of offers. The providers from the business tourism market are located in large urban centres, where are the headquarters of the companies and also, the hotels, universities, the research institutes and airports which are of utmost importance for the MICE tourism.

The offer can be divided into four categories:



**Figure nr. 3: The offer for professional tourism**

Source: Adapted after Davidson, Rob, *Tourism in Europe*, Pitman, London 1992.

The locations where professional events (conferences, reunions, courses, incentive travels) take place, are represented by hotels and motels, situated to the main road, but also unusual locations such as historical buildings, thematic parks, trains, museums. The tourism accommodation is generally commercial, just a few business travellers choose the accommodation provided by friends or family. Hotels offer a variety of services such as internet connection, business centres and many more in order to attract the attention of business travellers (Isac, 2008).

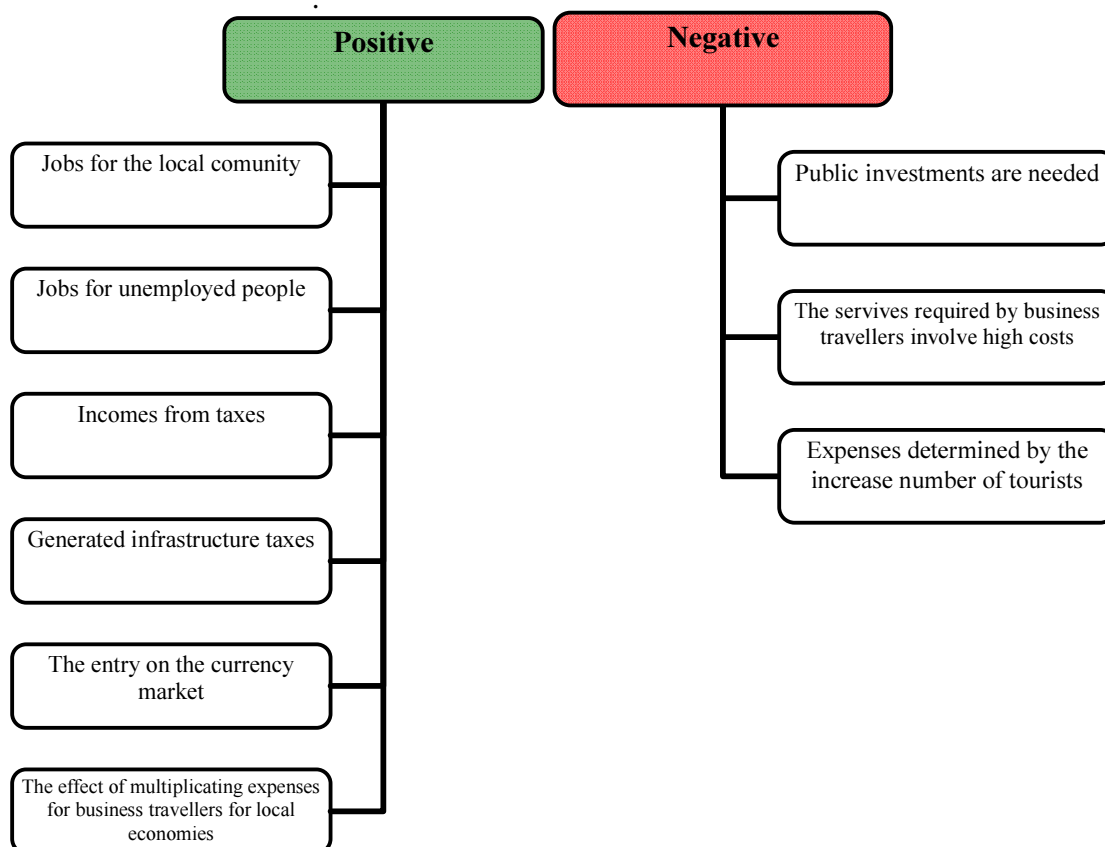
The means of transport are considered to be vital for business tourism as they not only ensures the travel for tourists, but they also provide a location for business meetings (for example trains in France). The airlines have acknowledged the importance of this sector and therefore, they designed a special class for business travellers, providing special services such as internet connection.

#### **4. The marketing macro environment of MICE industry and the impact on the natural environment**

The business tourism has a positive and also a negative impact on the environment.

Many countries and regions try to attract business travellers, because they express the tendency to spend a higher amount of money in comparison to a regular tourist. Therefore, the positive economical impact exceeds the economical expenses. From the social point of view, the negative impacts prove to be quite numerous. A lot of problems are encountered in regions where the locals are not so wealthy as the business travellers, especially when the local authorities raise funds for airports, centres of conference, neglecting the needs of the locals (Swarbrooke, 2001).





**Figure nr. 5: Economical impact of business travels**

Source: Swarbrooke, John, *Business travel and tourism*, Butterworth-Heinemann; 1st edition, 2001

### **Conclusions and proposals**

Professional tourism is not meant to be consumed as a product (itself), but to be used in order to obtain a useful effect that may materialize itself into the efficiency of a company, in the qualification of the employees of a company, to create new sales opportunities for the enterprise, exchange of information, cooperation in research and participation to cultural events etc.

Since the market is always changing, increased competition among bidders of domestically and internationally tourism products is increasingly fierce and the development of a stable clientele is the most important.

The main requirement for this major goal is to provide superior quality conditions for providing tourism services, creation of elements likely to generate favorable impressions among customers (and keeping them).

Like any research, the present study bears some limits such as an extensive bibliography which leads to the impossibility of studying in detail all the concepts.

Beginning with the present study, based on the expertise gained by analysing it, I established some possible future research directions/alternatives:

- Conducting a marketing research for determining what are the other elements that influence destination brand;
- Conducting a marketing research in Romania within companies, to see if they offer to their employees such elements like teambuildings and what would be the services expected to be received

- Identification of possible business client typologies, starting from their perception of value, taking into consideration that it is subjective and personal.

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# PARTICULARS OF PROMOTING IN THE SOCIAL MEDIA

Cristian, Moroza<sup>1</sup>  
Mihaela, Asandei<sup>2</sup>

## Abstract:

*The classical promotional media, especially the television, have been often criticized for the contradictory effects that they have on the consumers. Compared to those, the Internet and social networks that support them represent an interactive environment, because consumers have more time and space to evaluate the products compared with the traditional seconds or tens of seconds of the TV spots or the few printed lines in newspapers.*

*The promotion on the web and social media have an important role in consumers' informing, by providing the data they need for the purchasing decision, by providing feedback from others etc. For example, in the discussion groups and social networking sites, such products/services and software news are discussed and carefully evaluated by a permanent feedback from users, their responses being made posted on the internet.*

**Keywords:** *promoting, consumers, social media, network, internet.*

**JEL Classification:** M37, L82

## 1. Introduction

As a means of universal communication, the Internet and social networks focus all of the traditional media, being rapidly adopted as advertising support. Moreover, it offers – unlike the traditional media - two-way communication, from one to one and from one to many, so that not only the organization can send messages containing advertising, but consumers can get involved. The Internet has an agent effect in a unique way in relation to the other medium, being a communication channel used to transform, change, correct, attack or support a message in unique way (Gregory, 2009).

However, the Internet and new sophisticated communication technologies make possible a different approach, completely different from the traditional advertising by permission marketing (Petre, Nicola, 2009), which identifies the advertisement message and brings in front the consumer' interests.

## 2. Reasons for online and social media promotion

It becomes increasingly evident that many organizations are looking for new uses of the Internet, discovering social media for promotion. The social networks, blogs and microblogging services have until recently a restricted public and were not relevant to the particular business, but in recent years the situation has changed, the number of companies interested to promote in this environment and the dedicated budgets increasing rapidly (Arsene-Bărbulescu, 2011).

An important reason for this development is that the online use, as mentioned above, a different strategy - consumers seeking information from organizations and expects a quick response, looking organization details through their own (data, images, testimonials etc.) that they comment with other users. The information are quickly distributed because they are supported by local social networks in connection with the remote ones, being used technologies that facilitate instant communication at a multiple scale (Green, 2009).

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The internet promotion is successful because of the rich content of information that it provides, enjoying the fact that the cyberspace is less expensive. Organizations that have had, so far, to compress messages on a particular area of the newspaper page considers the freedom of expression that it provides the internet space.

An online communication campaign on social networks can address to a group of acquaintances, so, there is a chance that the target audience can be approached from several directions. This ensures that the message is credible ("if so many people accept a product / service it means that is good") and can be repeated, being able to remind to the public members (Green, 2009). Another advantage is the fact that the organization can easily find out the people interest counting the hits to their website and can provide information to strengthen the already existing relationships with customers.

The online broadcasting strategy for the promotional messages can be accurately projected because the profile of a site user is easy to achieve, so that the message goes straight to the targeted audience. Moreover, it can be easily measured the campaign effects during the course of it, it can be changed certain actions, and the costs are lower compared to other promotional media (Zbucnea, Pinzaru and Galalae, 2009).

### **3. Planning and implementing a social media promotion**

As a rule, after the organization's management has decided to promote on the Internet it will decide on the amount available to be spent and, of course, on the methods to be used. In most cases, for social media promotion it will be defined a coherent strategy and a long term vision, including them in the overall thinking, involving a mix of promotional media to be used by the organization.

Especially the small organizations start from the existence of a website and a blog to support basic communication and continue with the presence in social media as more of the major social networks - inexpensive actions, which may establish communication with current and potential customers, but it isn't done the promotion itself. For this latter objective the organization can appeal to a specialized agency.

In the recent years, the methods of promotion on social networks were diversified, starting from the creation of interactive applications to promote a product and continuing with competitions, pages specially designed to motivate consumers to begin discussions about a brand or different actions (online paid content delivery etc.).

In the social media, social networks become the more effective, gaining many supporters and potential customers, with a cost equivalent to other forms of promotion. For example, in the case of a small organization, traditional advertising strategy can be completed with the online presence by creating a website and a blog that start the communication and then, with the involvement in many important social networks, actions with reduced costs. Basically, it's a concept that involves social media relations and defines the establishing of a communication relation with customers.

At a larger scale, international studies show that a brand name will become known among a double number of people in a social network than any other site, while intention to buy the advertised products and services can be four times higher. In social media matters the positive references made by users to friends on blogs and social networks, they getting to be worth more than traditional commercials on the internet (Arsene-Bărbulescu, 2011).

According to ExactTarget 2013 Study - Marketers from Mars, conducted on the United States consumers, come out that the e-mail and Facebook are the most common medium through which users come into contact with brands and companies they trust. Email is used by 45% of marketers, 36% of consumers with smartphone and 49% of consumers without smartphones, and the Facebook is used by 21% of the marketers, 31% of consumers with smartphone and 26% of those without a smartphone (Crăciunescu, 2013).

A method used for social media promotion is the one that involves using the discount coupons websites, which are accessed by small organizations to attract customers. Even if there isn't a proper promotion environment, offering coupons seeks quickly customers' action motivating to reduce periods when sales are low.

Especially youth of today are different from those of previous generations by the fact that they belong to the digital world, whose technologies influence the brain, thing explained by Nicholas Carr in the book "Superficialii" (Carr, 2012): the users in this age segment accesses search engines for research, so they consider relevant the most popular items, reducing the total number of used sources; when they have to document from the existing virtual materials the youth must choose content from various hyperlinks; the same thing is happening by developing social networks that provide updated information.

To be marketing successful, especially in the social media, organizations need to create messages for the communication campaigns, taking into consideration some aspects (Furtună, 2012): to be based on simplicity, easy to understand messages being easily accepted; to draw attention from the start, because the users, especially the young ones, tend to keep their focus on a subject for a little while; to be offered an interesting to distribute content in the social networks, using the same language. These requirements are particularly important as 85% of Facebook users are content creators, regardless of its quality, and brands should see it as an opportunity.

Sometimes there is a marketers misunderstanding about the reasons why a consumer appreciates a brand in social media. On the one hand, experts believe that attracting customers appears by publishing an agreeable content, including detailed information about the brand or products. In turn, consumers give "Like" on Facebook to brands for games, contests and promotions, to find out about new products and show to their friends that are brand' fans. As far as the Internet makes information available and social media makes it easier to communicate, the friends of Facebook fans are top consumers, so that brands should not overlook them in a campaign.

In the current period, the online presence reduce and even canceled distances between individuals and groups through applications like Skype or Messenger, which allows initiating and maintaining dialogue through live sound and image with people all over the world, intermediates watching videos from a global perspective. It also notes that many of the discussions about the products can be found in social media, in private profiles and not on the organizations official websites or on their dedicated websites, which means the shift to such sources of information, where consumers express their opinions and form opinion trends.

If many organizations are concerned with finding those customers attraction reasons mainly related to their work (eg.: Sign up and you get a voucher/discount/prize), it is necessary to create those excuses to coincide with proper interests (the community of travel enthusiasts and the community of parents) because the messages are more relevant to consumers.

It is also important that the actions of public communication, especially with youth - always connected to the Internet, to be constantly made, avoiding the situation of developing it for a limited period, after which the contact stops, waiting to is back with a message during other campaigns. However, what the companies declare when they communicate with younger people must, also, realize through BTL, which offers more interaction and involvement and translates the brand values into the real life. It is reached the situation that companies offer, through brands, an example and values to be adopted by the young people, revealing, thus, their personality.

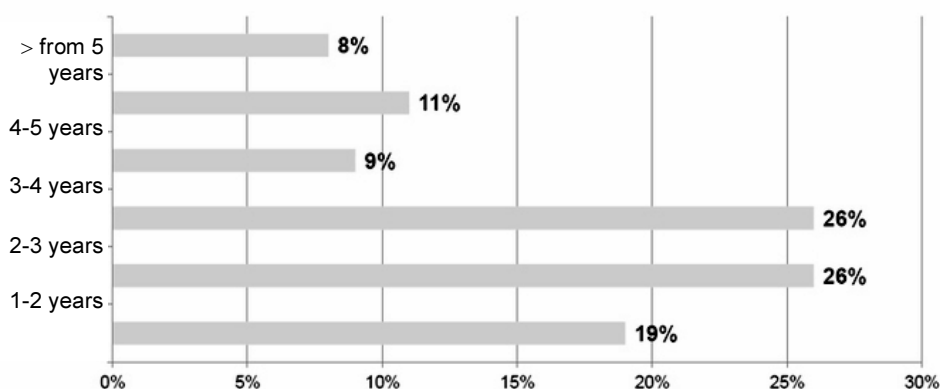
#### 4. Experiences of promotion in social media

Internationally, the money spent on social media promotion exceeds several billion euros, up exponentially from year to year. This growing of different sizes organizations interest is obvious, reaching that the dissemination of advertising messages on social networks becomes one of the commonly used forms of promotion on the Internet, with a market of over four billion euros worldwide and two million euros in Romania in 2012. The largest contribution to this expansion has Facebook, which has over 600 million users worldwide, in which over 6 million in our country, being considered "the industry motor" (Arsene-Bărbulescu, 2011).

A strong presence on the national online advertising market have blogs and microblogging platform Twitter, which has become lately a support for advertising in the form of published messages or other networks such as Hi5.com, Youtube, Tpu.ro, Neogen ș.a.

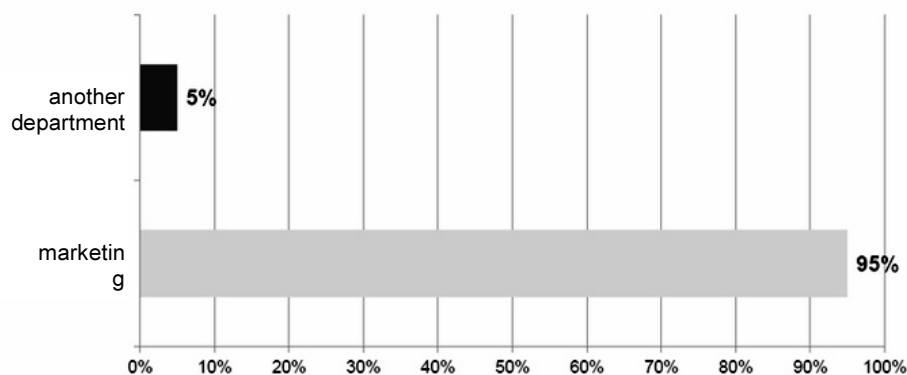
The most important advertising investors from our country have been targeted and continue to be concerned with social media promotion strategies. Be it about mobile telecommunications companies, manufacturers and car dealers, the suppliers of financial services and banking, all these organizations have tighter sized promotion budgets and have turned to social media for reasons of cost, positive impact on the public, diversification of the ways in which they get to be known and to persuade the consumers.

According to a study conducted from August to October 2013 that analyzes the responses of 173 representatives of organizations from various industries (of which 79% are organizations with annual revenues exceeding 10 million euro), called "Social Media and Romanian business "(performed by EY Romania and taken from [www.businesscover.ro](http://www.businesscover.ro)), in Romania four of five companies use social networks for advertising, particularly Facebook, followed by YouTube and LinkedIn. This, while 97% of global companies are present on social networks (Zamfir, 2013).



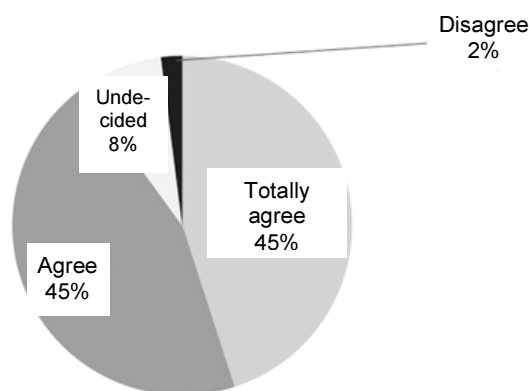
Graphic no. 1. Do you use marketing on social networks? Since when?

Over half of the representatives of the companies said they use social media marketing for 1-3 years (the most used network is Facebook with 93% utilization rate, YouTube with 43% and LinkedIn with 43%), showing a quick orientation to social media to promote their offers, while only 39% having a specialized department. On the other hand, almost all respondents use social networks associated with the marketing department.



**Graphic no. 2. What department of your company dealing with social media?**

An important category of respondents (45%) use social networks for recruiting and 18% say they will use this way in the future. Half of the companies post announcements daily, 15% once every 2-3 days, 21% weekly, 6% monthly and 9% every few months.

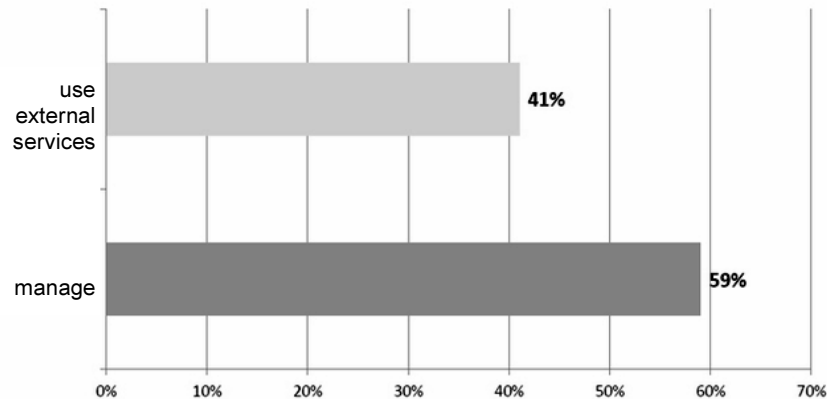


**Graphic no. 3. The marketing through social media is important for your company?**

Regarding the results of using the social networks, representatives of companies believes that it be reached: the increase of market exposure (83%), the increase of company notoriety (79%), the customer loyalty (52%), and the increase of customer traffic (52%), the sales increase (46%), and the decrease of marketing expenses (37%), the developing of business partnerships (13%).

The campaigns administrated on their own on the social networks are performed by 59% of companies surveyed, while 41% use external services for this purpose.

We complete the above analysis with a profile of beneficiaries, through social media, of the results of involvement in promotional online activities of the national organizations. This profile resulted from "Digital Barometer - Exactly Research and Consulting" conducted online on a panel of 600 urban respondents, both men and women, aged between 15 and 49 years (Crăciunescu, 2013).



**Graphic no. 4. Do you manage on your own the company' campaigns on social networks or use external services (specialized agencies)?**

Of the more than 2.4 million women in our country, who are enclosed in the study respondent profile, 1,630,000 make online purchases; almost all of them have a Facebook account, 83% are accessing the social network daily and 45% are using smartphones to browse the Internet every day.

Women are very much concerned about finding and connecting with old friends, 70% stated that they use social networking for this purpose, give "Like" more often (40%) and traditional media are a source of information about the brand.

For men it is important to make new friends on Facebook (36%) and to promote themselves (28%), and to learn about the brands they prefer to access the discussion forums.

Regarding the relationship with brands in online domain, over 60% of men and women are fans of brand pages, but the reasons why they choose to follow it on Facebook are different: women - to read other people's opinions about the brand, because they find opportunities for online shopping, discounts, coupons and special offers; men - to show everyone that prefers to feel part of the brand community, because it provides them a certain social status and because the Facebook brand's page has games and applications, most of the time. Overall, nearly half of women are more decided to buy directly from Facebook, while for men the share is about a third.

## 5. Conclusions

Starting as an experiment, promotional communication on social networks has now become one of the most fashionable forms of communication with the purpose of promoting on the Internet. Even if the time when begin to see the first results is high, this form of promotion is on the rise, especially since the social media campaign costs very little compared to one from outdoor or television.

In Romania, social media is still underdeveloped, so the amounts involved are not yet very large, some organizations being still retained to assign a significant part of the available budgets for promotion.

Although, from the whole market of Internet advertising, social media continues to be a quite low part, the opening to this segment begins to be increasingly higher, which is a step forward.



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# A VIEWPOINT ON ECONOMY STUDENTS' PERCEPTIONS REGARDING THE PROMOTION PROCESS OF TOURISM PRODUCTS USING ONLINE MARKETING

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## Abstract:

*Among the tools that are used in promotional activity in tourism, the online marketing opens the possibility to promptly create offers, meet buyers' demands, and strengthen customer relationships. The online marketers consider that the Internet is a modern technology that allows firms to connect business partners, to identify more rapidly the consumers' needs, to understand and answer on individual demand. The aim of this paper is to emphasize the importance of online marketing in the process of promotion and distribution of tourism products, starting from an empirical research conducted among economic sciences faculty students. The results of this work may provide a partial image of the young people's opinion about online marketing as a tool of marketing communication, and may be approached as a modest guide for tourism marketers in the process of creating, promoting and distributing tourism offers.*

**Key words:** marketing, tourism, on-line, promotion, products.

**JEL Classification:** M31

## 1. Introduction

Nowadays, the tourism world is changing very rapidly. Apart from classic destinations, people wish to see new and different tourism destinations. In a world with fewer boundaries, guided by the media or the Internet, tourists want to spend their vacations in destinations varying from mass-destinations to exotic, isolated or adventure places. For marketers, this tendency is, on one hand, a real possibility to extend the business, increase the profit, and the market share, and on the other hand, a challenge to offer new products, according to tourists needs. Marketers have multiple possibilities to identify tourists' needs, to create appropriate products, and to communicate them to consumers.

In tourism activity, the market conditions are continuously modifying. For a prosper future, the companies must appropriate new competences, use new technologies, modify their way of doing business in the direction of consumers' needs.

The marketing specialists (Kotler and Jain, 2009) consider that the Internet, the technology and the globalization have contributed to the rising of a new economy, based on the logic of information management and information industry. In the same opinion, the Internet has given the consumer the possibility to be informed about the offers and, at the same time, to inform the companies about their needs, about the prices and terms of delivery, and to decide if they want to receive information or any other marketing communication material from companies. Therefore, the companies must take into consideration two fundamental phenomena, the offer generalization and the demand individualization, and the marketing must be the key in the strategy of companies. In these authors' opinion, it is necessary to operate with the new concept of holistic marketing, by integrating three types of management: demand's management, resources management and relationships network management.

The direct communication and on-line marketing are specific marketing tools, which will allow firms to achieve success in digital era.

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The marketing specialists consider that, in the digital era, the accent falls not on mass-marketing (as in the industrial era), but on the individual client, and the battle for market share is replaced by the engagement for client share, the place of confrontation is taken by the creation of relationship networks, and the asymmetry of information is replaced by open dialog (Rohner, 1999).

Websites, social networks, instant messages, e-mails, blogs etc., are important marketing tools that allow getting rapid answers from users: sales, registrations, downloads etc. For example, one of the e-mail marketing specialists considers in one of his books that e-mail marketing is an appropriate way to establish brand loyalty, having as a real benefit the development of long-term relationships (Simms Jenkins, 2009). Based on several studies and analyses presented in the book, the author underlines that e-mail marketing delivers the highest return on investment (ROI) compared to any other marketing approach available, for every dollar spent on e-mail marketing the expectation of estimated return being of 46 dollars.

In tourism activities, communication through direct marketing is very important due to several reasons:

- It informs all participants in the marketing channels (tour-operators, travel agencies, tourism services suppliers, tourists, etc.) about the tourism products that can be offered (vacations, tourism destinations etc.);
- It informs business partners, media, local community authorities, stakeholders, etc., about their present and future actions, about their global or marketing policy that can have significant influences on local people's actual or future life and preoccupations;
- It contributes to the process of creating, maintaining and consolidating the organization or product brands;
- It influences the consumer's perception about tourism products, it can modify attitudes, it can enhance the sales process, etc.;
- It has a great contribution to the consolidation of a relationship, mostly because, as marketing specialists consider, the customer wants a relationship, not a one-night stand (Solomon, 2009).

## **2. Promotional Policy in Tourism Marketing: Key Conceptual Elements**

Following the marketing segmentation and target selection, the marketers must establish the mixture of marketing policies, in correlation to the marketing goals (Balaure et al., 2000).

Important component of marketing mix, the promotional policy has a significant role in the communication strategy of organizations.

The marketing communication activity is realized through two major categories of techniques: promotional communication techniques (advertising, sales promotion, public relations, marketing events, sales force, direct marketing) and continuous communication techniques (brand, design, package etc.) (Popescu, 2003). Based on this opinion, the promotional communication techniques are used in a planned process, with financial and time budget, as a campaign.

As a continuous marketing communication technique, the brand has an important position in the communication strategy of the tourism organizations, because it gives identity to the organization and its' products, differentiates the offers, and guarantees their quality. From the marketing point of view, image has a strong relation with the concept of product. All the tangible (natural or human attractions, tourism infrastructure and equipment etc.) and intangible elements (tourism services) of the tourism product together with communication elements deliver the tourism product and its image. A favorable image delivered to the target market is one of the most important goals of the communication policy of tourism organizations, and the image cannot exist in the absence of communication. The essence of the image is often expressed by brand.

Brand's image is a synthesis of the organization's image, is a patrimonial element, and in many cases is considered as brand image of the organization's products or services.

In tourism activity, the marketing communication process is more complex, because there are more important players and stakeholders that have individual goals and objectives, but must act according to a common interest: creating, promoting and distributing the most appropriate offers, informing tourists, attracting tourists, satisfying tourists' needs.

All the direct and indirect participants to the tourism activities must act in a homogeneous manner as to express the most appropriate message which contains information about the tourism destinations, to stimulate the motivation and to influence tourists' choice, to increase the interests of tourists and business partners for their offers.

The tourism services suppliers (accommodation, food & beverage, transportation, entertainment services suppliers), travel agencies and tour operators, or local and central authorities, representatives of local communities etc., all these factors must collaborate and coordinate their objectives as to obtain the most equilibrate decision and the best results in the process of promoting and valorizing the tourism destination.

Generally, the most communication tools used in tourism activity are: printed materials (catalogues, guidebooks, brochures), marketing events (travel fairs), travel magazines and TV spots, public relations (press conference, interviews), sales promotion (special offers, gives, fidelity prizes etc.), direct marketing.

### **3. The Online Marketing - Tool of Direct Marketing in Tourism Activity**

One of the most used techniques in tourism marketing communication is direct marketing, because on one hand, it allows promoting the tourism offers, and, on the other hand, it allows to get a measured answer from tourists.

The evolution of direct marketing concept was strongly connected to the evolution of technology.

Until the end of the '80s, direct marketing was considered as another way for products distribution, and the specific activities were integrated in sales or commercial departments of the organizations (Veghes, 2003).

Sales correspondence, mail ordering and delivery are considered as the origin of direct marketing (Popescu, 2003).

According to the American Direct Marketing Association (DMA), the direct marketing was considered as an interactive marketing system, using one or several advertising media to determine in a certain place a measurable answer (Smith, 1999; Popescu, 2003).

Among recent definitions, in the DRI-WEFA studies, direct marketing is considered as direct communication with an individual or organizational consumer aiming at generating an answer as an order (direct order), an information demand (sale preparing) and/or visit a shop or another place to buy a certain product or service (traffic creation) (DMA, Economic Impact: US Direct and Interactive Marketing Today, 2002).

According to another opinion, direct marketing can be defined as an assembly of marketing concepts, techniques and instruments, materialized into a direct oriented step, personalized and interactive to consumer, which follows to generate measured reactions from its part (buying a product or a service, requiring supplementary information from the organization, information supply about the characteristics and consumer's behavior, interaction with the organization's traditional marketing and sales points) and to create a marketing relationship platform, on a long term (Veghes, 2003).

In the same opinion, the direct marketing campaigns must take into consideration the following elements: creating and using a data base, direct communication with the

consumer (in a personalized and interactive way), and stimulating a direct and immediate answer from the consumers.

An important aspect in direct marketing is choosing the media and the communication supports.

Some opinions argue that in direct marketing there can be used with good results “traditional” media, such as (Bird, 2000):

- Direct mail, because it is selective, flexible, has a great capacity to generate favorable financial results and cheap solutions;
- Door-to-door drop/Door-to-door-delivery or Mail-drop represent a cheaper way to deliver information than other direct marketing supports, but generate very modest results;
- Press (daily or periodical);
- Audio-visual Media;
- The telephone;
- Out-door advertising;
- The special publications or periodicals addressed to organization clients.

Next to these “traditional” media the author considers that there are some future media supports in direct marketing, such as:

- The Fax;
- Video-mailing;
- Interactive television;
- The Internet.

In time, due to the developments in technology the ways to communicate in direct marketing will probably become more complex and diversified.

Websites and e-mail marketing are the most used vehicles for information. Many people navigate the Web, but the real problem is how to organize and filter information, in such a way that consumers can easily and efficiently identify the best alternative. Among the most utilized forms of cybermediaries there can be considered (Solomon, 2009):

- Directories and portals like Yahoo!
- Web site evaluators, which are reducing the risk to consumers, by reviewing sites and recommending the best ones;
- Forums, fan clubs and user groups offer product-related discussions and are helping customers sift the options.

#### **4. The Research Methodology and Main Results**

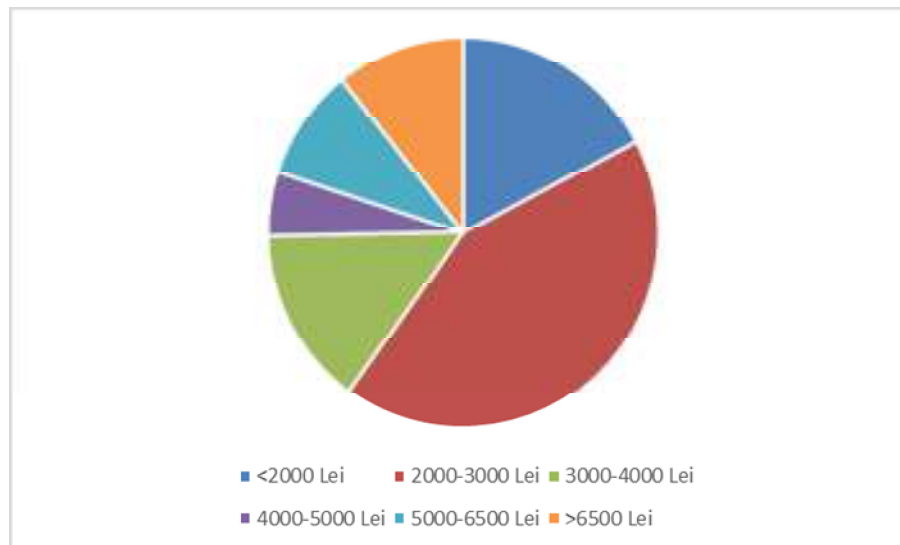
The research conducted is an empirical study that aims at grasping the students’ opinions regarding the process of tourism products promotion through online marketing, as part of the direct marketing communication process.

The research tool used was an 18 questions questionnaire, which was distributed among students of the Faculty of Economic Sciences, “Ovidius” University of Constanta, between 3 and 31 March 2014. The questions were aimed at obtaining information about the reasons which are important in the tourism products buying decision, the factors that influence the selection of tourism destinations, the way travel agencies promote their offers, the sources of information used when deciding to buy tourism products, the security of acquisition through Internet, the price level for online purchases, the kind of tourism services are most often bought online, and the most relevant elements in a website presentation and utilization process.

More than 200 questionnaires were handed out, however only 154 were filled in and returned, and subsequently subject to analysis using SPSS (Statistical Data Analysis, version 20).

*The sample*

Most of the respondents were females (79.2%) while only 20.8% were male respondents; also, the vast majority of the respondents, 83.1%, live in urban areas. The distribution of the sample by monthly average family member income is presented in figure 1.



**Figure 1. The monthly average family member income**

#### *Research results*

Following the conducted analysis, several important aspects were revealed.

Half (48.1%) of the respondents declared that are usually going in vacation once a year, while regarding the duration of the holiday, the majority (50.6%) indicated one week.

Further, the reasons for choosing the holiday destination were investigated, and the reasons were (in order): the natural resources (30.1%); the quality price ratio (16.9%); entertainment possibilities (16.5%); the cultural and historical attractions of the area (14%); the adventure tourism possibilities (10.6%); shopping (8.5%); and food (3.4%).

Regarding the factors that influence their assessment and choice of holiday destination, the respondents indicated: friends and colleagues (31.2%); family (27.8%); the Internet (18.2%); TV (9.1%); magazines (8%); and tourism agents (5.7%).

The study took the respondents a step further, in order to investigate also the process of acquisition of tourism products in the online environment. 49.4% considered that Internet proved to be a cheaper environment to buy tourism products. As online information sources, they used (multiple answers were allowed): tourism agencies websites (58.44%); hotels websites (41.55%); tourism blogs (35.06%); transport companies websites (12.98%); online guides (32.46%); forums (22.07%); and direct mail (5.19%). Regarding the tourism services they would buy online, the respondents indicated: lodging and food (81.8%); transport (11.7%); and entertainment (6.5%). In order to assess the perceived safety of Internet tourism transactions a five point Likert scale was used (from -2 "I completely disagree there is a high level of safety in Internet tourism transactions" to +2 "I completely agree there is a high level of safety in Internet tourism transactions") and the average score resulted was 0.32. The most common reasons for the unsafety of Internet transactions were considered to be the lack of possibility to verify the offer and the offer provider (45.5%) and the unreliability of the offer provider (31.2%).

The next series of questions was aimed at investigating the effectiveness of tourism agencies promotion process in the online environment. Although a rather important part of the respondents (40, representing 26% of the sample) stated they never bought tourism

products from tourism agencies, 33.8% of the respondents considered that the agencies promoted their offers in an appropriate manner, and 42.4% did in fact visit the agencies website looking for information regarding their offers.

In order to obtain a viewpoint on students' perceptions regarding the level of online promotion for tourism offers in Romania, a five point semantic differential scale was used (1 – very low level of promotion to 5 – very high level of promotion) and the average score of 3.31 indicated a satisfactory level.

As presumed, the frequency of travel and travel length were positively correlated with the income level: Pearson correlation 0.249, correlation significant at the 0.01 level, and respectively 0.429, correlation significant at the 0.01 level.

### *Testing the hypotheses*

Several research hypotheses were formulated.

H<sub>1</sub>. There are statistically significant differences between female and male respondents regarding the assessment of the importance of online offer details.

**Table 1 Chi-Square Tests (H<sub>1</sub>)**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.559 <sup>a</sup>	1	.006	.011	.011
Continuity Correction <sup>b</sup>	5.935	1	.015		
Likelihood Ratio	6.356	1	.012		
Fisher's Exact Test					
Linear-by-Linear Association	7.507	1	.006		
N of Valid Cases	144				

a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 3.61.

b. Computed only for a 2x2 table

The hypothesis was tested using the Chi-Square test. In this case, the test results (table 1) indicate that the null hypothesis is rejected.

H<sub>2</sub>: There are statistically significant differences between the respondents living in urban and rural areas regarding the tourism services most frequently bought online.

The hypothesis was tested using the Chi-Square test (Table 2).

**Table 2 Chi-Square Tests (H<sub>2</sub>)**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.741 <sup>a</sup>	3	.003
Likelihood Ratio	11.900	3	.008
Linear-by-Linear Association	6.307	1	.012
N of Valid Cases	152		

a. 3 cells (37.5%) have expected count less than 5. The minimum expected count is .95.

The value of the Pearson Chi-Square indicates that the null hypothesis is rejected and one can therefore consider there are differences between the respondents living in urban and rural areas regarding the tourism services bought through the Internet.

H<sub>3</sub>: There are statistically significant differences between respondents living in urban and rural areas regarding the assessment of security level for online tourism transactions.

**Table 3 Chi-Square Tests (H<sub>3</sub>)**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.297 <sup>a</sup>	4	.367
Likelihood Ratio	3.963	4	.411
Linear-by-Linear Association	.294	1	.588
N of Valid Cases	152		

a. 3 cells (30.0%) have expected count less than 5. The minimum expected count is .95.

In this case, the null hypothesis is accepted (Table 3).

H4: There are statistically significant differences between female and male respondents regarding the assessment of security in the case of online tourism transactions.

**Table 4 Chi-Square Tests (H<sub>4</sub>)**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.527 <sup>a</sup>	4	.000
Likelihood Ratio	21.696	4	.000
Linear-by-Linear Association	3.722	1	.054
N of Valid Cases	154		

a. 5 cells (50.0%) have expected count less than 5. The minimum expected count is 1.25.

The test results in table 4 indicate that the null hypothesis is rejected.

### Conclusions

For tourism industry, the online marketing proved to be an important tool to inform people and companies, to increase the demand for tourism products and services, deliver messages, and obtain positive reactions from the target-markets.

The present study aimed at investigating the perceptions of economy students regarding the promotion and subsequent acquisition of tourism products via the Internet. The study was conducted on a sample of 154 students and shed light on their behavior as tourists and their opinions regarding tourism promotion and products acquisition through the Internet. As expected from the new generation, they were inclined to search and buy tourism products from the Internet rather than from tourism agencies; they consider the Internet as the most suitable and inexpensive environment to purchase tourism products and regard it as satisfactory safe for transactions. The research revealed also that there were statistically significant differences between male and female respondents regarding the importance of online tourism offer details and also regarding the security assessment of online tourism transactions; and also between the respondents living in urban and respectively rural areas regarding the tourism services most frequently bought online.

Although limitative due to the reduced sample of respondents, the present study offers a prospect on the young generation opinions regarding the promotion and sale of tourism products in the online environment.

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# NEW WAYS TO DEVELOP AND PROMOTE TOURISM THROUGH RESTORATION OF WOODEN CHURCHES FROM BUZĂU REGION

Elena-Teodora, Necula<sup>1</sup>

## Abstract:

*With highlighting of the wooden churches from the sub-Carpathian region is possible to make projects of development and promotion of tourism in Buzau. Publishing a book of the wooden churches which presents the overview on architecture helps with the promotion of tourism by bringing new light on the full set, geographical specking it brings new territory to view. Advantage by placing wooden churches in the vicinity of hermitage caves from Buzau will attract even more interest of the large public for seed region.*

*Realizing a few projects of conservation-restoration of wooden churches which are declared historical monuments, will bring a local developing from a cultural-tourist view. A particular case is the wooden church "Saints Emperors" from the vicinity city Nehoiu which has rutier access, helps with the cost for restoration and number of viewers.*

*Through realizing interventions of conservation-restoration and placing it in a favorable aesthetic view, the monument can be used in a cultural-tourist circuit of international important and this way it can help with the growth of value of monuments and developing cultural-tourist with the final scope heightening the economy.*

**Keywords:** *Patrimony, Monument, Conservation, Restoration, tourism*

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In the socio-economic development dimensions is also contained the culture, part of the very societal tissue upon which it can be build strategies for sustainable development.

In the support of wooden churches, many of them abandoned, it can be developed rehabilitation programs, conservation and restoration that will bring out the beauty of the wall paintings and also the overall architecture, saving the historical monument.

The presence of the wooden churches on Buzău territories has been lasting for centuries as proof of the presence of villages from previous centuries and of the traditional customs from the Subcarpathian area, territory which used to represent a bridge between the three big Romanian provinces. The religious buildings preserved in the area represent the testimonials and the expressions of the cultural values.

The present study reflects on the 32 wooden churches which have been declared historical monuments on Buzău County List of Historical Monuments 2010 (CIMEC, "Information Center, Memory and Cultural Synthesis", 1992, *Project List of Historical Monuments*, prepared by the Directorate of Monuments, Ensembles and Historical Sites), cultural-historical heritage, out of which three are of national importance, ranked as architectural monuments in group A and 29, with local importance in group B (Law no. 422 since 18 July 2001 \*\*\* Republished regarding protection of historical monuments, article 8, aligned 1).

In the past there were a greater number of villages which had wooden churches. Preservation of local Christian traditions imposed in a way, that each of the concentration of traditional peasant households must have a religious edifice. It is thus obvious that the raw material used for building houses, was also used for building churches, wood being

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present almost everywhere in the northern half of Buzău County. Many of the wooden churches have perished due to the rage of historical events, or natural hazards. But, shortly, this lost buildings, were rebuilt or renewed, as a proof of long-lasting orthodox cult, due to the will of the people to keep their establishment, continuing thus the transmission of history to the future generations.

Regarding this issue, being aware of the heritage's quality and importance property is recommended to keep what that we have, not to destroy, not to bring further damage and to bring to the fore these wonderful architectural jewels that enrich our culture.

After the development of conservation and restoration projects of mural within wooden churches existed in Buzau County and the documentation campaigns, at the monument it can be highlighted the forms of degradation and may determine proposals for interventions. Movements performed consecutively in 2013 and 2014 to a total number of fifteen wooden churches declared historical monument in Buzau made possible an awareness of those values. Images taken in situ have a unique value because their existence in other studies is unknown and therefore it was not possible to undertake a critical analysis of the current state of preservation.

On the whole, any strategy that takes into account the long-term preservation and maintenance of a wooden church should start from the methodology of their interventions and costs. The proposals will be achieved through the efforts of all interested groups, the beneficiaries of use, to the constructions' founders and also to the general public.

The economical measures which are taken into account are those establishing investment and production costs currently possible after restoration. From the cultural point of view, the gains are much higher since the tourist attraction regarded as invaluable historical testimony will live in the future and the economical growth will take place over a long period of time continuously contributing to the development of society.

Restoration of wooden churches supports the sustainable development of the national heritage and the culture sent to future generations. Through the culture and heritage that is part of it, we represent our history, past, present and future.

Over time were discovered important artifacts of human history, objects that belong to the Upper Paleolithic (35 000-10 000 BC) on the upper Buzau, Niscov and Bâscii Chiojdului (Burlacu, Octavian, 1979, *Geographical and historical atlas of the Buzău county*, Home county of Buzău of teaching staff, p. 87) proving the existence of man in the region from these times. Other artifacts, such as cave hermitages in Buzău Mountains attest the beginning of Christianity in the Romanian space from III - IV century, the area being known as monastic center with old tradition.

In the county of Buzau were found tools and weapons made of bones or carved stones in the hills along with ceramic objects from the Neolithic and Bronze Age belonging to the Boian, Gumesti and Monteoru cultures. The ruins of the Roman fort from Pietrosele and several other Dacian settlements are the testimony of civilization on this territory. Domestic activities of the people of Neolithic culture were animal growth and cultivation of plants, allowing the gradual transition to a sedentary lifestyle. The house building had natural devices arranged along the water, on high terraces, all located on the surface in the form of huts.

The presentation of remains and historical data of the county shows the importance and the value of this cultural area. The place and the role of culture in economic and social life will be changed after the accumulation of the data concerning the cultural sector, cultural institutions and even cultural offer, thus changing its ratio with the other socio-economic sectors. (Centre for Research and Consultancy on Culture, *Sectoral strategy of Culture an National Heritage for 2014-2020*)

Regarded as an economic force with a dynamic evolution in most EU Member States, as in Romania, culture is likely to generate economic growth. As an economic sector, it contributes significantly to GDP and provides many positive effects.

The wooden churches declared historic monuments bearing spirituality, meanings, identity, are an important factor in the sustainable development process, providing economic models based on cultural resources, tangible and intangible. Highlighting them through restoration and inclusion in programs of cultural identification, communication, information, accessibility will bring development of cultural infrastructure to the local and national community.

The economic analysis of conservation-restoration interventions on wooden churches from Buzau can be estimated based on a calculation of the rehabilitation costs. The estimation of these monuments brings support drafting conservation-restoration of wall paintings and the whole system. The development of the projects, in the first phase of the monuments of national importance, A classified, will bring a Culturally and tourism development helping to increase regional economy.

Near the city Nehoiu is placed a wooden church „ Saint Emperors Constantine and Elena” in the village Lunca Priporului. It has road access, the best case compared with other inaccessible, advantage in reducing the cost of restoring and increasing the number of visitors. The church was built in 1837 after the National Heritage Institute archives, and in 1823 after CIMEC list, but in an inscription on the iconostasis was written 1855 (fig. no.1). The church has not undergone any transformation, preserving the character of folk architecture through the small, beams made of building with traditional plan. The exterior is made of wooden porch on shaped pillars (fig. no.2), inside the first room, the narthex is a rather small space, having the partition wall with the nave by two free pillars and two anchored in the wall, the middle room or the nave and has a shape of square and polygonal altar. The roof is decorated with octagonal bell tower located next to the narthex, the carvings with harmonic lines of the porch rafters have an undeniable artistic value, and the existing shaped pillars and braces in the openings also support the plastic of the monument.



**Fig. 1.** The year it was painted the icons. **Fig.2.** The wooden church from Lunca Priporului..

Interesting is the indoor coverage system ranging from a straight horizontal plane through the ceiling made of boards of the porch and into the nave a polyhedral dome-

shaped canopy with eight curvilinear sides finished into a central ring. The altar is crowned by a cylindrical vault connected with the walls, trapezoidal in plan. The floor level is raised by a stone pedestal being paved with boards inside and stone in the porch.

All these technical elements bring a certain architectural authenticity that represents the work of craftsmen claiming tradition and culture. The cultural goods existing in these monuments are not artifacts and it can not be regarded as personal business, they are a cultural heritage with great or exceptional value, historical and documentary. Existing in situ, cultural goods have to live in an atmosphere of freedom, spontaneity and national character, which is why it is necessary conservation principle "in situ". By carrying out restoration and conservation interventions and highlighting, the monument may be placed in a cultural tourism circuit of national importance and this will help boost the economy.

Near the Lunca Priporului village is the Nehoiasu village in which the wooden church dedicated to the "The dormition of the Virgin" made in the period 1700-1710. The wooden church was originally isolated, but in time, by increasing the area, was included within the village.

The age village is known since the seventeenth century mentioned in documents of great importance, and the acts of freeholders established here bearing dates even old. The locality settlement is scattered hills formed from several villages. On this region has been developed a rich wood industry, it is mentioning that in 1892 the village had 58 saws. The territory offers parts and other natural resources through substances and mineral, untapped occasion to mention thermal spring Poiana Aries. Landmark in full development and with perspectives.

A good portion of the 32 wooden churches presented in the CIMEC ("Information Center, Memory and Cultural Synthesis", 1992, *Project List of Historical Monuments*, prepared by the Directorate of Monuments, Ensembles and Historical Sites) list on the territory of Buzău county are included in the protected area of other monuments - tourist attractions, placed at distances of several kilometers. Integrating these factors locally they bring benefit in development of the at county and even national tourism.

Stretched on Pârcovului valley (fig. no. 3) with a high number, cities that still exist today by an old wooden church are placed consecutively from the bottom to the mountain as follows: Lunca Frumoasa, Balanesti, Bozioru de Sus, Bozioru River, Gavanele and Nucu . In this area is included the complex of cave hermitages Bozioru - Nucu with medieval origin but also from the Bronze and Iron.



**Fig. 3. Buzău county map with the location of villages in which a wooden church**

Bozioru village owns in his area diversified points of tourism interest that constitute an favorable environment for social, economic and touristic development of the area. In the administrative component of the village exist: Bozioru, Buduile, Fisici, Gavanele, Gresia, Izvoarele, Nucu, Scaeni, Ulmet si Vavaluvile, four preserving, among other monuments, one old wooden church. Architectural monuments of local interest belonging to group B contained in localities Bozioru de Sus, Bozioru Rau, Gavanele, Nucu and Vavalucile are represented by the four wooden churches and the three memorial houses. Although they have a local interest, inheritance from the eighteenth, nineteenth and early twentieth century can be seen as the expression of individual identity of the area and the essential values that can form - together with monuments of national interest grouped A - a tourist center.

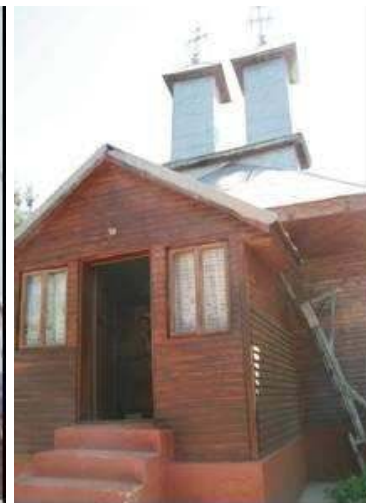
The sights can be constitute by wooden churches: "Holy Kings" from Bozioru River dating from 1841, " Virgin Mary's Birth " of Bozioru de Sus built in 1710, the former monastery Găvanele preserving wooden church "Assumption" in 1803 ; wooden church "Saint Nicholas" from Văvălucile raised in 1809 and wooden church "Entering Virgin Mary in the Church" in Nucu built in 1765.

The original form of the timber church " Virgin Mary's Birth" from Bozioru de Sus was limited to the western wall of the present nave, also including the open porch (fig. no. 4).

Details of the changes can be seen on the outside by adding wooden planks above the original railing. The final changes were aimed to increase the liturgical space within the church, given by the current open porch addition resulting in the increase of the number of parishioners. The porch is later added, its part of the monument without altering its originality ending as an aesthetic part of the plasticity of said monument construction. The strength beams from the bell tower show its originality ever since 1774 when the church was moved to the present location and rebuilt from its old material.



**Fig. 4. The wooden church from Bozioru de Sus.**



**Fig.5. The wooden church from Bozioru River**

Stages interventions for the wooden church „Holy Voivode” (fig. no. 5) in Bozioru River overlooking the constructive elements are vaguely known. A milestone in the changes is known between 1889-1911 when they performed repairs on the building and was repainted. In 1958 (INP, National Heritage Institute, archives, 1963 fund D.M.I, Direction of Historical Monuments, *Sheet of monument, Wooden Church from Upper Bozioru*, no. 10B 053, from 3.V.1963, checked by I. Șerban in 11.02.2003) there was a change of base, modifying the traditional look by replacing the old shingle roof with a new board.



The roof is crowned by two identical towers placed on a square section which is positioned on a common basis. Towers are built without a proper function they were only for decorating. Their dating seems to belong to the moment when the shingle roofing was replaced with the board.

Inside walls are painted in oil on galvanized sheet, probably in the interventions between the years 1889 to 1911. The nave retains the full picture sprawling down on the board, the other rooms are unpainted. A small number of religious scenes are preserved in the narthex. In 1963 in the forms for the designation of the monument the building was proposed to be classified as an popular architectural monument and later on to be included as a monument of historical value.

By restoring them is created on area of ten kilometers, five tourist attraction represented only by wooden churches, edifice that have not been introduced so far in the tours circuits.

Bozioru village preserves three memorial houses, Nicholas State house from 1923, Măncu house from 1924 and Stere Blăjel house from 1924, also near the village Nucui at distances of 2-7 km are placed cave hermitages in Bozioru Mountains, with 12 points of interest, most of them dated from medieval times, objective with national value classified in group A of historical monuments. Based on the existence of this two monuments with national interest, the cave hermitages and the wooden church "Assumption" of former monastery Găvanele, can be promote the other objectives with local interest.

Găvanele's former monastery church (fig. no. 6) is one of the few that keeps the shingles covering with wide clogged gutters, and wooden towers covered also in planks with vertical slats. It is assumed that the current old nave is open porch. Along with the whole church was covered with boards, and the altar, having all arcs accolade example of temple doors, anaphora and diaconicon. The church votive painting appears in current forms, except open porch pillars winding ridges and cut wood braces. The building construction is made from oak beams placed on a stone pedestal which is plastered and whitewashed, with the exterior clad with boards and battens, and the interior upholstered with icons painted on wood (fig. no. 6,7). Of course, along with the inclusion of former porch in the body church was added the common and small porch, and from the ex wall which separating the narthex from the nave which was points in the plane, has remained only the upper beam.



**Fig. 6. Wooden church from Găvanele's former monastery.**



**Fig.6,7. The wooden painting**

The location of the monument is on the road that goes to the village Nucui where it is the other wooden church, and then follows the road that reaching caves hermitages complex.

The restoration of the monument of architecture can achieve a targeted tourist route to visit. In this way it can contribute to the enhancement of cultural monuments and tourist development aimed at increasing economy.

It is important to protect historical monuments of national and universal value in Group A under the protection of the Ministry of Culture, a procedure that is part of the “strategy of economic and social sustainable development, tourism, urban and spatial planning at national and local level”.

With this population growth and regional economic development, hamlets became villages during the last century and today maintain this wealth of Romanian culture, small wooden church, which today may officiating religious habitat and services. Many of these wooden buildings were replaced or abandoned to the church wall, when material resources have enabled this change, a phenomenon often encountered in areas with developed infrastructure.

After analyzing the wooden churches in terms of density in the Buzau county, how widespread, the data, and even the dedication day are the defining characteristics who make specific buildings in the area. In describing the number and manner of wooden churches spread by Radu Crețeanu in 1968 is stated that the district Buzau included wooden church built between 1808-1810 (Crețeanu, Radu, 1968, *Wooden churches of Walachia*, Ed. Meridiane, Bucharest, p.6), which was not known how many. Although each village or commune and was composed by a church or two, it seems that the old wooden buildings have been preserved only in small settlements Orthodox communities with a high percentage of certification in the first half of the nineteenth century.

Inventory wooden churches and historical monuments analysis of the geographical area in order to achieve cultural tourism recovery programs for economic development brings a benefit in promoting tourism. Cultural resources are an important tool in the processes of regeneration and urban revitalization, as they are an essential part of the lifestyle of the individual and societies.

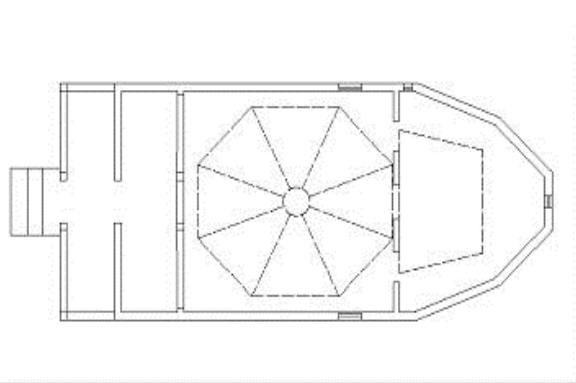
By highlighting and cataloging wooden churches in the Carpathian area can formulate strategies to develop and promote tourism in Buzau county. Promote tourism can be made by publishing a directory of wooden churches in which the description of architecture in general, both on the exterior and interior makes the whole assembly placed geographically image by presenting tourist route and other monuments in the area will highlight the *new territories* visit.

The advantage of the wooden churches locality near Buzau County cave hermitages will attract more public interest to explore the area. Highlighted as such, through awareness of these values unappreciated until now, will help build tourism circuit that will result in economic development.

In support of these wooden churches, many of them abandoned can develop rehabilitation programs, conservation and restoration that will bring out the beauty of the mural paintings and also the overall architecture, saving historical monuments.

Methodological program to achieve objectives is the inventory of wooden churches in consecutive trips monument technique for analysis of performance, state of preservation and conservation-restoration interventions proposal. For proper research will take shots, macro photography, recording pictures under UV light sampling to determine the pigments used, the surface of the monument for the determination, documentation specialist comic, humidity and temperature measurements to determine the indoor climate to conditions monument conservation, architectural plans (fig. no.8) made from measurements (fig. no. 9) and drawings. After summation of all data and analysis of the conservation status will develop draft conservation - restoration stating the diagnosis and specialized methodological suggestions that will be given to the approval of the Ministry of Culture and National Heritage.





**Fig.8. The architectural plan of Lunca Priporului church** **Fig.9. The measurements made in situ.**  
(arh. Petru Darida, longitudinal section and plan made  
by the architect Cherulescu, V., INP Archives)

For these types of monuments, *wooden church with interior paintings*, the restoration action does not end with the intervention itself. Their rare necessary periodic maintenance actions and treatment of the wood, which is known as a perishable material. Monitoring seasonal microclimate provides the necessary information that may cause interference on interior painting to ensure integrity.

Achieving awareness programs surrounding values in order to preserve national heritage and transmission to future generations is an objective sought can develop tourist area. The analysis and awareness of historic court can produce programs for education and enlightenment of the masses especially those residing in the surrounding area of the monument. The beneficiaries of use and locals in the area will know how to appreciate historical buildings, removing conception to demolish and rebuild, or remove the intention to take off the old painting and then to paint again. This way the people can be aware of the importance of monuments and their historical value. Making them worth by protecting, carefully preserve and promote can increase zone economy.

Preserving and restoring historic wooden churches declared will become the engine of regional development Buzău County and increasing of tourist's number who visit the region. This will achieve growth of national and regional identity by highlighting all European wooden churches, monuments representing tourism value. Promoting the image of Buzău County using natural wealth and national heritage, tourism segments that are complemented by spiritual heritage, cultural, universal heritage wooden churches bring sustainable tourism based on existing landmarks.

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# RURAL TOURISM IN DOBRUDGEA

Elena, Sima<sup>1</sup>

## Abstract:

*The natural and anthropic tourism resources of a certain area generate specific tourism forms, which complete each other within the different destination categories. The rural area in Dobrudja has diversified tourism potential, provided by the contrast of natural environment factors, ranging from the oldest and to the youngest relief units, natural protected areas, spa resources and cultural, historical, religious sites, as well as multicultural local customs and traditions of the rural area. This potential can be used under various kinds in the rural area: cultural tourism, historical tourism, religious tourism, ecotourism, fishing tourism or bird-watching tourism, and other kinds of rural tourism. By linking these tourism resources and tourism forms, tourism routes can result, which together with the local customs, traditions and cuisine may contribute to the social and economic development of Dobrudja's rural area, through sustainable tourism as alternative to seasonal seashore tourism.*

**Keywords:** sustainable tourism, rural space, economic development, Dobrudja.

**JEL Classification:** L83.

## 1. Introduction

In conformity with the competitiveness, durability and sustainable development principles, the tourism coordination and development, as well as the management of tourism resources have a strategic importance for Romania's national economy. That is why the public administration authorities, the associations, economic operators, as well as all the natural persons or legal entities that carry out tourism activities are involved in this economic activity sector.

The tourism, as priority sector of national economy, has complex functions and multisectoral implications, covering the whole set of activities carried out in order to produce goods and services for tourists. The rural tourism is a priority sector of tourism that covers all the tourism activities, products and services that are organized and performed in the countryside, mainly by the local population, in close connection with the environment and the basic activities of local people, by which the tourism resources, the cultural heritage, tourism structures and local products are put into value. Agro-tourism, as a form of rural tourism, is organized and takes place in close relation with the basic occupation of rural people – agriculture, animal husbandry, crafts and other specific activities, the tourism activity being secondary to agriculture.

The Romanian villages have a distinctive character from the point of view of the cultural and architectural heritage, depending on region, which gives them a specific identity with regard to the life style, as well as to putting into value the local resources.

Generally, the Romanian rural area comprises agricultural activities. The non-agricultural activities are mainly based on forestry, agro-processing, small-scale trade activities, handicraft, services, mining activities, energy production, which are insufficiently developed.

At regional level, the rural tourism development largely depends on the existence and quality of tourism boarding houses and on the presence of various types of activities, of folklore, by the existence of ethnographic regions and by the practice of agriculture and viticulture (agro-tourism). The tourism specific for the region Bucovina is the religious tourism, in Maramures the architectural and ethnographic tourism prevails, in Transylvania the recreational and cultural tourism, the art of cuisine and wines, while at the foot of the Carpathians fishing is practiced. The rural tourism and agro-tourism (specifically linked to on-farm activities) are activities that generate alternative incomes, which provide

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development possibilities for the Romanian rural area, due to the unique landscape, large semi-natural areas, to the inborn hospitality of rural people.

In this sector, we must mention that the rural tourism and agro-tourism activities in Romania are little mediatized by the tourism agencies both for the Romanian and foreign tourists.

The objective of this paper is to highlight the tourism potential and the tourism market development in Dobrudgea's rural area. The motivation for selecting this area is that for most of us Dobrudgea means the Black Sea shore with its resorts or the Danube Delta with its priceless biodiversity, but between the Danube and the Black sea there is a territory that represents a true reason for a travel in space, time and spirituality, where nature, history, creed and traditions are intermingled, forming a unique picture.

The study starts from the premise that the specific resources of Dobrudgea's rural area are not fully and appropriately put into value. The methodological approach includes the identification of the "territorial tourism capital" of the rural settlements from Dobrudgea located outside the influence zone of the Black Sea shore, where the "cultural-historical potential", by association with the other resources, can contribute to the concrete actions of implementing the proposed strategic objectives for shaping the community future as integrating part of the rural development policy of Dobrudgea's space. The research methods used are the inventory-type analysis of the usable resources in the rural tourism and the cause-effect explanation of the investigated phenomenon. The analysis of the cultural-historical tourism potential of Dobrudgea's rural area is based on data and information obtained by bibliographic documentation and field visits. The main investigated elements are the tourism resources with cultural-historical character, the existing infrastructure, the opportunities for rural tourism organization and practice, as well as the possibilities of licensing and certification of qualified staff for different tourism activities in the rural area.

For the researcher of the contemporarry rural phenomenon, the investigation of relations that exist between the environmental and social factors, at local level, makes it possible to define the necessary mechanisms for the sustainable development of tourism activities that should contribute to the increase of the number of jobs and of altenative incomes, as well as to the increase of rural space attractiveness.

## **2. Dobrudgea's tourism potential**

Dobrudgea is a Romanian historical province located between the Danube and the Black Sea, consisting of two counties from the administrative point of view: Tulcea and Constanța. At present, the economic system specificity and the functional typology of Dobrudgea's settlements are determined by the utilization of local resources as well as by the distribution and territorial absorption of the foreign financial support for investments.

Dobrudgea's tourism vocation is equally conferred by its geographic position, characterized by a beautiful and diverse landscape, as well as by the cultural-historical profile of the region, with rich and various archaeological remains and historical monuments. Located at the confluence of several pan-European transport corridors and benefitting from the generous proximity of the Danube and Black Sea, the two counties – Constanța and Tulcea, can easily develop a whole set of tourism products, namely:

- summer tourism,
- balneary tourism,
- recreational tourism,
- sport and nautical tourism,
- scientific and business tourism,
- cultural tourism and history-oriented tourism (for those who want to visit the archaeological sites),
- cruise and itinerary tourism, as well as
- rural tourism.

Another important characteristic is represented by the harmonious blending of the old and new, of tradition and modernity. This complementarity makes Dobrudgea more attractive to tourists and gives them the possibility to know and understand the history and tradition of the places they are visiting.

***The natural tourism potential of Dobrudgea*** is represented by the Black Sea shore, the Danube Delta and the wetland of the river and sea zone of Dobrudgea, the continental Dobrudgea, the lakes with therapeutical or recreational value, a specific bioclimate and numerous protected areas.

The Romanian Black Sea shore comprises two sectors, namely:

- a sector subject to intense abrasion and to alluviation, consisting of fragile seashore areas, with the largest natural beach in the country (between Sulina and Sf. Gheorghe) and with the largest lakes from the country (area of the former bay Halmyris): lake Razim (415 km<sup>2</sup>), lakes Sinoie (171 km<sup>2</sup>), Golovița (118 km<sup>2</sup>) and Zmeica (55 km<sup>2</sup>);

- another sector, which begins south of Cape Midia, comprises seashore areas, bays, capes and beaches, sometimes protected by stone dykes built up to diminish the sea abrasion; from the morphological point of view, this can be delimited into two subsectors: the former between Cape Midia and Constanța with a transition area from the low coastline with accumulation of sediments from the Danube to the high coastline with Sarmatian chalkstone cliffs and the latter between Constanța and Vama Veche, a high seashore with cliff (up to 40 m high), shaped into limestone and loess, fragmented into bays and promontories.

The wetland of the river and sea zone of Dobrudgea is one of Romania's most important tourism destinations, comprising 3 types of areas: low areas (the Danube river plain and the Danube Delta), lagoons (the Razim-Sinoie complex) and coastline (south Dobrudgea seashore).

In Dobrudgea, the Danube course is about 409 km long, lying from the western part of the locality Ostrov to Sulina. The high banks that neighbour the Dobrudgea Plateau (in the west and north) have steep slopes that are 70-100 m high, sculptured in hard rock formations (green crystalline schists, granite, limestone), which are most often buried into recently formed sediments. The Danube Delta and the lagoon complex Razim-Sinoie is the largest wetland area from Europe, with an original landscape of great tourism attraction and scientific importance.

The morphological aspects of continental Dobrudgea define a contrasting environment from that of the wetland areas, characterized by a rigid relief with different geological structures adapted to the continental climate, with strong dryness. The old Hercinic mountains, forming the highest area of Dobrudgea, provide a landscape with angular mountain ridges with ruiniform aspect and pyramid-like peaks, mainly in the sectors where the forest vegetation is absent. South Dobrudgea is characterized by even flat areas connecting the valleys deepened into limestone and loess deposits, where sometimes they form miniature canyons.

The hydrographical components with landscaping, therapeutic and recreational value are represented by the sea water, maritime limans, temporary rivers, the Danube – Black Sea Canal. A few littoral lakes (Tașaul, Siutghiol, Tăbăcărie, Techirghiol, Tatlageac, Mangalia) feature a landscape with steep banks sculpted in limestone, bays and promontories, being fed by permanent or temporary rivers and groundwaters and in certain cases they have sapropelic muds used in thalassotherapy.

The bioclimate of Dobrudgea's wetland is characterized by comfortable cool temperatures influenced by the aquatic areas and it has two subtypes: *the seashore subtype* with therapeutical qualities in the period May-September and the *river plain type*.

The contrast between the areas with rich vegetation from the floodable areas or the compact forest massifs from north-east and rare floristic associations from the coastal areas and the steppe inside the plateau represents a high attractiveness of natural resources. In the plateau part, there is a great number of flower species (over 50% of Romania's flora), steppe and forest steppe species, deciduous and deciduous-resinous xerothermal forests, deciduous and deciduous-

resinous mesophilous forests. The bird populations from the Danube Delta, the lagoon spaces and the coastal zones of the Black Sea are represented by 325 species. The ichthyological fauna (about 130 species) has an economic and tourism interest, with fish classes differentiated by the aquatic environment (fresh, brackish, saline).

Dobrudgea has 85 protected areas, including integral protection areas from the Danube Delta Biosphere Reserve and the Măcin Mountains National Park: 1 national park, 53 natural reserves, 19 scientific reserves, 12 natural monuments. The Danube Delta Biosphere Reserve accounts for 31.6% of the total surface of protected areas from Romania.

### **3. Tourism vocation of Dobrudgea's rural space**

The rural settlements feature tourism interest depending on the natural environment factors, on the historical and cultural conditions in which they evolved; putting into value the tourism attractiveness elements is strongly influenced by the access possibilities, which most often represent an important constraint. In most villages with tourism interest, mainly in those located in zones with complex high value tourism potential, there are more than two–three potential travel motivations (villages of balneary, fishing and hunting, cultural-historical and religious, ethnographic, viticultural interest). Most rural localities have a complex tourism potential and the differences between these stem from the main attractive elements. The isolated settlements have a strictly tourism function and put into value the natural potential from their proximity.

*Two areas for the rural tourism practice* can be delimited in Dobrudgea: a compact area located in the wet regions of the river plain, delta, lagoon complex and seashore, with prevailing piscicultural specificity, which is used for the practice of mass summer tourism, balneary, recreational, sport, business, cruise and itinerary tourism; a hilly and plateau area with prevailing fruit-viticultural, apicultural and agro-pastoral specificity, which use the rural tourism potential for the gastronomic, ethnographic, historical, religious and scientific tourism practice.

The rural settlements with tourism potential in Dobrudgea cover the largest part of Dobrudgea (72%). In the case of *Tulcea county*, 83% of the territory is represented by natural areas of high scientific and landscape value (the Danube Delta Biosphere Reserve, Măcin National Park, the Danube river plain) and the cultural-historical heritage (the relics alongside the Danube, Niculițel, Adamclisi, Enisala, Baia centers). *Constanța county*, by the balneary and cultural potential from the southern part of the Romanian coastline and the historical, cultural and religious resources from Oltina Plateau, accounts for 59% of the remarkable tourism potential. Tourism developments are found in the perimeter of resorts, of the urban or rural localities or on isolated basis, depending on the potential resources that require their existence.

*The tourism ethnocultural patrimony* reunites the material and spiritual culture of the past and present, which makes out of Dobrudgea a genuine *museum in open air*, and many monuments, archaeological sites and architectural assemblies are included in 46 protected areas. The *archaeological relics* of ancient times can be known by visiting the remains of human settlements established by the pre-historical, Geto-Dacian, Greek and Roman civilizations or the indoor or open-air museum collections. Among these, the remains of the ancient towns Histria, Tomis and Callatis have a particular importance, completed by the discoveries from Halmyris, Arrubium, Dinogetia, Beroe, Aegyssus, Noviodunum, Tropaeum Traiani, Capidava, Carsium. The main historical objectives from the Byzantine period are the mediaeval citadel Păcuiul lui Soare (dating back from the 10th – 11th century), Citadel Heracleea from Enisala (13th century), rebuilt by the Genovese, the rupestral complex from Basarabi (10th century).

The *religious tourism* objectives include worship places and cemeteries belonging to several religions and represent attractiveness elements by the significance of feasts (titular saints), age of settlements and architectural style, location. New worship places were added to the old monasteries Cocos (1833), Celic Dere (1835), Saon (1846), Techirghiol (1928) and Dervent (1936), namely (the Cave of Saint Apostle Andrew, Cave of Saint Ioan Casian,

Halmyris-Saints Epictet and Astion, Monastery Saint Helen by the sea) with important religious significances. In the southern part of Dobrudgea, where Turkish and Tartar communities are living, there is a large number of mosques and Muslim places of worship.

The numerous *ethnic communities* created an original material and spiritual culture in which we can notice the traditional houses from reed and earth from the Danube Delta. Of great importance for the cultural tourism, we can mention the archaeology museums (Adamclisi, Istria), art museums (Limanu, Topalu), ethnographic museums (Enisala), scientific and technical museums, memorial houses (Panaghia-Babadag and Panait Cerna, in Tulcea county). The hydrotech constructions (bridges, lighthouses, the Danube – Black Sea Canal and Sulina) stand out in the landscape of the areas where they are located.

**The cultural-historical tourism** in the Dobrudgea's rural area has as main objectives the archaeological sites from Adamclisi, Enisala and Histria. Yet, on Dobrudgea's territory there are more archaeological sites that are not put into value from the tourism point of view. Among these, we can also mention the citadels that are part of the military fortification system on the Danube border in the Roman Empire period. On the right bank of the Danube, from Ostrov to Tulcea, the following archaeological sites can be visited: Durostorum-Ostrov, Altinum-Oltina, Sucidava-Dunăreni, Axiopoli-Cernavoda, Capidava, Ulmetum-Pantelimonul de Sus in Constanța county, Noviodunum-Isaccea, Dinogetia-Garvăn, Troesmis-Turcoaia, Aegystus-Tulcea in Tulcea county. The sight of these can be compared to that existing in many other places from Europe that are visited by tourists.

#### **4. Rural tourism routes in Dobrudgea**

Dobrudgea's rural tourism comprises all the activities carried out in the countryside beyond the areas covered by the beach resorts. The tourism attractions existing in Dobrudgea's rural area are the following: archaeological remains, architectural and art monuments, churches, museums and memorial houses, folk and gastronomic traditions, as well as natural objectives (natural reserves, forests, geological formations, caves).

Among the rural tourism routes that are practiced, we can mention the following two, which have as starting point the old Tomis, i.e. the present Constanța, and which cross both the territory of Constanța county and the territory of Tulcea county.

**Tourism route** *Constanța – Murfatlar – Adamclisi – Ion Corvin – Ostrov – Ion Corvin – Cernavodă – Murfatlar – Constanța*, with the objectives: Murfatlar vineyard, Vine and Wine Museum, Murfatlar wine cellars, floristic reserve Valu lui Traian, Monastic complex Basarabi sculpted in stone, floristic reserve “Fântânița-Murfatlar”, Triumphal monument from Adamclisi, Monastery “Saint Apostle Andrew's Cave”, Dervent Monastery, Canaraua Feti reserve, Esecioi forest, Byzantine citadel from “Păcuiul lui Soare”, lakes Bugeac, Vederoasa, Oltina, fossiliferous points alongside the Danube (Figure 1).

**Tourism route** *Constanța – Istria – Baia – Babadag – Enisala – Murighiol – Tulcea – Niculițel – Măcin – Ciucurova – Baia – Constanța* with the objectives: Histria and Enisala citadels, monasteries Celic Dere, Saon, Cocoș, Uspenia, Basilica with martyricon from Niculițel, National Park Măcin Mountains, archaeological reserves alongside the Danube (Figure 1).

For each route, specific tourism packages can be provided, in which the traditions and customs are accompanied by Dobrudgean cuisine preparations as well as wine tasting from the famous vineyards of the region. At the same time, in the tourism region Dobrudgea, tourism programs can be established for putting into value the tourism potential in the rural areas throughout the year, with a higher frequency in the warm season for the tourists coming to the seashore.



Figure 1. The main routes with rural tourism potential from Dobrugea

Source: Popescu M., Urdea Cornelia-Maria, 2012

## 5. Conclusions

The rural tourism is a segment of the tourism sector. This includes tourism-related practices, while facilitating people's coming into contact with the beauty of nature, earth's richnesses and local people's hospitality. The natural and anthropic tourism resources of a certain area generate specific tourism forms, which complete each other within the different destination categories. The historical tourism is a niche of the rural tourism, insufficiently exploited at present. Our country's territory has a great variety of cultural-historical values (folk art, ethnography, folklore, traditions, historical relics) located in a harmonious natural environment, with a various and picturesque landscape.

The Romanian rural economy has a preponderantly agricultural character, yet most farmers are involved in part-time agriculture, spending insufficient time on farming activities. The non-agricultural economy (industrial SMEs, services, rural tourism) has a low share in rural Romania, and the rural tourism is quasi-non-existent, except for in certain mountain zones and in the Danube Delta.

One of the rural development policy objectives of the European Union has in view the *development of certain job-generating complementary and alternative activities*, in order to counteract the depopulation of agricultural areas and to strengthen the economic and social substance of rural areas; one of the principles that lie at the basis of the rural

development policy is that referring to the multisectoral and integrated approach to the rural economy, in the sense of *diversification of activities*, creation of *additional income and employment sources*, as well as rural heritage preservation.

As a multifunctional space, Dobrudgea has been and will continue to be mainly a human *living territory* (rural settlements) and a *social space* (resting, recreation, conviviality/tolerance relations) for the local communities. At the same time, the Dobrudgean space is also an *economic space*, providing agricultural land and other resources as production and existence means. Although at first sight the landscape from Dobrudgea is rather dull, there are natural resources and objectives in the rural areas, which could be put into value for tourism purposes. An advantage could be represented by the rustic buildings, with traditional architecture, typical for this region.

A space identity results from the topographic, landscape, historical, cultural and economic identities that have to be taken into consideration in the territory management actions for tourism purposes. The tendencies of rural area development for tourism target the southern part of the seashore, the low seashore area, the localities alongside the Danube and those from the Danube Delta.

The diversity of (natural and cultural) attractive resources from Dobrudgea represents the premise for the development of certain complex tourism forms and types, from classical ones (balneary, recreational and rest tourism) to specific forms (eco-tourism, rural tourism). The accessibility of resources creates regional differences that are reflected in tourists' circulation, development of specific material base and of practicable tourism forms.

The rural people, the small entrepreneurs and the representatives of townhalls from the rural localities with tourism objectives are interested in their utilization for tourism purposes and are willing to revive old customs and habits, which can attract tourists: wedding customs, local people's evening reunions with recreational purpose, vine and wine festival. If the small entrepreneurs attended free of charge courses in local traditions that were offered to them, they would find sufficient resources, funding programs and maybe sponsors who should invest more for their village to enter the rural tourism circuit.

Investigating Dobrudgea's rural area, we shall find out that this is the depository and preserver of an inestimable thesaurus of architecture and art with historical monuments and relics, as well as of a high value ethnofolkloric heritage.

In this context, the rural tourism, as alternative to the seasonal seashore tourism, does not depend to the same extent on the seasonality that characterizes the classical tourism from Dobrudgea and can contribute to the socio-economic development of the rural area.

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# ASPECTS ON CONSUMERS ATTITUDE TOWARD GENETICALLY MODIFIED FOODS AMONG YOUTH

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## Abstract:

*Advances in food biotechnology and food science in the early 1990s have opened the gates of new markets for genetically modified foods. A broad dispute over the use of foods derived from genetically modified organisms and other uses of genetic engineering in food production in terms of key scientific researches, their impact on health and eco-systems, food safety and food security, labelling and regulations, traceability is still lasting. Beside the scientifically, technical, ethical and regulators arguments, the economical aspects of the genetically modified food market is influenced by the social acceptance of it. Consumers' perception and their attitudes are different and depending on many factors. A survey of youth as undergraduate students of Constantin Brancoveanu University from Romania revealed certain differences in attitudes regarding the genetically modified foods that may be partially explained by the consumers' information. Referring the consumer behaviour, this study showed rather a tacit attitude of acceptance of the genetically modified food goods than a vehement rejection.*

**Keywords:** *GMOs, consumer behaviour, genetically modified foods, consumer attitude, youth, food consumption.*

**JEL Classification:** M39, P36, Q19

## 1. Introduction

Crop plants, farm animals, and microorganisms have become main subjects to genetic engineering. The transition from traditional breeding techniques to artificial selection was gradually developed since last century. At the beginning artificial selection consisted of organisms that exhibit specific traits, which were chosen to breed subsequent generations but limited to naturally occurring variations. Afterwards genetic engineering techniques allowed for an adequate control over the genetic changes introduced into an organism such as the genetically modified organisms (GMOs) can comprise genes from one species into a completely unrelated species. Nowadays Genetically Modified Organisms are defined as “organisms in which the genetic material (DNA) has been altered in a way that does not occur naturally by mating and/or natural recombination” (World Health Organization, 2014). Today many industries stand to benefit from gene technology research. GMOs applications are developed and used especially in agriculture and food industry, as well as in pharmaceutical and medicine ones.

Maize with increase insect resistance, modified soybean with herbicide tolerance, canola with altered fatty acids composition was a few success stories taken into account by the promoters of GMOs usage. Genetic engineering in agriculture permits increased crop yields, reduced need for pesticides, and crop protection, developing plants that grow faster and tolerate better many environmental stressors (Takeda & Matsuoka, 2008). The outcomes for farm animals are obviously focus to yield increment and exhibit resistance to some diseases. Some benefits of modern biotechnology in food area refer to improving the efficiency of food production and cut costs for food processing, enhancing food composition in nutrients, reducing its allergenic potential, ensuring a certain food quality, and not last a greater food security globally (Sirbu, 2004).

Despite the fact that the variety of GMOs uses provides many benefits to humans, further scientific research have suggested that foreign gene expression may induce certain alterations for the natural state of an organism, sometimes with unknown consequences in

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terms of changing the organism's metabolism, growth rate etc. The concerns on risks surrounding the GMOs have appeared not only about genetically modified organism itself, but also related to possibility of exposure to new allergens or transfer of undesirable genes or changes of the natural environment in which that organism proliferates. Since 1970-1980s the scientific controversies blew up towards rich argues on topics as food safety or environmental issues (Devos *et al*, 2008). Those arguments for and against GMOs using have been continued to public debates, and finally have pushed policy-makers to act. However, advances in food biotechnology and food science in the early 1990s have opened the gates of new markets for genetically modified foods as well.

The pathway governments have regulated GMOs or/and genetically modified foods varies as respects the capacity building and regulatory provisions. Regulations for genetically modified foods usually regulate GMOs as well, taking into account food safety assessment, consumer health, environmental risks, control and trade-related issues (Reg. EC no. 1829/2003; etc.). In view of keeping under control any unintended effects which could result from gene technology, specific systems have been set up for an appropriate evaluation of GMOs or genetically modified foods by using specific assessment tools and procedures. For example, Codex Alimentarius Commission (as joint FAO/WHO intergovernmental body) developed principles for the human health risk analysis of genetically modified foods since 2003.

A broad dispute over the use of foods derived from genetically modified organisms and other uses of genetic engineering in food production in terms of key scientific research, their impact on health and eco-systems, ethics, food safety and food security, cost/benefit evaluation, labelling and regulations, traceability is still lasting. Although many issues under debate on uses of biotechnology and the marketing of genetically modified foods are similar spread around the world, the consumers' behaviour related to GMOs acceptance differs from region to region or from a country to another. Beside the scientifically, technical, ethical and regulators arguments, the economical aspects of the genetically modified food market is influenced by the social acceptance of it.

Consumers have different attitudes to genetically modified foods often with societal, historical or religious connotations. Also variation in risk perception or interpretation about relative risks and benefits of GMOs exists among different countries, cultures and individuals within countries at different times and within various contexts (Frewer *et al.*, 2004). For example, in comparison with United States, the European Union was known for its anti-GMO stance before 2010, but policies and attitudes in Europe have started to change afterwards (Benson, 2011). However, many European consumers still worry about potential risks of GMOs; reason for what the key words in their food demand are: green, safe, health & wellness products (Euromonitor, 2013).

Consumers' perception and their attitudes are different but depending on many factors. A lot of works has tried to explain how consumers form their attitudes and make decisions with regard to genetically modified foods. It seems that the general attitudes and values towards nature and technology have influenced the perceived risks and benefits of the modern biotechnology, and finally affected their purchase decisions (Bredahl, 2001; Frewer *et al.*, 2004). Also risk perceptions and risk preferences were found to be significant determinants of acceptance of genetically modified foods, which has important implications for explaining consumer behaviour (Lusk & Coble, 2005). It was outlined that education and communication may influence risk perceptions, too. For example, some authors (Grimsrud *et al*, 2004; Huffman *et al*, 2007) reported that self-reported knowledge about biotechnology increases willingness to accept for genetically modified foods, whilst higher levels of formal education decrease the acceptance for these genetically modified foods. Also, psycho-social and cultural factors affecting the perceived risk of genetically modified foods have been assessed, and implications of cultural theory for risk

communication and decision making about genetically modified food were highlighted into scientific literature (Finucane & Holup, 2005).

The aim of this investigation based on survey of undergraduate students is to give insight into the behaviour of younger Romanian consumers as respects their attitudes toward genetically modified foods.

## 2. Methodology

An in-depth survey was assayed based on questionnaire and interview. Data was collected from sample of 62 Romanian students from an undergraduate economic course at Faculty of Management Marketing in Economic Affairs in frame of Constantin Brancoveanu University.

The survey has followed a classical marketing scheme according to an interview face-to-face. The questionnaire consists of a number of questions related to genetically modified foods: general information, prior beliefs on assessment of potential risks, range of foodstuffs, goods labelling, and reasons for purchasing. Data analysis was performed by Statistical Package for the Social Sciences (SPSS 11.0) for Windows.

The consumers' structure yielded from sample collection is introduced in table 1. Overall the sample is not representative for general population in neither Romania nor Ramnicu Valcea area, but the purpose of our study is different, namely it addressed to youth with a higher potential to be more educated consumers (as focus group).

**Table 1. Descriptive statistics for the sample (N = 62).**

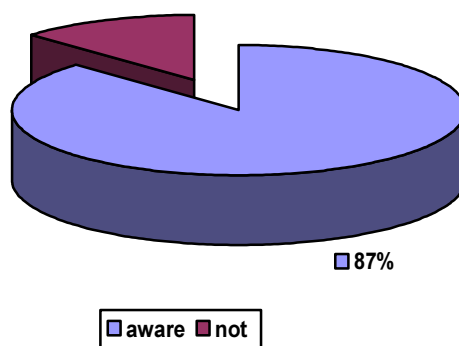
Variables	Frequency (%)
Gender	
Female	44 (70.97)
Male	18 (29.03)
Urbanization	
Urban (towns: Ramnicu Valcea, Dragasani, Horezu)	26 (41.94)
Rural	36 (58.06)
Age	
Less than 20 years old	40 (64.52)
Between 20 and 25 years old	14 (22.58)
Above 25 years old	8 (12.90)

Descriptive statistics for the sample shows a higher percept of females. Although the gender seems to be unbalanced, that is obvious in terms of higher amount of women students who effectively attend the university courses. The ratio between rural and urban residence is also justified based on population structure at county level. As depicted in table 1, above 64% is youth less than 20 years old, because the survey was made on first-year students in university. Because they are students we did not take into account the following variables: incomes and educational level. However, during interview running we found out that 4 students have already completed other higher education.

## 3. Results and discussion

This sample presents an appropriate means of comparing differences in attitudes among younger consumers with regard to genetically modified foods.

The very first question in the survey specifically related to basic knowledge about genetically modified foods was: "Do you know what genetically modified food is?". After analyzing the responses received we observed that most subjects knew what genetically modified foods are, consumer information being achieved mainly through audio visual sources. As is shown in figure 1, the awareness of genetically modified foods by consumers is indicated at a high level of 87.10% whilst remain percent was not aware at all.



**Figure 1. Awareness of genetically modified food by consumers**

If we compare the results with previous ones of Sirbu (2004b) it seems in last decade the awareness of genetically modified food by students as consumers increased with a rate of approximate 28%, outcomes explained part by a facile access to information and on the other hand quantitative increment of younger students than 20 years old (at Constantin Brancoveanu University – Ramnicu Valcea), that means a segment of younger population with a general behaviour more oriented to communication.

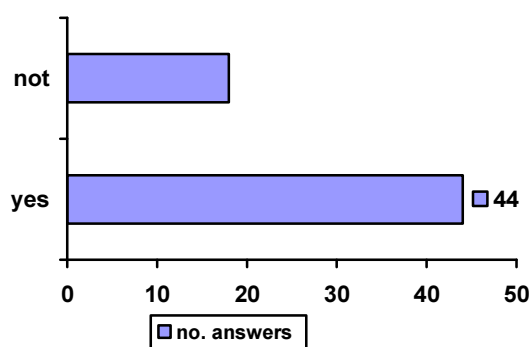
At the questions “Do you eat genetically modified food?” and “Do you buy genetically modified food?” the aggregate answer showed that food consumption structure reflects their awareness as a whole. Only 9.67% is percentage of those who answered negatively to these questions. However, data analysis underlined a particular fact. Although there was registered self-reported knowledge, the respondents were not strongly positive on accurateness of their prior information as respects genetically modified foods. Therefore, approximate half of subjects from studied sample (percent of 48.39%) mentioned “I do not know”. This attitude is more related to traceability and communication rather than willingness to accept for genetically modified foods.

When they were asked about purchasing intent for genetically modified food goods only for reason that these food commodities are cheaper with 20 to 40%, the majority held a negative answer. Only 9.68% of subjects strongly agreed that they watched on money value. Evaluative responses may express a very positive attraction for food commodity itself beyond price based on public perception that is apart of ranges of conventional foodstuffs goods.

According to the cross tabulation analysis results the relatively high concern about range of food goods related to their origins or specific qualitative features is a function of the age. In this case the attitude of students is due to perception of risks and information rather than money. The fact was proved by assessment of answers received to another question, namely: „Generally, are you concerned about provenience of foodstuffs?” (see figure 2).

By assessing of association between demographic variables (as gender and ages) and willingness to accept for genetically modified food in consumption, results indicated that male respondents are more reticent to these foodstuffs but then they admit as having less reliable knowledge on this topic, in general.

When students had to choose a few reasons why they eat or/and buy genetically modified foods a half of respondents admitted they did not know in a sufficient and reliable measure which are the risks and benefits related to these foodstuffs. Even so, many of subjects did not limited to this answer and had expressed their interest as a formed attitude towards health and/or environmental issues as well.



**Figure 2. Concerns about origins of genetically modified food**

The main reasons that influence the eating and/or buying decision for genetically modified (GM) foods are introduced in table 2. No matter which kind of own knowledge about genetically modified foods is done, however there is a trust related to food commodities regulation and labelling as meaning that 45.16% respondents are willing to accept for these foodstuffs only because they are labelled as so. Therefore the response of younger consumers to genetically modified foods labelling is significant and the youth has developed a positive attitude toward these goods just because the information is transparent and correct. Consequently, consumer beliefs about the acceptability of labelling food policies are very important in terms of acceptance of genetically modified foods. But that does not mean consumers can not have opinions or attitudes different from one genetically modified product to another or become more tolerant about genetic modification of agro-foods.

Regarding consumer behaviour, the subjects have supported subjective and vague attitudes towards a certain lifestyle associated with health, safety and environmental aspects. The consumer attitude and perceptions have been polarized between two main issues, but more important has been reflected by the interest on health aspects. As we mentioned previously, there is not a very in-depth understanding of scientific and technological background with regard to risk management and genetically modified foods. However, students' attitudes to health and environment items were broadly spread in terms of emotions and perceptions. If we refer to biotechnologies approach in food area and the meaning of "impact" our focus group has more a sceptical than ambivalent attitude towards genetically modified foods. But this kind of sensibility is not necessary a signalling an ongoing social request, but more a Romanian perception on impact dimension related to notion of risks taken in it.

**Table 2. Descriptive statistics**

<b>Reasons that influence the eating and/or buying decision for genetically modified (GM) foods</b>	<b>Frequency (%)</b>
GM food is safety in consumption (food safety)	6 (5.0)
I know the risks and benefits regarding GM food	16 (13.33)
I do not know the risks and benefits regarding GM food	32 (26.67)
GM food has impact on environment	12 (10.0)
GM food has impact on health (for long term)	26 (21.67)
Goods are labelled appropriate as GM food	28 (23.33)

Although many respondents have expressed concerns about their health status towards genetically modified foods, proportion of those who agreed that they watched also to food safety is lower. The difference in reasons that influence the eating and/or buying decision for genetically modified foods between those who did or did not know the risks and benefits was significant.

When we asked about the range of genetically modified foods which the students have consumed intentionally or unintentionally, the following categories of products have been nominated:

Table 3. Potential consumption of genetically modified foods

Categories of products	Genetically modified foods
food itself is a living organism genetically modified	tomatoes, pepper soybeans, potatoes, different fruits (strawberry,...), meat, fish
food contains a genetically modified living organisms (GMO)	yogurt containing lactic acid bacteria, fermented cheese
food contains isolated or treated products, from inactivated GMO	ketchup, bread, salami and other meat products, mashed potatoes, jam, stewed fruit

Obviously, range of genetically modified foods introduced in table 3 does not reflect actual consumption, but provides a few clues about perception of sample associated with identity and availability of these goods on market, as well as a certain willingness of acceptance in the diet. Also there are a very narrow proportion of respondents that have preferred to remain vague by giving answers such as “I am not sure” or “I do not know”.

Frewer *et al* (2004) pointed out that trust in information sources involves increasing transparency in decision-making process. Moreover public trust is built in by a substantial effort made by all key stakeholders to direct resources towards increasing confidence. The scope of our investigation is not focus on this kind of empirical analysis, but the selection of information sources based on consumer perception of generic beliefs of trust has been taken into account. Consequently, the next question has arisen: “Which are most trustful information sources you used?” Information about genetically modified foods, risk assessment or other topics related were taken from audio visual sources, prints (in written press, newsletters, flyers,...), as formal education outcomes or retrieved from social groups (family, friends,...).

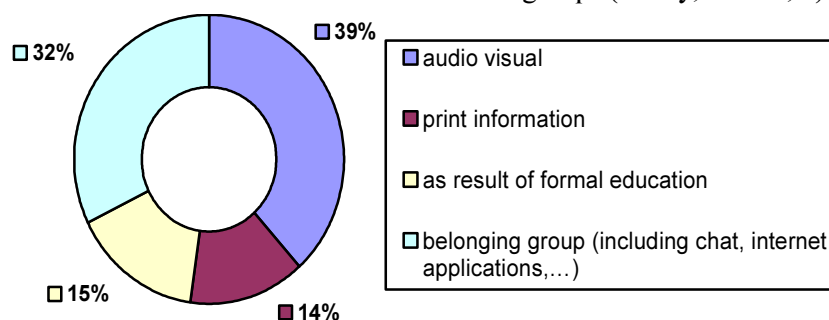


Figure 3. Distribution of information sources about genetically modified food

The distribution of information sources (see figure 3) has shown that the main spring for these kinds of topics is still audio visual followed by an increased contribution of belonging group in which knowledge transfer is shared face-to-face or by using different devices (on-line, wireless,...).

#### 4. Conclusion

A survey of youth as undergraduate students from Constantin Brancoveanu University from Valcea - Romania revealed certain differences in attitudes towards genetically modified foods that may be partially explained by the consumers' information. Although most participants in the survey have demonstrated an awareness of genetically modified foods, they agreed that were conscious about reliability of information sources, especially of audio visual ones. But then labelling is an important source of information in the market which developed a

valuable trust for genetically modified foods. Also as it pointed out the contribution of sharing information belonging to a group has substantially increased in Romania today.

Referring the consumer behaviour, this study showed rather a tacit attitude of acceptance of the genetically modified food goods than a vehement rejection. This irresolute attitude is much related to communication rather than willingness to accept or reject for genetically modified foods.

Younger consumer attitudes toward genetically modified foods are complex. The investigation has underlined that certain request information on traceability and qualitative traits of these food goods is a function of the age. That means a lot of youth are expected to retrieve much available information on interest topics and are more concerned about risks perception. The respondents have supported subjective attitudes towards health, safety and environmental aspects sometimes having more a sceptical than ambivalent attitude towards genetically modified foods.

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<p style="text-align: center;">Section VI</p> <p style="text-align: center;"><b>EDUCATIONAL POLICIES AND STRATEGIES</b></p>
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**THE POPULATION'S ECONOMIC EDUCATION IN THE  
ROMANIAN ACTUALITY**

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**Abstract:**

*This paper aims at to present the essence and the role of economic education related to the natural movement of a functioning market economy in the Romanian actuality. We understand education as an important form of social consciousness in the sense of bipolarity, namely as the premise and the effect at a dynamic microeconomic and macroeconomic level. In this dynamic movement, economic education appears more and more visibly as a new factor of production or as a new dimension of human capital.*

*In our approach we consider several theoretical and methodological axes that allow us to reveal the interdependence of education to the economic and social development, from an emulative or frantic perspective. In this way we treat the evolution of complex phenomena of economic education in terms of public policy, highlighting the need to intensify the decision-making efforts of management and execution, consistent pursuing to link the causes with the effects of economic education in the Romanian actuality.*

**Keywords:** *contemporary specialist, economic education, educational system, human capital, labor crisis*

**JEL Classification:** E00, A20, D00, I25

*The key factor of education, either that of the individual or his children's on the social scale, is education. Ignorance not only leads to hard, uncomfortable, boring work but often to not work at all. Improvement comes with education and only by education; without education there is nothing and the only plausible answer is to crime and violence. Maybe those who rank the lowest on the social scale should be the ones receiving the best education, because they need most the resources enabling them the escape from ignorance.*

John K. Galbraith

## **1. Economic education: essential, mobility and strategic mechanisms**

### **1.1. The foreword analysis**

In terms of modern economics, the economic education becomes a general need, related to the requirements of sustainable economic growth. In this respect it is necessary to emphasize that economic education acquisition is a complex process that occurs in stages of training and labor force development. Starting this process consists in acquiring professional qualifications specific to each socio-economic field, continuing with the acquisition, to a sufficient extent of some economic and monetary concepts and mechanisms, financial-currency and management- informational concepts and mechanisms specific to each human productive and utilitarian behaviour.

In the natural socio-economic dynamics there are involved various moments of human liberation in his struggle with the natural environment along with his tendency of being the measure of all things, to know and to know himself, appreciating human greatness and its possibility of economic performance.(Ciucur, 2014) Analysis of economic education should consider first the following referential: people differ in their

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native physiological dowry; they acquire multiple skills, intellectual skills, physical and moral; thus, they get multiple and diverse outcomes, waiting for a suitable reward.

The social area of human personality manifestation is working in a broad sense, starting from the simple training and acquisition of skills down to their use in the production of goods, services and information. Only labor can accomplish human nature, but human native predispositions give him only the general directions of neurophysics evolution. The human way of action is modeled by the social environment, by training and education, by family, organizations, institutions etc. Currently, work has to be regenerated in the sense of relating closely to the requirements of the competitive market economy, efficient, leading to welfare.

Human personality is revealed and developed by its acts of ethics determined by his professional conduct and culture. Historical experience, stored in professional and cultural heritage, taken over by the new generations, is the framework of work efficiency at all levels of economic aggregation. Building its own culture, every nation is building its own model of personality as the synthesis of professional events, spiritual and cultural needs of all people in it.

In the modern timeliness it is found, more and more pronounced, that the human personality includes both what man is and what he can become through training and education. Society should promote a genuine system of values in which the human is his own mean defined by material and spiritual values based on highly skilled labor, efficiency, ethics and social justice. Human issues need to be addressed specifically in the historical process of becoming and affirmation of economic education, taking into account the specific conditions of Romania. (Ciucur, Ciucur, 2012)

Education should not be dealt in a hurry, as an emergency, but as a profound, long-term process with permanent mobility and viability. Education “is not a kiosk where you can buy diplomas”.

Economic education has a complex substance that is made in the upward trend, coupled with the work of specialist trainers for the economy. It is directly involved in the economic environment that people influence in all the moments of the economic cycle. The educational process remains open in time, and the future can bring us something better, a better economy and society, or something worse, if people’s education will be superficial. Serious surprises can occur if people do not enjoy the economic benefits of civilization, the great advantages of science and technology, having to deal daily with inequalities, inequities and dramatic injustices.

The essence of economic education is reflected in the **many forms** that prove to be useful for the allocation, use, and efficient consumption of material resources, human and financial monetary ones which are limited, rare and expensive. This becomes increasingly important as we find that the trend of human addiction to foreign resources is increasing, and also the addiction to ratify the means to purchase and use of development resources by the international courts.

Everyday realities suggest the need for revealing several **criteria** for defining these forms, such as:

- Internal and external structure of the content, content function;
- Type of organization;
- The coverage of behavioral efficiency.

Such forms may be:

- Microeconomic and macroeconomic education;
- National economic education compliant with the European one, the global one;
- Education for entrepreneurship and economic business administration
- Education management;
- Marketing education;
- Monetary and financial education;
- Education on economic diplomacy and international logistics;
- Education of translation and interpretation;
- Education of economic communication, etc. (Ciucur, 2014)

These forms are made in schools, universities, large companies, institutions and organizations in accordance with the law. Through such forms, systematically monitored and evaluated, in line with national and international standards, the experts, the people acquire and develop skills and abilities necessary for effective behaviour as consumers, producers or managers. Exaggerating one of these qualities is harmful.

In present conditions, the economic education is made within the **human capital** as a neo factor of production. Investing in this chapter is the only chance to deal with the pressures of tough and permanent economic competition both nationally and internationally. Economic education is increasingly oriented towards the **production of knowledge**, by combining scientific research with economic development and swift transfer of the intellectual product to the market. It promotes the inversion of the trend of leaving the country with the only trend of encouraging brains within Romanian economy. In actuality, economic education is carried out in relation to mutations occurring in human content himself, therefore of those that prepare themselves for technical computing professions. (Ciucur, Ciucur, 2012)

Thus, it becomes striking the exigence of the economic education orientation towards understanding and acquiring compatibility of the human-spiritual criteria with the economic and ecological criteria for optimizing economic growth in such a way that the net added value to proportionally gain all participants in economic and social life and the natural environment to not record any losses. Romania evolutionary direction is given by domestic production relationship with human well-being through economic education in a new spirit, in accordance to a new culture of education required by internal and external competitive market.

Understanding such foreword analysis of the economic education, we can synthesize specific processuality of training this educational concept.

### **1.2. The concept of economic education**

Given the strengths and limitations of various epistemological views on economic education, formulated in time, we can reveal that **economic education** reflects a set of measures and economic measures undertaken systematically to the formation and development of intellectual and native justice skills, as well as those specific to the economic life acquired through training, in accordance with the requirements of economic rationality. Economic education is part of the social consciousness, a segment of the economic value preserved in humans, whose efficiency is achieved at all levels of economic aggregation by exact management with its systemic circuits.

**The concept of economic education** involves inherited, native wealth of human and also acquired skills through educational and cultural formation that defines him and also it brings him closer to his peers, in a certain socio-economic environment that he creates and continuously develops. Every person is defined by education and economic behaviour, seeking concrete economic results that can be rewarded accordingly. (Ciucur, 2014)

Specific circuits of economic education shall be in accordance with the laws and internal processes of science and training, as an expression of social consciousness.

We summarize some defining characteristics for economic education such as:

- It is achieved by gradual psychological- scientific accumulations , with specific qualitative scientific knowledge, in a logical and chronological sequence;
- It is reflected by assimilating scientific knowledge by moving from phenomenon to essence, from simple to complex;
- It is based on the laws of nature, of mind and society harmonized with the subjective legal laws;
- Presents a permanent dialectic movement, that requires a fair competition between different theories, doctrines or ideologies.

Such traits directly influence the economic and social development, causing an educational coordinate. Such a coordinate has its beginning in the family and continues in various forms of skilled labor, according to the National Framework of Professions, dominant in a given period of economic and social development.

Hence both the positive effects of education on the economy and the negative effects of such correlations. This forces the macroeconomic and microeconomic management to act with determination and responsibility to make economic education a rational way to revive sustainable growth and economic development. However, public management should take those measures and actions to ensure training and development of workforce in full agreement with the pursuit of economic development in the long term, to develop professional awareness and passion for working in a climate of fair competition. Otherwise, people's ignorance generates labor enslavement, wasting money by irrational actions, a venal justice etc.

### 1.3 Educational strategy

Economic education can motivate the efficient activity of the workforce, on the basis of an **educational strategy** accommodated with the targets of sustainable economic development of the economy. Educational strategy components would be:

- Achieving some stable scientific investments in human capital field or in the cultural-spiritual one, by respecting the rationality of cost-benefit function at all levels of aggregation;
- Rapid, judicious clearance of the shortcomings in the system of training and education of the workforce, based on effective restructuring of the Romanian economy as a whole;
- Administration of economic education of the entire population, corresponding to a new economic behaviour of people, in their capacity as consumers, producers and managers;
- Strengthen life and work ethic to generate the gain of good deeds and discourage bad deeds, in accordance with authentic freedom of the individual in the context of current democracy; increasing material and monetary-financial motivation of people who get thoroughly educated and true economic and social performance, lawful and moral.

We estimate that implementing these components of educational strategy generates deep and complex understanding of the necessity and possibility of economic education, strengthening the responsibility of every man to his own life, but for the life of the society, on the basis of a genuine best, that we can to evoke. Through Europe Strategy 2020, Romania has set a target for tertiary educational attainment indicator 26,7% of the population aged between 30 and 34 years (table no.1), while the European target is that of 40%.

**Table no. 1. Tertiary educational attainment (% of population aged 30-34)**

	2011	2012	2013	Target
EU (28 countries)	34,7	35,9	36,9	40
Romania	20,4	21,8	22,8	26,7

Source: [http://epp.eurostat.ec.europa.eu/portal/page/portal/europe\\_2020\\_indicators/headline\\_indicators](http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators)

Educational strategy must take into account that economic education involves systematic assimilation and correct **economic language**. In the age of computers this is not an intellectual fashion, but an organic requirement of long-term economic development. Economic language of communication based on sound economic theory favors a correct mindset, leading to the progress of knowing the complexity of modern economics, its mechanisms of operation, the formulation of solutions to address new economic paradigm.

Such issues are becoming more important if we consider that economic education refers to all categories of specialists, from modern economist to the fashion or sports manager or to the manager for showbiz. Finally, every man, as a rational being needs a certain level of economic education for effective management of revenue and expenditure in a time horizon and own complex of existence and operation.

#### 1.4. Education trainers

Economic education involves increased responsibilities for both trainers and those who train and work in various fields. We shall only emphasize the aspects concerning the **trainer or the person committed to participate in public education**. We consider that to be human through school education, currently in Romania means preparation, passion, courage, determination and seriousness as **antischool temptations** are available to new generations and the spirit of disproof, negation and wickedness is manifested clearly. We understand, however, the school as the main form of education as a constant pillar of the society, as a program of life, understanding of time, its history, its duty to humanity. We do not understand the antischool phenomena which occur frequently and worrying in the current period.

Through school education must be correctly understood the relationship between what a man thinks and environment, between specific experiences of each individual and the essence of truth, to avoid unconditional trust in the court of absolute truth. In this way we can appreciate where the sadness, dissatisfaction, disinterest come from, why the man let himself be driven by bad senses, why he comes to be dominated by the attraction for something shallow, how is it that fear and ignorance devastates him at times. If people would understand such matters, then they might stop the harmful actions, the antischool actions, destructive or self-destructive.

Therefore, we hold that education is interfering now with the labor crisis, this becoming more and more evident.

In such circumstances, we think, however, it's worth being a trainer, a teacher in the present teaching system in Romania, acting with increased responsibility for training and educating young people very useful to society, especially in such austere times as the present ones. The profession of teacher is a noble one, although today some despise it and it is poorly paid. Romanian school seems to go backwards, forced by itself or by others. Successive reforms and restructuring school do not improve or consolidate the school system, but agonises it. A permanent education reform seems to be an action similar to a forester who planted a tree today, and tomorrow or the next week he will pull the tree out of the ground to see if it has grown or not. Education is similar to the root of the tree, which must be encouraged not hindered.

Therefore, the school and its ministers should actually strengthen, aiming primarily performance, efficiency and morality through the proper use of money and information technology. This can help us to deny the saying that "the world regrets yesterday future, saying how good it was when it was bad".

## 2. Insertion of education with normal-efficient evolution of the present Romanian economy

We understand here insertion as binding, insertion of education to the real economy. This is done by blending two blocks of ideas; one covers theoretical and practical economic education and the second includes specific practical theoretical aspects of the economy. The flows of this twinning are multiple and in a constant diversification.

A correct interpretation of this twinning favors the incentive role, the constructive one or the phrenic one of the economic education on present and future Romanian economy.

### 2.1. Human inner experiences

In the view of the insertion, becomes benefic revealing, first, the issues that concern **people's inner feelings** and showing their outward manifestation, which would lead to the transformation of education into a rewarding spiritual wisdom and also economic and financial one. Such issues as:

- Education must be present in the immediate experience of life, allowing social communication, benefic in removing conflicts.

- Education should not be diminished or cheated because it would lead to the alienation of man from his own emotionality
- Education concerns all sides of the economic life from high performance, generating the scent of human inner feelings and their external force
- Education is a state of consciousness that respects both the laws of human physiology and the laws of economics and material
- When education is neglected or superficial, sooner or later, it leads to stopping the development of the economy and human alienation from himself and the real economy.

Economic education systematically reflects the relationships between quantity and quality, between competitiveness and efficiency, between aspirations and **actual wellbeing**. These relationships, consistently complied are materialized in statistical indicators, which need to be to be assessed both quantitatively and qualitatively. Such performance indicators would be: domestic production, domestic consumption, foreign trade surplus or deficit, employment resources, labor productivity, financial and economic profitability etc.

Solid and permanent economic education must be understood and performed in agreement, on fundamental economic directions such as: sustained growth of profitable net economy; enhancing infrastructure; eliminate or at least reduce the old economy, old and outdated; real growth of welfare, taking into account the different types of existing wealth in the world: conservative-corporatist, liberal, social-democratic.

Therefore, the economic education of the entire population involves harmonizing mind and heart with the action to ensure social welfare, respecting the unity between words and facts, understanding life as a charity, which does not come naturally for either us or those who cooperate and live together with. We believe that in Romania, through education can occur normality, peace, balance, value where it belongs, treasured and respected.

## 2.2. Economic education and labor crisis

Another aspect of economic education insertion with our current economy crisis is the **mutuality of education with labor crisis**. The balance that the transition sits to free market economy, human, can go through budgetary deficits or surpluses, institutional ones, of labor employment and productivity, trade, monetary inflation etc. However, it is important that these should not affect the state of proportionality of the economic system, to be in the minimum and maximum tolerance limits of the parameters motion characterizing the trends Beyond these limits, economic and social transition reaches crisis when state parameters of the economic system through their evolution attack the critical mass of proportionality, just due to the fact that the force of deficits and excesses that occurred over a long time disturbed the homeostasis of the human body.

To demonstrate the effects of the labor crisis, we **first pay attention** to the content and its area of expression. It follows that the labor crisis is an expression of the fundamental restructuring of the entire economic and social system, of its operating mechanism currently in Romania and internationally. The European Commission itself emphasized that “Europe is in a state of conversion. The crisis has shattered years of economic and social progress and highlighted structural weaknesses of the European economy. Meanwhile, the world turns faster and longer-term challenges (globalization, pressure on resources, aging population) is increasing. European Union needs to take their future in her hands”. Employment rate in our country has not changed significantly in the past three years, the effects of the financial crisis still being found in the Romanian economy (table no. 2). Romania chose a target for 70% employment rate of the population aged between 20 and 64 years.

**Table no. 2. Employment rate**

(% of population aged 20-64)

	2011	2012	2013	Target
EU (28 countries)	68,5	68,4	68,4	75
Romania	62,8	63,8	63,9	70

Source: [http://epp.eurostat.ec.europa.eu/portal/page/portal/europe\\_2020\\_indicators/headline\\_indicators](http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators)

Also keep in mind, **secondly**, that the core of the labor crisis is the decreased confidence in the economic market, in its totality. There is need to rethink the libertarian theory and its efficient networking with improved understanding of the economic role of the present state, on the coordinated state-market mix.

**Third**, keep in mind that the essence of labor crisis correlates with the transition requirements of economic development of Romania towards a new production technique and a new way of economic thinking and economic behaviour. In this context, unemployment appears increasingly obvious as a relative surplus of population, which is formed in relation to the degree of availability of equipment and technology of work with the organic composition of capital (value and technical).

We do not insist on forming unemployment but highlights that this is not an absolute surplus of population, but a relative one. Also point out that under the strong development of science and technology, literacy concerns all persons who though can read and write do not understand anything, being practically “modern illiterate”.

Labor crisis is a complex and serious condition of demand and supply of labor, a rift between these forces of labor market, reflected in a drastic reduction of the demand for labor (because jobs are reduces) in deepening open conflicts between labor market players, between socio-occupational groups, between public and institutional entities. Labor crisis is not a simple socio-human warning, but reflects an open fracture between production and consumption, an obvious degradation of the fundamental features of the economy, an important turning point in the economic cycle in order to strengthen the asynchrony of the phases of expansion, crisis, recession and depression of it.

### 3. Conclusions

Education and Romanian society as a whole are in a specific trepidation, with accents of mess, which requires the attention of policy makers on all events. Here fits the saying of the former President of France Jacques Chirac “Our house is on fire and we look elsewhere” (Speech at Johannesburg, 2002). Moreover, it requires that the economic education movement to promote accurate understanding of topics for discussion on the state of Romania and other countries in Eastern Europe, because now we find that the main topic of public debate has changed, passing from the human rights, to the issue of corruption.

The evolution towards the global economy is difficult and not easy. It will bring many advantages related to those of the socio-human general progress. There will be radical changes in the consciousness of the individual and the common conscience of humanity. The truth seen by every man, the truth of existence and experience will have to liquidate old patterns of hatred, suffering, poverty and emotional darkness and make room for a different kind of man, with a new spirit. People’s spiritual renewal, of the institutions and organizations will generate a man able to discern the sincerity from falsity, responsibility from cowardice, fair wealth from illegal enrichment, democracy from chaos etc.

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# READING FOR YOUTH INTEREST DURING CURRENT

Aurelia-Camelia, Marin<sup>1</sup>  
Ionela, Popa<sup>2</sup>

## Abstract:

*Virtual reality and images conquer them permanently and irrevocably even children from the earliest age. For instance, I can say that as they grow departs books. So many young people arrive at teens refuse to read a book, even electronically.*

*Children considered mandatory reading something imposed by adults and tries to escape, finding other concerns. They also have no motivation, the universe discovered through books hardly seems interesting, which is, in their opinion, obsolete. The environment in which I work led me to satisfy my curiosity namely that of finding out to what extent reading is among the priorities of young people today.*

*This research considers the study of attitudes, behaviors, opinions and intentions of young people their interest in reading, be it physical or books in electronic format. Then I directed a questionnaire to students of the Faculty of Management Marketing in Economic Affairs Rm. Valcea. For example, we chose a target group of young people aged between 18 and 25 years.*

**Keywords:** young, reading, research, questionnaire

**JEL Classification:** D00

## 1. Introduction

The moment is involved in educational activity in which students come to school with a vocabulary more or least developed, possessing a speech, sometimes more, sometimes less grammatically correct. The volume of vocabulary words the student newcomer to school can be large or small, oral expression is more or less correct grammatically.

The language that we have these students is influenced both by some primary factors and second factors. Reading from the earliest age children develop vocabulary and makes him more interested in new discoveries. It is very important that parents inculcate children still reading young childhood, to go with them to the library of small bookshops to enter, to let them choose books to read, to challenge at the end each week in both adult and child to tell what you read.

## 2. Research Methodology

The research was conducted among students using a questionnaire on young people's interest in reading.

Social reality can be analyzed in different approaches, but researchers are free to choose how to research.

As the title of this article, I present qualitative research, because research is older than quantitative analysis, which began to be widely used during this period. The tendency to use quantitative analysis, hides another approach used to understand social observations the qualitative analysis, which is a method for examining social research data without turning them into a digital format. Qualitative research methods involve continuous interaction between data collection and theory, is in turn generating theories and aims to interpret events significant time. This method involves inductive research strategy and interpretative tradition originates. That is to interpret social realities and to describe the experience of human beings. As a conclusion, we can say that qualitative analysis involves a microeconomic approach, research strategy involves inductive and interpretative tradition originates.

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Quantitative research can be characterized as a series of linear steps moving from theory to the process, but it is an ideal type of which there are many departures. This analysis is characterized by a number of concerns, such as measurement, causality, generalization and replication.

Also, quantitative research, in all its variants is useful and valuable, but it is perceived by followers qualitative research, as limited as neglects the perspectives of the participants in the context of their lives. I mean, some researchers believe that a phenomenon quantitative approach disregards human condition, in fact the essay does not require contact with the human being, the reality surrounding environment of economic activity.

In quantitative research is easy to get lost the logistical problems of data collection and statistical analysis thereof and thereby lose sight of the theory. In turn, quantitative research involves a macroeconomic approach involves deductive research strategy, rooted in positivist treatment is based on testing theories and providing forecasts, is to identify general concepts and make connections between them.

Even if I made a presentation separation of the two methods does not mean that they are incompatible or that compete. Often social research, to obtain conclusive results blends well with quantitative qualitative research. For example, there are situations when a graphical representation of an economic phenomenon is worth a thousand words.

### 3. Analysis of research results

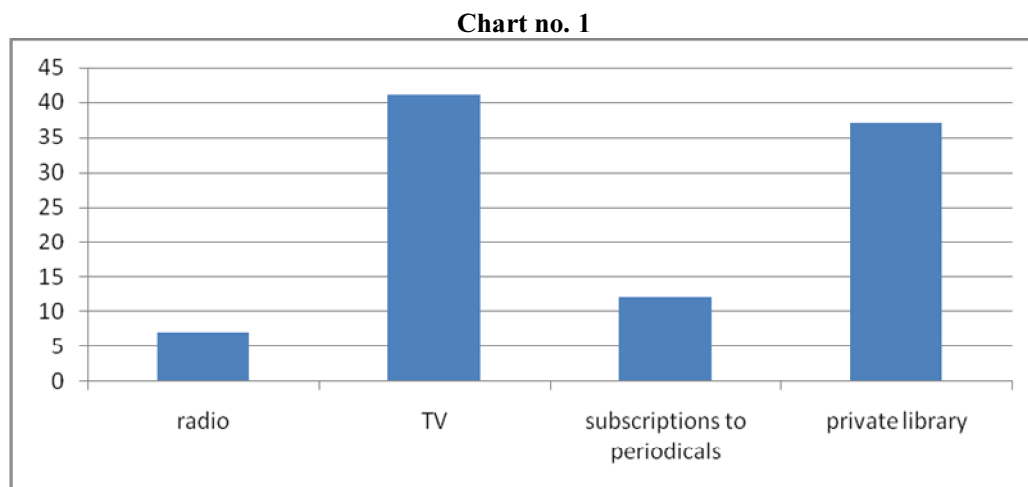
The present research is considering studying attitudes, behaviors, opinions and intentions of young people about their interest in reading.

Then I directed a questionnaire young people in the institution where I work.

For example, we chose a group target group of young people aged between 18 and 25 years, students of the University "Constantin Brancoveanu" Pitesti, which we applied the questionnaire during breaks between classes.

Then I will analyze the results obtained from the questionnaire.

Thus, the question "What cultural assets you own?" I received the following responses, as can be seen in the chart below:



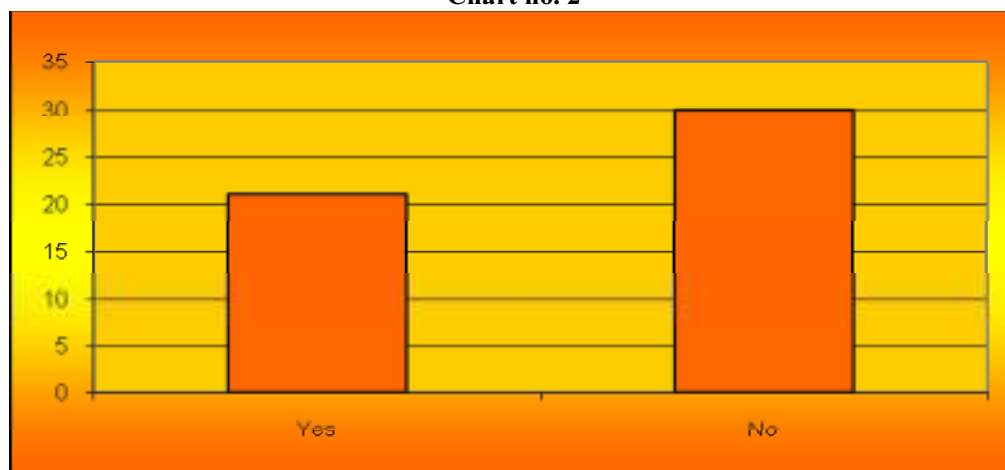
Source: The chart was drawn by the author from processing responses

As is known in every household there is at least one television. We note that most of those interviewed have a TV, and a library bow. But no library is missing from young households interviewed. Only 25% of respondents have subscriptions to periodicals. Radio can be found in a much smaller share.

For example, we can conclude that there is media and literacy in every family.

When we asked "Accustomed to buy books?" replies the young people we find in the graph below:

**Chart no. 2**

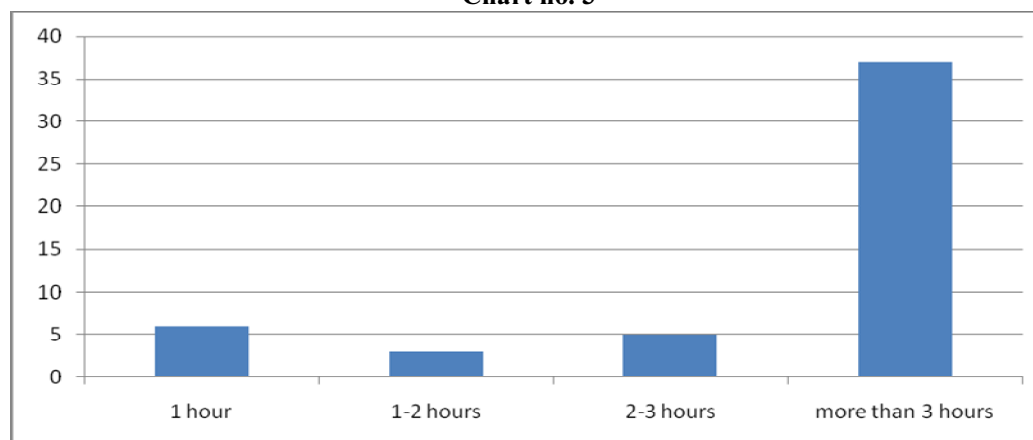


Source: chart was drawn by the author from processing responses

I notice that 59% of respondents do not usually buy books, only 41% of young people whom I applied questionnaire argue that buys books. They do not buy books because they have no money and believes that they are too expensive for their budget.

When asked "How much free time you have each day?", the answers are found in the following chart:

**Chart no. 3**

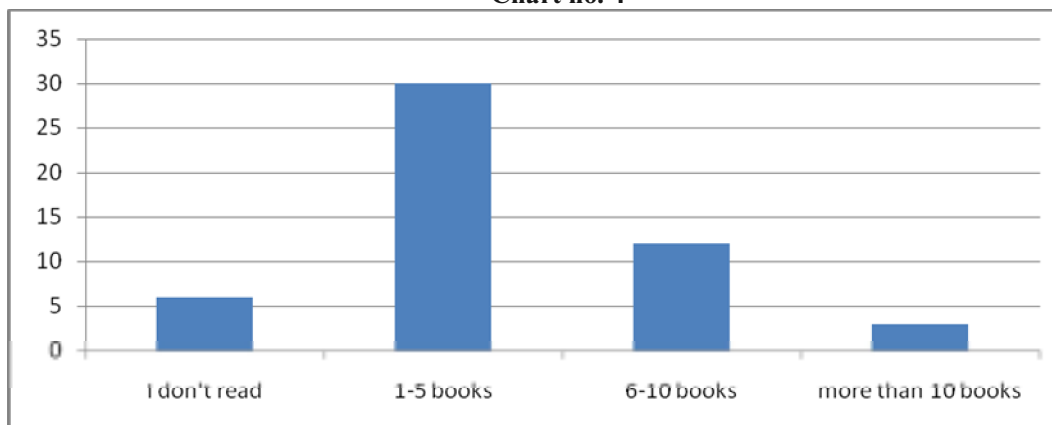


Source: The chart was drawn by the author from processing responses

As can be seen about 75% of those surveyed admitted they have free time over 3 hours daily. Books no longer likes young people, be it the physical format or in electronic format. The reason most often cited is that young people do not read because they get bored very quickly and have no patience. They also believe that life teaches you more than reading.

When asked "How many books read in a year?"

**Chart no. 4**

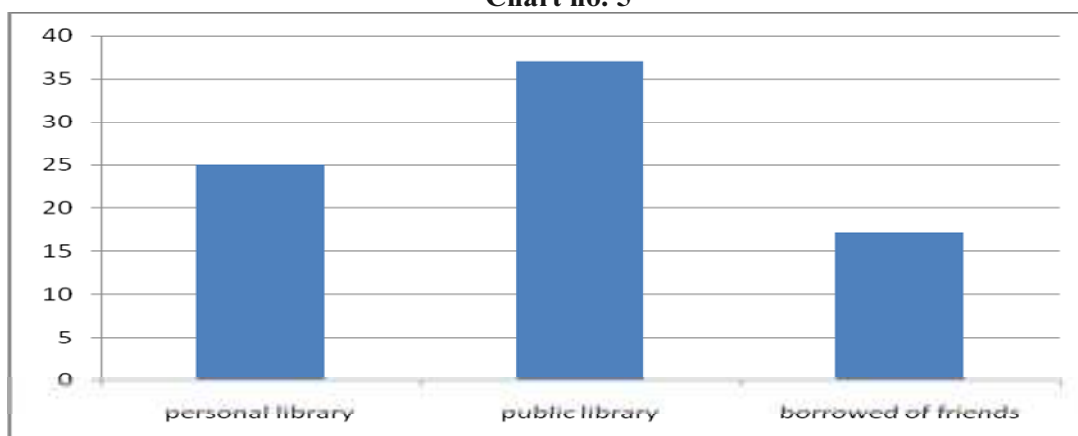


Source: The chart was drawn by the author from processing responses

So far can be seen in the chart above about 59% of young people said that I related to 5 books read in a year maximum. Only 6% of respondents say they read more than 10 books during a year.

Asking "Where do you buy books you read?", We chart the responses of young people who responded to this question:

**Chart no. 5**



Source: The chart was drawn by the author from processing responses

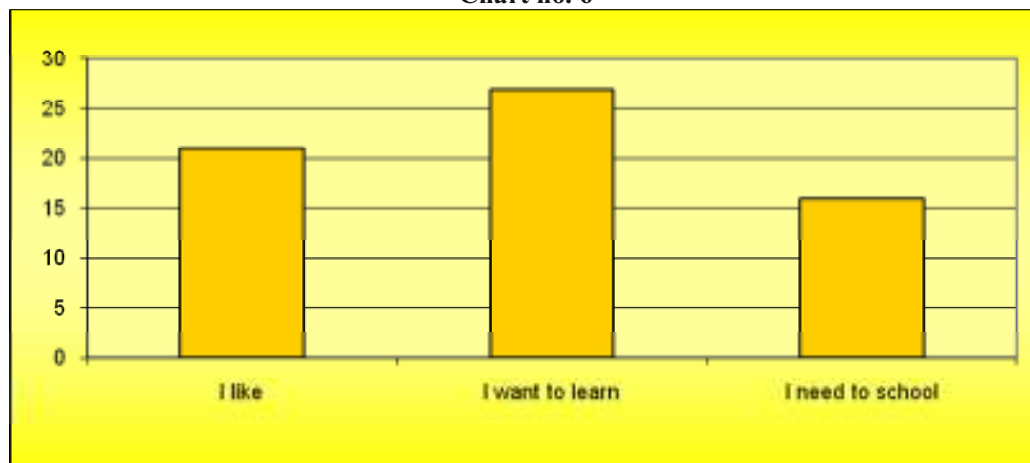
As we saw in a previous question how that young people do not buy books, we see that most of those who read, that 73% get their books from the public library. A share of about 50% buy their books they read. A percentage of 35% of young respondents borrow from friends, acquaintances, relatives, etc., the books they read.

A very relevant question for this study was as follows "What urges you to read?", Whose answer them found in the following chart.

Centralization responses show that most people who read ,that read 53% of young people to be educated, culture and personal development, others 47% read for the language they like to do this, and some 31% read only because they needed at school.

It is important that young people still read to instruct the people. Variety of TV, and computer games or social sites to reduce the number of people who read a book. Many young people seek their personal training on television or the Internet, which makes their cultural baggage to be in increasingly shaky.

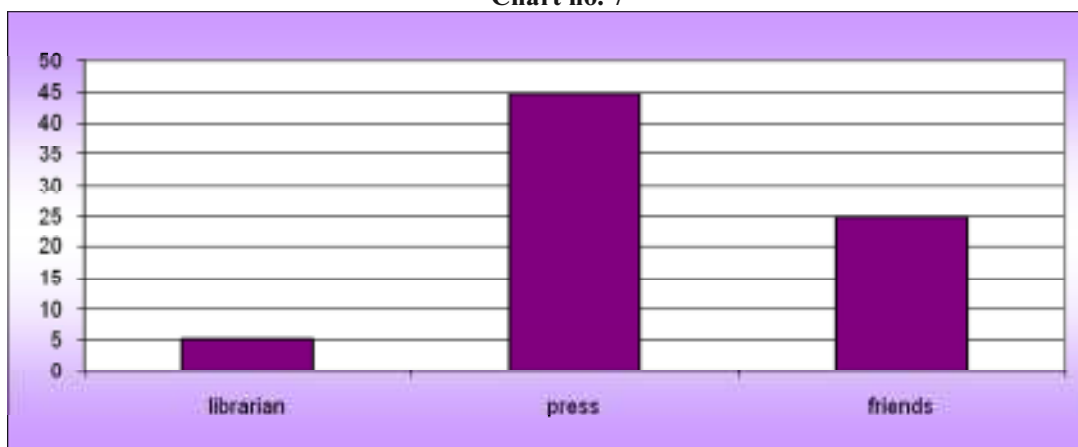
Chart no. 6



Source: The chart was drawn by the author from processing responses

When asked "Where are the existence of a book that interests you?", The answers we find in plotting Next:

Chart no. 7



Source: The chart was drawn by the author from processing responses

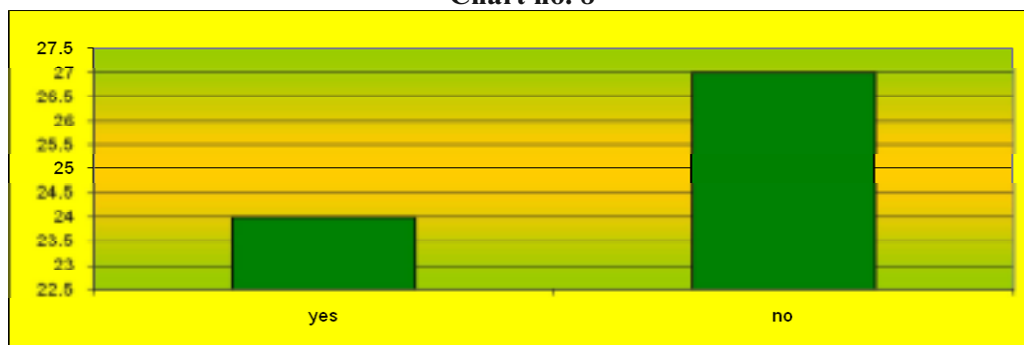
As can be seen in the chart above, the press, and here we include both television, radio, Internet and newspapers are the place where the youth is how much the subsequently read. For example, 88% of young people surveyed choose these information about the books they read. Others, 49% from friends or knowledge references to books to read.

As such most follow their personal concerns and allow guided by opinions expressed in the online environment, as we noted above others go over to friends or knowledge. Recommendations booksellers have almost no efficiency, for most readers seem to have a well defined personality.

In a society traditionalist, the Romanians but keep well up with the changes resulting from technological development, the main place that remains bookstore buys books ( 39%), followed by online bookstores (20%). There are substantial opportunities for the latter to gain momentum, because prices were significantly lower, and some of them delivered to their home districts. Frequented are hypermarkets, bookshops and publishers virtual stores, the latter offering permanent discounts, promotions, gifts etc. Purchasing online is a common practice among young people.

When asked "Keep track of books read?", the answers are found in the following chart:

**Chart no. 8**

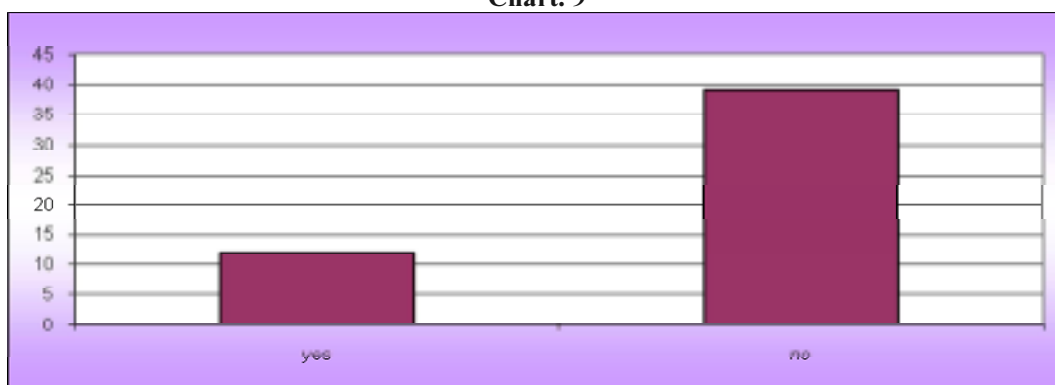


Source: The chart was drawn by the author from processing responses

As you can see young people do not keep records of books read and reread very few books I have ever read.

The answers to the question "Accustomed to reticle books you like more?" we find the following chart:

**Chart. 9**

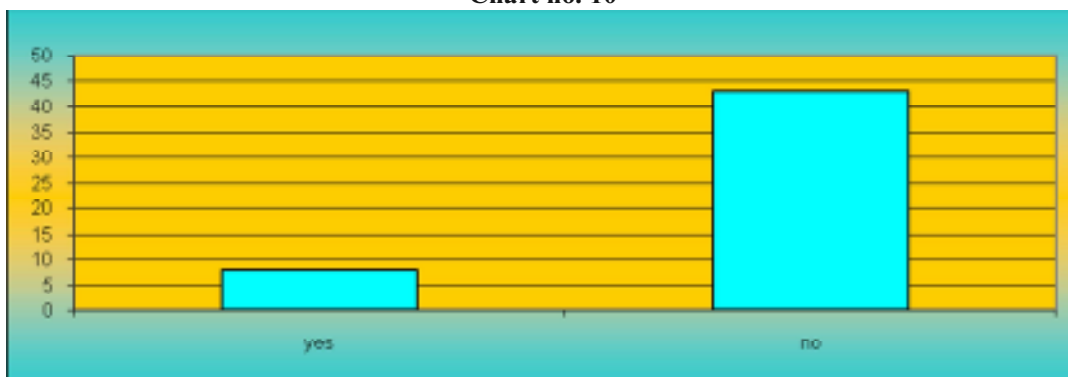


Source: The chart was drawn by the author from processing responses

Young people do not reread books already read, as such once read a book is placed prominently.

No school books and the oldest being in the house do not wink young today.

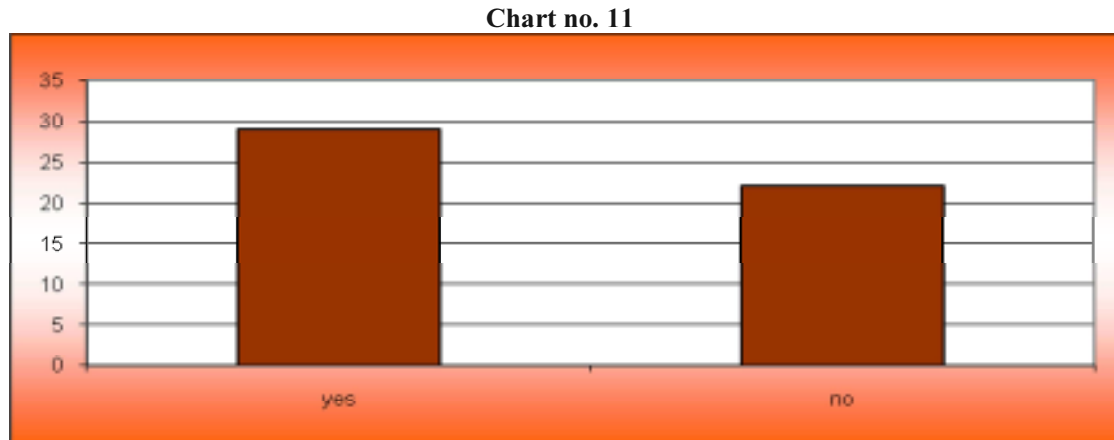
**Chart no. 10**



Source: The chart was drawn by the author from processing responses

With question "Accustomed to browse school books new or old in the house?" replies the young, after As can be seen in the chart above, and 80% of those surveyed, shows that young people do not read older books from the library.

The question "Are you reader library" is reflected in the following responses shown in the following chart:



Source: The chart was drawn by the author from processing responses

The results show that more than 65% of respondents are readers of the library. The results show that libraries are still sought additional documentation.

### Conclusions

There is much talk about reading and especially its lack in today's world. On television, in one newspaper, on dozens of blogs and websites in Romania there is a chorus of moaners who lament on the loss of a usually pleasant and useful as reading books. On the one hand, weakening deplore a vital practice for an intimate experience decreased appetite, whose effects on the personality and life are obvious. Number of more than readers / buyers of the book is a reality. On the other hand, the fans of the reading is carried out in an online environment the fish in water. In Romania there are specialized sites, even reading clubs, just as there are also towns, not to mention the states, no bookstore.

And specialized institutions are hesitant when it comes to provide statistics about what they want to reading of the Romanians, who have the capacity to keep up with technology. And in this respect from us all is by ear. Publishers beat in the chest with impressive sales at book fairs, but Romanians says the crisis, afford to buy increasingly fewer books. Reality is ambiguous and it is difficult to draw conclusions even when you face figures.

The conclusions are, of course, worthy of reflection and deserves to be debated, especially since some concerns and the reasons why reading seems to trăiescă a real decline and changes caused by technological developments.

Reading (culture in general) makes man not only moral but also material. Thanks books can make a enviable career, you can scour the world, you can reach the brink of the Nobel Prize, you can raise even a fortune, not to mention the fame and public admiration.

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# THE IMPORTANCE OF SCHOOL GUIDANCE ACTIVITIES IN THE CONTEXT OF THE NECESSITY OF KNOWING THE VOCATIONAL INTERESTS IN A DYNAMIC EUROPE

Maria-Elena, Gheordunescu<sup>1</sup>  
Laura-Filofteia, Pănoiu<sup>2</sup>

## Abstract:

*Strategy Europe 2020 aims to ensure an economic growth: smart, more efficient through investment in education, research and innovation; durable, by decisive orientation to a new economy with low-emissions of carbon dioxide and favorable to inclusion, by focusing on creating jobs and reducing poverty. The priorities of the strategy will be achieved through five objectives, one which is linked to employment, namely: employment rate of 75% for population aged between 20 and 64 years.*

*Providing such rate of occupancy implies policies at microeconomical level, but we consider also at individual level. So the young, future employees must be properly trained, and have the right to be able to handle a job.*

*Current realities show that employers are interested in having by their side in accomplishing their goals, employees who are proactive, who improvise, who can cope with various demands in which they are involved, and respond positively to companies. They require a career choice to meet the vocational interests. Based on these issues, this paper aims to analyze the importance of knowing the vocational interests in school orientation by highlighting the correlation between the selected profile and personality of each. However, in this paper we try to show that school guidance is an early process and that if they knew their vocational interests, young people would be more decisive in the choice of future profession.*

*We believe that, if the counseling activities and school orientation would be conducted in a professional way, youth might focus on those occupations which best define them and also could access appropriate university programs with favorable effects on employment levels.*

**Keywords:** education, counseling and guidance, vocational interests, occupational profile, personality

**JEL Classification:** J24

*"Education is the most powerful weapon which you can use to change the world."*  
Nelson Mandela

## 1. Youth in Romania

Human Resources, addressed as a human capital are a powerful comparative advantage for countries that invest in this direction (Dindire L, 2013,). They are characterized by educational capital, defined by skills acquired by individuals in training school and beyond and by the biological capital represented by the physical abilities of individuals, often summarized by health (Rosca Gh.I, p.5).

The quality of human capital resources draws attention of national, regional and global authorities and to the need to develop strategies and policies good enough to ensure their efficient and effective use.

EU strategy of becoming an economy with a smart, sustainable and inclusive growth aims in human resources, **two objectives: employment:** providing an employment rate of 75% among people aged 20 to 64 years, **and in education:** 10% reduction in the rate of early school leaving and increasing to 40% the share of university graduates in the population aged 30-34 years. The two objectives demonstrate that investing in people is the only solution to economic problems, solution that provides growth and progress of a country.

If employment policies seek employment through active and passive measures, increase youth employment, education policy must be so constructed as to provide career education.

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### **1.1. Labor market situation of young people in Romania**

Employment and activity rates among young people in Romania were in 2012 among the lowest in the EU (23.9% and, 30.9%), while the youth unemployment rate was high, hovering at 22.7% in 2012 (European Commission, Brussels, 29.05.2015, COM 373 final, COUNCIL RECOMMENDATION on the National Reform Programme 2013 of Romania). According to Eurostat data, in 2013, the employment rate for the age group 20-64 years was 63.9%, up by 0.1 pp than previous year, standing at a distance of 6.1 pp from the national target for 2020 (National Reform Programme 2014, p. 30).

### **1.2. The situation of young people in the Romanian educational system**

The EU Council of Education estimated that in times when resources are limited, efficient and appropriate investments in areas that promote growth, such as education and training are a crucial component of economic development and competitiveness, which in turn, are essential for creating jobs. (Council Conclusions from 26 November 2012 on education and training in Europe 2020 - education and training contribution to recovery, growth and creating jobs 2012 / C 393/02 <http://eur-lex.europa.eu/legal-content/RO/>).

At national level the two European indicators on education have been translated into: early school leaving rate of 11.3% AND 26.7%; graduates in the population ranging in age from 30-34 years (OVERVIEW of Europe 2020 targets, [http://ec.europa.eu/europe2020/pdf/targets\\_en.pdf](http://ec.europa.eu/europe2020/pdf/targets_en.pdf)).

In Romania the degree of inclusion in education in 2011/2012 school population was 81% for the age group of 15-18 years and 50.3% respectively for the age group of 19-23 years and over. (Statistical Yearbook 2012. <http://www.anofm.ro/files/situatie%20statistica%20somaj%20august%202014.pdf>).

Regarding the rate of early school leaving the National Report 2014 indicates a value of 18.4% in 2010 and 17.4% in 2012 (NRP 2014, the Romanian Government in April 2014, p. 37).

School dropout rate is also very high (table 1).

**Table no.1. Dropout rate in secondary education**

Type	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Secondary education	3,3	2,9	2,4	2,2	3,2
Vocational education	8,2	8,5	8,3	8,6	19,8
Post-secondary education and trades	7,5	4,8	5,9	5,5	6,3

Source: Statistical Yearbook 2012, NIS, p.273

Regarding higher education, even if there is still not enough information to provide an accurate image of the dropout rate, the level is very high (table 2).

**Table no. 2. Situation of young people enrolled and university graduates**

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Students enrolled	785506	907353	891098	775319	673001	539852
Graduates	125499	232885	214826	191291	186900	-

Source: Statistical Yearbook 2012, p.263 and 268

We appreciate that there are multiple explanations for the high margin between the number of persons enrolled in some form of higher education and the number of graduates who are interested in: the low interest for preparation of the students, the low financial level that generates their inability to sustain, and the discovery of the incompatibility between the selected profile and what every young person wants. This last argument is the subject of our study considering that as far as school education system goes, together with the universitar one, they will pay more attention to school guidance and counseling activities so that students can choose career paths that represent them, thus reducing abandonment.

## 2. Aspects of advisory work and school

The specialists appreciate that the advice and guidance activity can provide the school a high external efficiency and adeseired prestige, wanted by whole team of teachers. It should not be considered as an object of study or academic discipline in its everyday meaning, but as a *range of applications, practical developments, experiences and attitudes to be learned and to be practiced in life* (Jigău M., 2000).

The Declaration of the International Association for Educational and Vocational Guidance adopted in Paris in September 2001 estimated that advisory work and effective educational and vocational guidance can help individuals to realize their talent and potential and enable them to predict the activities that must follow in order to develop the essential skills to lead a professional, economic and social development and for them as individuals for the family, community and nation.

Association also believes that such advice and guidance menus as regular and continuous processes, do not limited themselves to single interventions. This activity accompanies and highlights the education carried throughout life and helps the individual to avoid periods of unemployment.

## 3. Research Methodology

This paper represents an exploratory research that was conducted in April 2013- 2014 and uses as a research method the quantitative method (questionnaire Holland) and the qualitative method. Investigation of vocational interests was made based using Holland questionnaire consisting of 120 questions, which describe different types of activities and skills. Establishing specific personality type, ESS will perform in relation to two criteria: the average final scores and frequency of a hierarchical place occupied by each of the six personality types in the structure pattern of interest, ie the first two types with the highest score recorded.

**The research purpose** is to highlight and emphasize how teenagers' interests determines the choices they make regarding their studies.

**In the current context there has been formulated the following hypothesis:** Assuming that the profile chosen by pupils, namely Mathematics-Informatics is corresponding to the Realistic (R) Investigative (I) and probably Conventional (C) personality profile and Philology Bilingual and Social Sciences profiles correspond to social scale (S) and Fantasy (F).

**The main research objective** is to develop profiles of vocational interests for both students of Mathematics and Informatics profile and for students of philological-Bilingual and Social Sciences, highlighting and comparing vocational profiles in order to grasp the differences.

The paper demonstrates the importance of counseling activities and school that can give students the correct image of vocational interests when choosing a career path.

## 4. Data analysis and findings

### Socioeconomic characteristics of the subjects

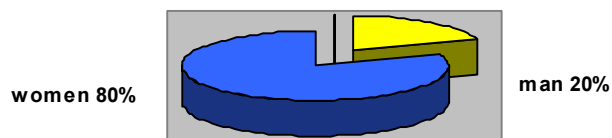
The research had as subjects 52 pupils from XII class aged 18-19 years, of both sexes from National College of Computer Science Matei Basarab Rm. Valcea.

**Table no. 3. Characteristics of subjects investigated**

Category	Features	Nr.	%
Sex	men	10	20
	women	42	80
	total	52	100
Age	18	34	65
	19	18	35
	total	52	100

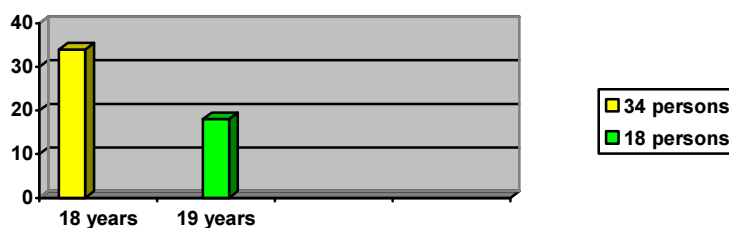
Category	Features	Nr.	%
Profile secondary	Mathematics Informatics	10	19
	Bilingual Philology	30	58
	Social Sciences	12	23
	total	52	100

Figure no 1 shows that 20% of respondents are male, the other 80% are female.



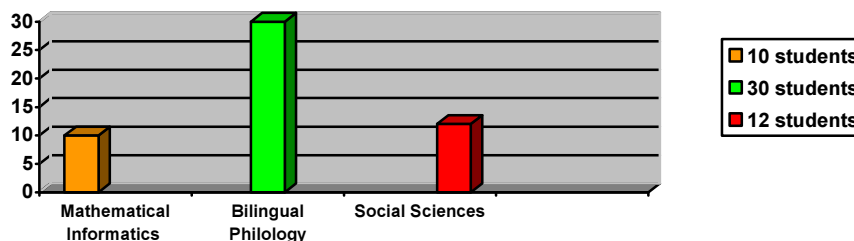
**Figure No. 1. Share of subjects by gender**

Taking into account demographic characteristics, subjects were divided into two age groups: group 18 years- 65% of subjects, 34 people, and the group of 19 years and 35% of subjects, 18 persons.



**Figure No. 2. Share of subjects by age**

Regarding the studies, it is important that 19% of students are from Mathematics-Informatics profile, (ie 10 students), 30 students, 58% are bilingual Philology profile, while 23%, 12 students are Social Sciences.



**Figure No. 3. Share of subjects based on secondary profile**

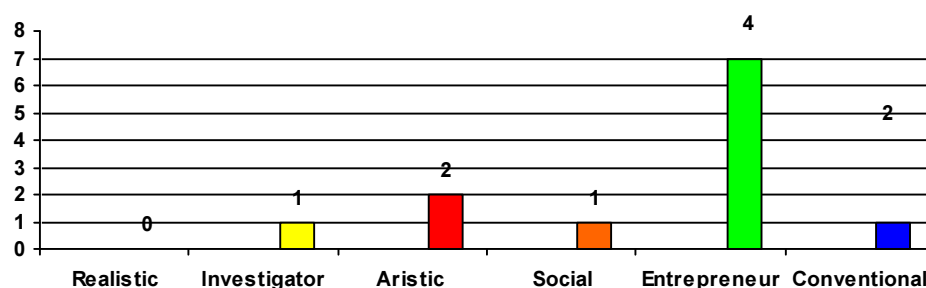
After processing the information the following results emerged

► *Mathematical Informatics Profile*

**Table no. 4. Results personality types mathematics computer**

Personality types	Nr. Subjects
1. Realistic	0
2. Investigator	1
3. Artistic	2
4. Social	1
5. Enterprising	4
6. Conventional	2

According to Table 4 and Figure 4 we observe that the type E (entrepreneur) occurs with the highest frequency, which requires subjects preference for using verbal skills, leadership skills acquisition, persuasion, interpersonal, carrying out activities involving initiative, activities buying and selling, running a business.



**Figure no. 4. The distribution of personality types for mathematics computer profile**

**Table no. 5. Variations of personality types for mathematics-informatics profile**

Variants of types	Code Personality	Number of subjects
Investigator	-Investigator- Entrepreneur	1
Artistic	-Artistic Investigator	1
	-Artistic- Entrepreneurial	1
Social	-Social artistic	1
Entrepreneur	-Entrepreneur Social	2
	-Entrepreneur -Conventional	1
	-Entrepreneur-Investigation	1
Conventional	-Conventional- Entrepreneur	2

After correlating goals it was resulted according to the table and figure No.5 No.5 the following personality types.

Dominant personality type according to Table 3 and Figure no. 5 specific to students with the mathematics-informatics profile. What appears with the highest frequency of interest in the patterns of this category is the E (Entrepreneur) with the following: E-S; E-C, E-I, followed by the type C (conventional) with the C-E variant. The following places are occupied by type A (artistic) variants A-E, A-I. On 3rd appears I (investigator) variant I-E.

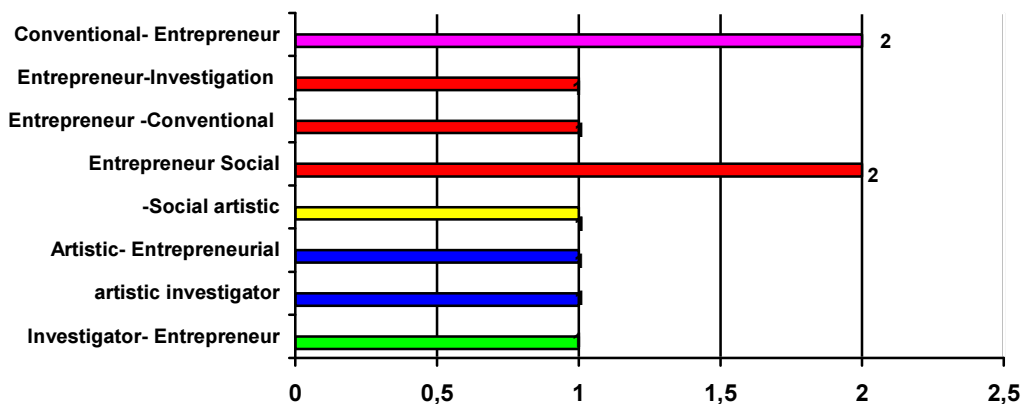


Figure 5. Variations of personality types for the mathematics-informatics profile

a) Taking into account the type with the highest frequency, E (Entrepreneur) resulted in the following: E-S; E-C, E-I.

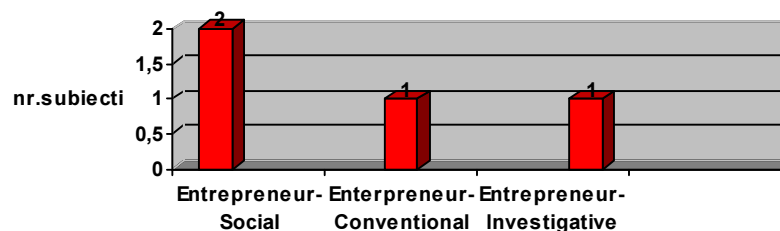


Figure No. 6. Variants of type E (entrepreneur)

For **E-S version (Entrepreneur-Social)** opted two subjects, both females of 18 and 19 years. E-S (Social Entrepreneur), subjects assumed inclination towards sales activities, management, social services. Also this profile does not match the profile chosen by students.

For **E-C (Entrepreneur-Conventional)** opted for a male subject. This variant involves inclination towards management activities, sales activities, data analysis, for administrative activities.

For **E-I (Entrepreneur-Investigative)** opted for a female subject. This variant involves the inclination of students towards management activities, sales activities, exact sciences.

b) For type **A (Artistic)** according to figure 5 we see the following variants revealed:

-**A-I (Artistic-Investigator)**. Opted for a female subject. This variant involves literary activities, sciences, art activities.

-**A-E (Artistic-Entrepreneur)**. This variant requires managerial skills, artistic inclination. The subject chosen was a male subject.

c) For the **Social** type there is the variant **S-A (Social-Artistic)**, opted for a female subject. This variant involves activities aimed at social, educational work, musical activities, performances.

d) For type **Investigator** the following variant resulted with a single female subject:

-**I-E (Investigator-Entrepreneur)** assuming exact sciences, management, technical activities.

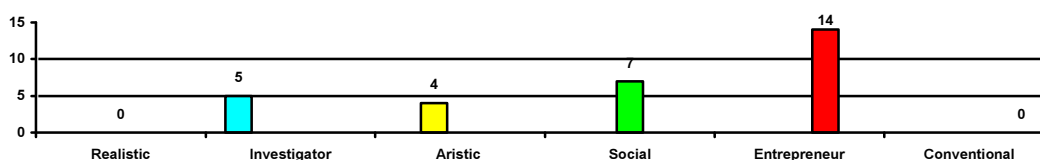
e) For the type **C (conventional)** the following variant **CI (conventional entrepreneur)** opted by two female subjects. They preferred activities aimed at data analysis, management and administrative activities.

► *For philological bilingual*

**Table no. 6. Results of personality types for bilingual philology profile**

Personality types	Nr. Subjects
1. Realistic	0
2. Investigator	5
3. Artistic	4
4. Social	6
5. Entrepreneur	14
6. Conventional	0

According to Table 6 and Figure 7 we see that for secondary profile it is predominate type E (entrepreneur), which requires subjects to have preference for using verbal skills, leadership skills acquisition, persuasion, interpersonal, carrying out activities involving initiative, buying and selling activities, running a business.



**Figure no. 7. The distribution of personality types from the results of the philological bilingual profile**

**Table no. 7. Variations of personality types for the philological bilingual profile**

Variants of types	Code Personality	Nr. subjects
Investigator	-Investigator- Entrepreneur	2
	-Investigator-Social	3
Artistic	-Artistic- Entrepreneur	1
	-Artistic-Social	3
Social	-Social Artistic	2
	-Social Entrepreneur	5
Entrepreneur	- Entrepreneur-Social	4
	- Entrepreneur-Conventional	4
	- Entrepreneur-Investigative	3
	- Entrepreneur- Artistic	3

After correlating scores with Table 7 and Figure No.8 the following personality types resulted.

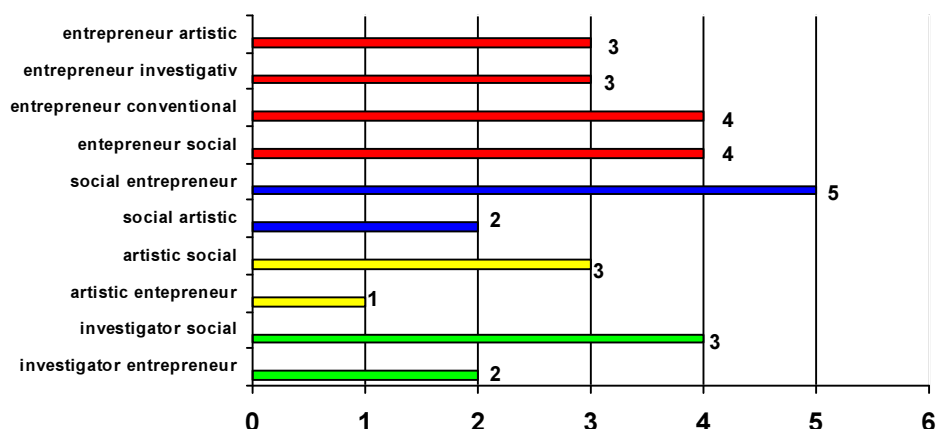
✎ Dominant personality type in table 7 and figure no. 8 specific for bilingual philology student profile. What appears with the highest frequency of interest in the patterns of this category is the E (Entrepreneur) with the following:

**-E-A, (Entrepreneur-Artistic).** This variant assumes that subjects prefer activities like management and artistic activities.

**-E-I, (Entrepreneur-Investigative).** It Assumes management activities, sales activities, exact sciences. Opted for two male subjects and one female subject.

**-E-C, (Entrepreneur-Conventional).** This variant involves inclination of subjects in the area of management, sales activities, data analysis, activities administrative. Opted for three male subjects and one female subject.

**-E-S (Entrepreneur-Social)** prefers management activities, sales activities, social services. Opted for three female subjects and one male subject.



**Figure 8. Variations of personality types for philological bilingual profile**

✎ The next place is occupied by the type **S (social)** with the following:

- **S-E, (Social-Entrepreneur)** prefer social services, activity management, sales activities. Opted for four female subjects.

- **S-A,(Social-Artistic)** prefer work in social services, educational work, musical activities, performances. Opted for two female subjects.

✎ Type **I (Investigator)** with the following:

- **I-S, (Investigative-Social),** prefer the medico-dental, mathematical sciences, social services. Opted for two female subjects and one male subject.

- **I-E (Investigative-Entrepreneur)** prefer exact sciences, management, technical activities Opted for two female subjects.

✎ Type **A (Artistic)** variants:

- **A-S, (Artistic-Social)** prefer work in social services, musical activities, educational activities. Opted for two female subjects and one male subject

- **A-E, (Artistic-Entrepreneur)** prefer organizing shows, managerial activities, artistic activities. Opted for a female subject.

► **For social sciences profile**

**Table no. 8. Results of personality types for social sciences profile**

Personality types	Nr. Subjects
1. Realistic	0
2. Investigator	3
3. Artistic	1
4. Social	3
5. Entrepreneur	3
6. Conventional	2

According to Table 8 and Figure 9 we see that for this profile it predominates type **E (Entrepreneur)**, **S (Social)**, and **I (Investigator)**. For type **E (Entrepreneur)** there have been chosen three subjects, which implies preference for use of verbal skills, leadership skills acquisition, persuasion, carrying out activities, initiative, buying and selling activities, management of business.

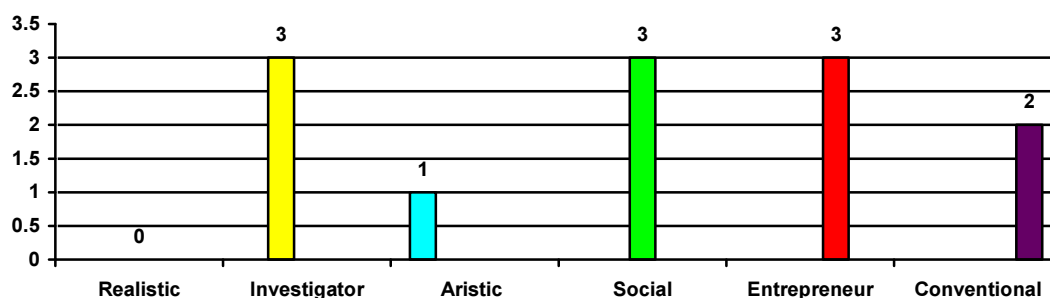


Figure no. 9. The distribution of personality types for philological bilingual profile

Table no. 9. Variations of personality types for philological bilingual profile

Variants of types	Code Personality	Nr. subjects
Investigator	-Investigator-Entrepreneur	1
	-Investigator-Social	2
Artistic	-Artistic-Social	1
Social	-Social Conventional	1
	-Social Entrepreneur	2
Entrepreneur	-Entrepreneur-Social	1
	-Entrepreneur-Conventional	1
	-Entrepreneur-Realistic	1
Conventional	-Conventional-Entrepreneur	1
	-Conventional-Investigator	1

After correlating the scores with Table No.9 and No.10 the following personality types were shown.

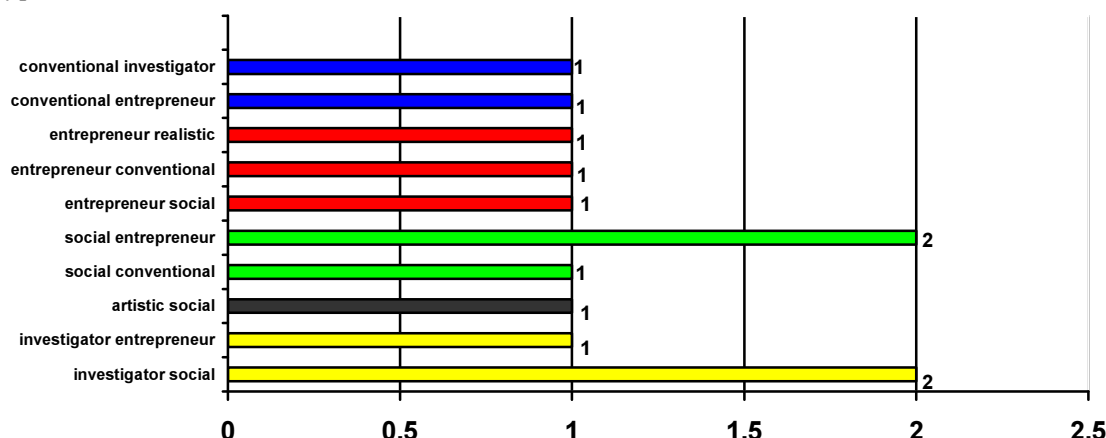


Figure 10. Variations of the types of personality for social sciences profile

As shown in Figure 10 the following choices resulted:

► Type I (**Investigator**) is presented with the following:

-I-S, (**Investigator-Social**), prefers activities like Medico-Dental, mathematical sciences, social services. For this type opted for two female subjects.

-I-E, (**Investigator-Entrepreneur**) prefers activities in the sciences, management, technical domains opted for this variant a female subject.

► Type A (**Artistic**), with A-S variant (**Artistic-Social**), prefers social, musical activities, educational activities. Opted for this variant a female subject.

► Type S (**Social**) with the following variants:

-S-E (**Social Entrepreneur**) prefer social services, management, sales activities. Opted for this variant two female subjects.



**-S-C (Social-Conventional)** prefer the social service, administrative activities and management activities. Opted for this variant a female subject.

► **Type E (Entrepreneur)** variants:

**-E-S (Entrepreneur-Social)** prefer management activities, sales activities, social services. Opted for this variant a female subject.

**-E-C (Entrepreneur-Conventional)** prefer management activities, sales activities, data analysis, administrative activities. Opted for this variant a female subject.

**-E-R (Entrepreneur-Realistic)** prefer management activities, craft-type activities, work with the public. Opted for this variant a male subject.

► **Type C (Conventional)** with:

**-C-E (Conventional-Entrepreneur)** prefer data analysis, administrative activities and management. Opted for this variant a female subject.

**-C-I (Conventional-Investigator)** prefer data analysis, exact sciences, administrative activities. Opted for this variant a female subject.

### Conclusions

As it emerges from the survey, we see that the dominant personality in the philology-bilingual and mathematics-informatics is the Entrepreneur, which requires subjects preference for using verbal skills, leadership skills acquisition, persuasion, interpersonal activities, initiative, involving the activities of buying and selling, running a business. For Social Sciences profile personality types that occur with the highest frequency are investigator, socialite and entrepreneur, implying that subjects possess mathematical skills, are analytical, do not like the rules, they have verbal and interpersonal skills, they prefer driving activities. All these do not confirm the hypothesis from which we started, the other personality types having a low frequency, especially realist and conventional type, where we expected to prevail in mathematics-informatics profile.

We believe that educational and vocational guidance plays a vital role in maintaining of a company highly qualified and economically viable, but also in supporting economic development and social stability.

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# PERSPECTIVES ON EDUCATION IN ROMANIA IN THE CONTEXT OF EUROPE 2020 STRATEGY

Mirela-Ionela, Aceleanu<sup>1</sup>

Andreea-Claudia, Șerban<sup>2</sup>

Cristina, Burghilea<sup>3</sup>

## Abstract:

*Education is the most important pillar in the development of a society, because it forms the attitude of the members of society, their training and their ability to adapt effectively to the changes imposed by society. Studies on education show that those economies that have invested in education over the years have obtained the best results in the field of social and economic development. Therefore the EU 2020 strategy aims to create a knowledge-based society, where education is a central pillar. Among the indicators followed as strategic target to be achieved by 2020 there are early school leavers, which should be less than 10% and tertiary educational attainment, which must be at least 40% for the age group 30-34 years. Our paper analyses Romania's position in relation to the other European countries in terms of education and measures taken to improve education strategy with regard to meeting the Europe 2020 targets. Strengths and weaknesses of the Romanian education system are captured, especially in terms of higher education.*

**Keywords:** education, Europe 2020 Strategy, Romania, educational strategy

**JEL Classification:** I21, I25, H52

## 1. Introduction

Education is the most important asset of a nation. It contributes to the development of the individual and of the society, and the economic growth and development. The world today is characterized by major changes in all areas, changes that create the need for permanent improvements and updates to the stock of knowledge. Thus, education is a basic component of the development of society, given the frequent and profound changes that are required by technical progress and the knowledge economy. The current economy requires well-trained workforce, which requires the development of skills, creativity, solid knowledge and increased responsibility. Education increases the chances for successful integration of individuals into the labour market, offering greater flexibility in work and the opportunity to respond more quickly to new requirements of the labour market. G. Becker, by the human capital theory argues that education and vocational training are the main source of future income. So, the more is invested in preparing an individual, the more he can earn more in the future. (Becker G.S., 1997)

Educational and informational gaps have become a source of instability at the national and even global level, and failures cannot be directed by "traditional recipes". (Crăciun L., 2012)

Rising unemployment in some countries amid the current financial and economic crisis has increased the attention paid to education and investment in people for the next period. Countries that have got over the crisis more easily and have had good results in unemployment have applied active policies particularly in the field of labour and have invested in education and training. Thus, at EU level, concerns for the development of educational policies and strategies are multiple, one of the most important being *Europe 2020 strategy*.

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Our paper analyses Romania's position in the European countries in terms of education and of the prospect of achieving the objectives of *Europe 2020*, in terms of education.

Analysing the statistical data on the size of unemployment in Romania, we can observe some imbalances of the labour market in Romania related to the poor correlation of educational programmes with labour market requirements, increasing youth unemployment and low labour efficiency in certain sectors. Even if these imbalances are not very large and have not lead to major increases in unemployment in our country, the present situation leads us to believe that in coming years the number of unemployed will not be reduced if sustainable measures to reduce unemployment are not adopted and if occupational policies do not correlate with the educational ones. (Savu M., Teselios D., 2014)

Therefore, *Europe 2020* strategy plays an important role for the policies and strategies adopted by Romania in educational, occupational, social and energetic field, based on three ways of securing sustainable economic growth: smart economic growth, which involves developing an economy based on knowledge and innovation; sustainable economic growth, by promoting a competitive economy, with low carbon emissions and efficient use of resources and inclusive economic growth, which includes promoting an economy with high level of employment, generating social and territorial cohesion. (EC, 2010)

## **2. Romania and the EU: common objectives and actions**

The globalization of trade and production, the huge impact of new technologies on work, society and individuals, aging population and persistent high unemployment rates put additional pressure on the economic and social structures of EU states. Under these circumstances it is considered necessary to develop and preserve the European social model (European Commission, 1994). Most documents issued by European bodies refer to the European social model that combines objectives such as economic convergence and multidimensional cohesion (cultural, social, etc.) (Marinescu et.al, 2012). At EU level, there is no single European social model, but several variations of it, but there is a *common strategy* that shows that we need a more competitive economy without ignoring the social and environmental policy in our efforts for modernization (JC. Juncker quoted in Werner, 2006). The economic competition is amplified by globalization, which prints the European social model the character of tool for building a *common European identity* against the threats of other states.

The European Union projects fundamental directions of economic and social development of the Member States based on the documents of the European Commission and Council. Among these, the Lisbon Agenda 2010 included targets to achieve during 2000-2010 in the economic and social field, across the European Union. The objectives of the Agenda were continued with the 2020 Strategy, whose objectives are the same. Romania's entry into the European Union imposed its policy harmonization with the European ones in all areas in accordance with the common targets set out in these documents: Sustainable Development Strategy of the European Union, the Lisbon Strategy, Europe 2020, etc., as well as methodological guidelines of the European Commission.

However, the objectives and lines of action have been revised over time, renewed, supplemented which has caused some difficulty, especially for some countries, to orient and adapt on the fly to the new recommendations from Brussels.

For example, the Lisbon Strategy was adopted in March 2000 and renewed by the European Council in Brussels on 22 to 23 March 2005. In 2008, during the economic crisis the *European Economic Recovery Programme* was adopted including measures applicable at the national level in the short term to exit the crisis. Under these circumstances, in 2009 Lisbon Strategy was reviewed and specific recommendations for the Member States in accordance with the European Economic Recovery Plan were formulated. In 2010, 2020 Strategy accepts that the global impact of the financial crisis has shown that *economic*

*realities are moving faster than political ones*, recognizing partially the limits of the coordination process at Community level, appreciating that advancing on the same road would make the European Union to be the second-largest global order (European Commission, 2010; 2020 Strategy). It is believed that the solution to this deadlock is to confront collectively the immediate challenges posed by recovery and long-term challenges (globalization, pressure on resources, aging).

Evaluations on *Lisbon Strategy* (which aimed to make Europe the most dynamic and competitive knowledge-based economy, providing sustainable growth, more and better jobs and creating greater social cohesion) have identified some obstacles to successfully meet the objectives of this strategy: the large number of targets, poor monitoring of Member States, weak correlation between the objectives of the Lisbon Agenda and those concerning economic convergence etc. *Strategy 2020* was not less ambitious about the goals that it proposes concerning the economic and social development of the European Union for the next ten years, the social aspects being considered essential in the process of economic growth (in the European social model perspective) (IER, 2010). Europe 2020 Strategy aims to transform The European Union into a smart sustainable economy.

Employment, unemployment, labour productivity and income become the focus of the concerns. The situation tends to be somewhat more difficult considering the numerical evolution of the workforce and an aging population. In this context, a significant change in European Union social policy is due to the introduction of the *open method of coordination*. After introducing this method in European policies regarding the labour market (Luxembourg Process), this was extended to the social policy as part of the Lisbon Strategy in 2000. Instead of minimum standards for all members, by means of directives, this policy encourages a process of mutual learning across national borders according to common guidelines (Werner, 2006). Europe 2020 Strategy also recognizes the importance of convergence in terms of key regulatory issues, and the adoption of common rules and standards so as to be consistent and convergent with the proposed objectives. At national level, Member States pursue the objectives proposed in the programme by the National Reform Programmes.

Romania developed and implemented the National Reform Programme but little has been achieved, being still necessary *tackling macroeconomic and fiscal imbalances that jeopardize the sustainability of the economic growth path in the medium and long term. At the same time, as its advantages in terms of costs fade, Romania should speed up structural reforms to make the transition from an economy based on advantages in terms of costs to an economy based on productivity, innovation and knowledge, exploiting new sources of growth.* (European Council, 2009)

### **3. Europe 2020 Strategy**

*Europe 2020 Strategy* on the one hand prioritises a socially inclusive growth by promoting an economy with a high rate of employment and, on the other hand, a smart growth, based on the development of knowledge based economy. Regarding these two priorities, the strategy aims to improve the employment rate of the workforce as well as improving the participation to education and increase the number of people with tertiary education. The targets for these objectives are: achieving an employment rate of 75% by 2020, reducing up to 10% the rate of early school leaving and a minimum of 40% in the share of people with tertiary education for the age group of 30-34 years old. These targets were adjusted for each country based on the possibilities to achieve those targets. For Romania were set the targets of 70% in terms of employment rate, 11.3% the rate of early school leavers and 26.7% the share of people with tertiary level education for people aged between 30-34 years old.

Romania's situation on the main objectives of the Europe 2020 Strategy which relate to education are presented in Table. 1.

It is important to know Romania's position currently in relation to targets to be achieved in 2020 to identify the most important gaps and to develop measures and remedies to reduce these gaps.

**Table 1: The objectives of the Europe 2020 Strategy for Romania**

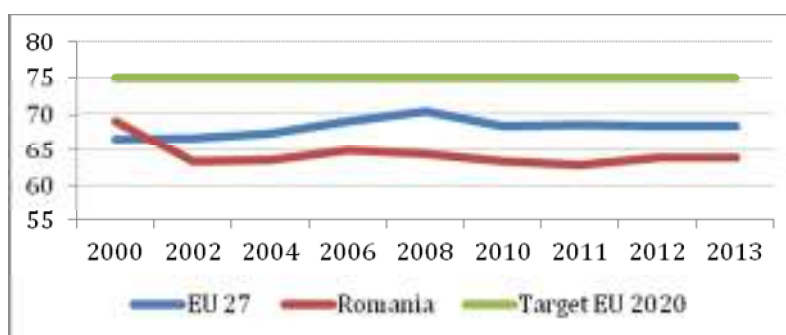
Indicator	EU 27 objectives (Europe 2020 Strategy)	Objectives Romania	The current situation and progress registered in Romania	
			2010	2013
Employment rate of population aged 20-64 years old	75%	70%	63.3%	63,9%
Investment in research and development (% of GDP)	3%	2%	0,47%	0,49%
Early school leaving (%)	10%	11,3%	18.4%	16,9%
The rate of population aged 30-34 years old graduate of a form of tertiary education	40%	26,7%	18.1%	23.2%
Reduction of population at risk of poverty or social exclusion (number of persons)	20.000.000	-580.000 (compared to 2008)	- 466.000 persons	- 164.000 persons (in 2012), 2013-n.a.

Source: National Reform Programme, 2014 & European Commission, Eurostat, [http://ec.europa.eu/europe2020/pdf/csr2014/nrp2014\\_romania\\_ro.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/nrp2014_romania_ro.pdf)

According to the data in Table 1, Romania has made some progress in the recent years, but it is reduced.

Regarding employment rate of population aged 20-64 years old, it increased slightly in 2010-2013, with only 0.6 pp.

The same trend was registered in the EU, mainly due to the economic and financial crisis that led to the decline in employment, by restricting certain activities and the closure of some firms (figure 1).



**Figure 1. Employment rate (%), age group 20-64**

Source: Eurostat, 2014, Europa 2020 Indicators, <http://epp.eurostat.ec.europa.eu/>

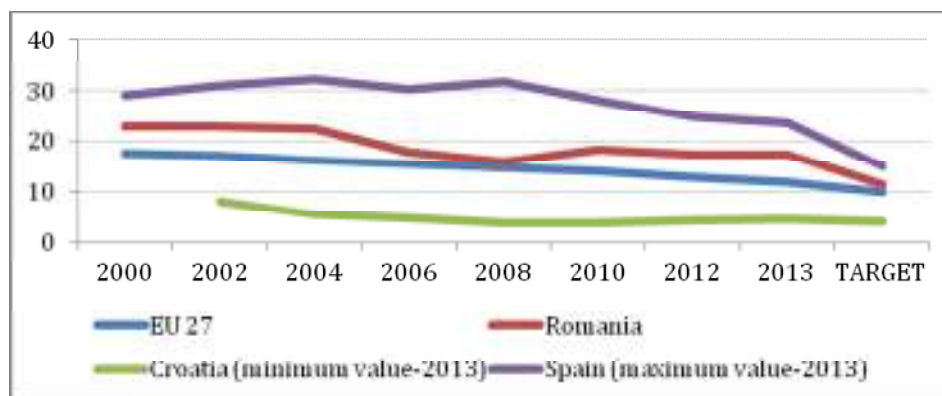
This situation makes European countries to move away from the Europe 2020 target to achieve a 75% occupancy rate. Of course, results vary from one economy to another and even strategic targets are different depending on the level of development of the economies and their ability to cope with such objectives.

The share of research and development investment in GDP in Romania grew very little only 0.2 percentage points in the period analysed, which shows the same gap compared to the objectives of the 2020 Strategy.

However, early school leaving in Romania reduced, but the values of this indicator

are still among the highest in Europe. From this viewpoint discrepancies are recorded between leaving school by gender and area of residence, with a higher rate of early school leavers in rural areas and among boys.

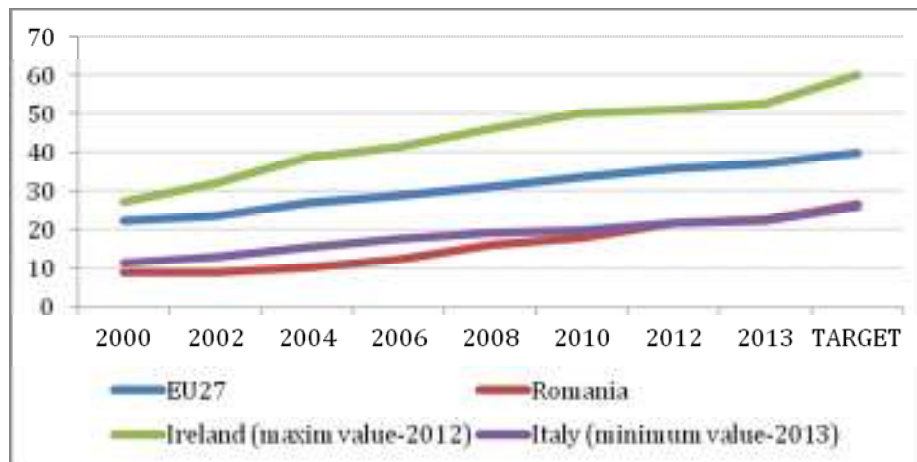
If we look at Romania's position compared with the EU, in terms of this indicator (figure 2), we notice that Romania recorded fluctuating values during 2000-2013, which have moved away from the EU average in recent years (12%). Romania recorded a decreasing trend in the period 2002-2009, but after this period, early school leaving rate increased to 18.4%, mainly as a result of the crisis. In recent years there was a slight decrease in this indicator, which reached the level of 17.3% in 2013. Among the EU member states, the best results from this point of view were registered by Croatia, with a rate of 4.5% for this indicator in 2013, while Spain had the highest rate of early school leaving, of 23.6% in 2013.



**Figure 2. Early leavers from education and training**  
(% of the population aged 18-24 with at most lower secondary education and not in further education or training)

Source: Eurostat, 2014, Europa 2020 Indicators, <http://epp.eurostat.ec.europa.eu/>

The share of population aged 30-34 with tertiary education level increased continuously in Romania, reaching from 16% in 2008 to 22.8% in 2013, even if this indicator records differences by area of residence and gender. Better results are recorded in urban areas and among girls.



**Figure 3. Tertiary educational attainment (age group 30-34)**

Source: Eurostat, 2014, Europa 2020 Indicators, <http://epp.eurostat.ec.europa.eu/>

And at EU level, participation in tertiary education knew an upward trend, the strongest growth was recorded in Ireland, and the lowest in Italy and Romania. Compared to the EU average recorded in 2013, Romania recorded a difference of 14.2 percentage points (Figure 3).

According to Eurostat, the risk of poverty rate after social transfers in 2012 was of 22.6%, while there was a reduction in the number of poor people by 164,000 compared to 2008. To reduce the number of poor people were given special allowances to support these people and their families.

Therefore, Romania's position on Europe 2020 objectives, particularly with regard to education, shows us that although there have been some improvements, efforts to finding ways of achieving these objectives should be continued and even amplified because Romania has to recover an important gap towards the EU, a gap enhanced by the current financial and economic crisis.

In order to achieve Europe 2020 objectives, Romania must take measures aimed at educational and employment policies in the current macroeconomic and European context. Thus, it is needed better functioning of the labour market, better participation in continuous education and vocational training, a better match between educational programmes and labour market requirements, better cooperation between schools, research and business, as well as stronger policies to promote job creation and labour demand.

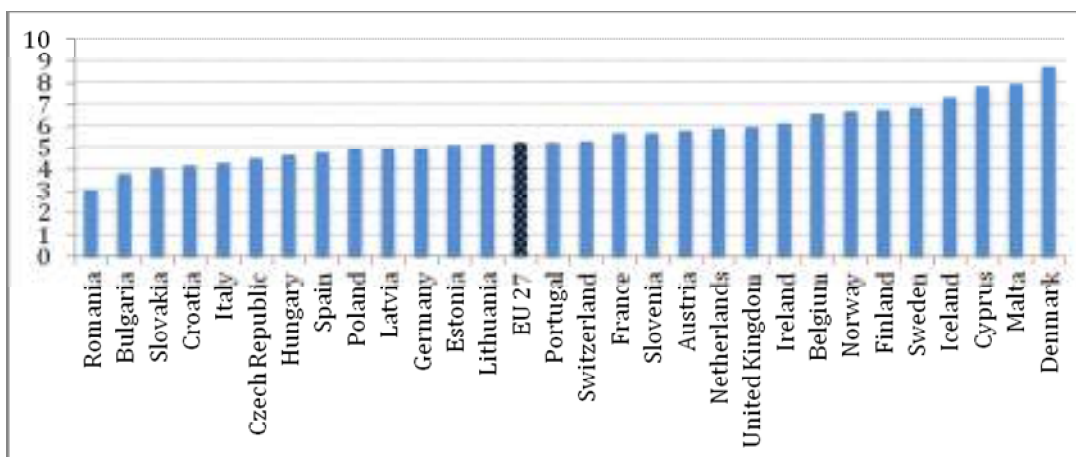
### **5. Beyond Europe 2020**

Even if the link between education and economic development is recognized in theory, priority given to this relationship was sometimes neglected, a situation determined by the specific conditions in each country. Romania has undergone major changes in recent decades in terms of the education system reflected in its structure, goals and organization. The low level of progress was influenced by the inconsistency in the application of reform measures and economic difficulties that prevented the state, the main supplier of investment in education, to fulfil its purpose, that of improving the quality of education and increase the access to education.

The educational public policy and of the labour market have recorded various developments in the European Union. Member states aimed at increasing investment in education as a key solution to prevent poverty and social exclusion in the long run (Stanef, 2013). From this point of view an important role is played by *public spending on education policies and labour market, as a percentage of GDP*.

Although they are on a downward trend in most EU states since 2005, public spending on labour market rose in all states in 2009 and continued to grow in 2010 in most Member States. In Romania public expenditure policies of the labour market were below 1% of GDP in 2005-2010. In 2008-2009, Romania recorded the lowest level of these expenses as a percentage of GDP in the European Union. In 2010, Romania exceeded Malta and Bulgaria, with a level of spending of 0.61% of GDP. This level represents approximately 3.5% of the EU average, while in 2011 these costs were halved compared to the previous year, ranking last in EU. In 2012, Romania maintains its last position on this indicator, with only 0.29% of GDP.

Regarding *public expenditure on education* as a share of GDP according to Eurostat, Romania still occupies the last position, with a value of the indicator of 3.07% of GDP in 2011. (figure 4) The EU average value is 5.25% and the highest value of this indicator registers Denmark with 8.75% of GDP. Moreover, the Nordic countries are known for massive investments in education and the adoption of active labour market policies.



**Figure 4. Public expenditure on education (% of GDP) – 2011**

Source:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/product\\_details/dataset?p\\_product\\_code=TSDSC510](http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=TSDSC510)

Taking this into consideration these comparisons, decision makers in Romania need to understand that Romania cannot have positive long term results without making significant investments in education.

Education is important to society because the more people are educated, the more innovation-research can develop and progress is sustained in that society. Education is important also because educated people will be able to better adapt to market demands and the needs of a knowledge society. However, factors that influence an individual's decision to continue or not studies are numerous and related to the individual's skills, which directly influence the duration of studies, family background, family financial situation of the individual, quality of life and level of development of the society. (Mosora M. H., 2013)

Therefore economic policies should target measures to create the conditions to increase participation in education. Studies of the role of education increasingly highlight the positive link between investment in human capital and economic growth, *education* is considered the slowest, but also the most powerful factor of economic growth.

## 6. Conclusions

Romania's long-term development in line with Europe 2020 goals requires continuing efforts to reduce the disparity with the highly developed countries of the European Union.

To successfully implement the Europe 2020 strategy, both in terms of education as well as the other objectives of the Europe 2020 strategy, Romania must reconcile national policies with the objectives of the Europe 2020 strategy, coordinate national reform programmes with national programmes of convergence and to continuously monitor the progress made and blocks that occur over time.

In order to meet the objectives regarding education efforts to implement the Europe 2020 strategy in Romania should include actions such as:

- major investments in education systems and training systems at all levels,
- facilitating the employment of young people through integrated actions that include guidance and counselling;
- facilitating the employment mobility;
- ensuring the acquisition of competences necessary for further learning and labour market integration
- developing the partnerships between education and business.

In conclusion, we can say that the answer to the current challenges of the economic crisis and globalization, the rise in unemployment and an aging population must target the



coordination of the economic and social policies at the national level with those at community level, but taking into account the specific conditions of our country and its possibilities of adaptation and evolution on the trajectory indicated by the recommendations of the European bodies.

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# MANAGERIAL COMMUNICATION WITHIN PRE-UNIVERSITARY EDUCATION- MAIN COMPONENT OF THE EDUCATIONAL POLITICS - A CASE STUDY ON „MARIA TEIULEANU” ECONOMIC COLLEGE IN PITESTI

Iulia, Mielcescu<sup>1</sup>  
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Lavinia, Iancu

*“The competence of teachers and especially that of the managers from all kinds of tuition, broadly conditions the future of the country.”*

Alexandru Puiu

## **Abstract:**

*The present paper is structured in three parts. “Managerial communication and its strategies at organisational level” makes reference to Managerial Communication as a subject. The communication strategies at the organisational level are determined and some of them are also defined: control strategy, dynamic strategy, acceptance strategy, egalitarian strategy, structural strategy or avoidance strategy.*

*The paper continues with “Communication within schools”, on the example of “Maria Teiuleanu” Economic College in Pitesti, tackling the idea: “Valuable education- education for values”.*

*There follows the SWOT analysis of the activity within this institution. The managerial vision, the mission and the values promoted within the school are highlighted as well as some of the strategic priorities which will guide the whole activity, the didactic and educational activity for the current school year.*

*The next perspectives which open in what regards the training of teachers within the field of education are tackled:*

*1. The development of some real collaboration relations between the experts who teach didactics and psycho pedagogy.*

*2. The training of some teachers who should be able to use the textbook in an optimum way under the conditions of the modern curriculum.*

*3. The reform of the promoting system on the grounds of the revision of the didactic personnel status and of the official introduction of some standards of didactic profession.*

*The paper ends with some “Perspectives” which can improve communication within the school in the present situation and also within the existent institutions in what regards:*

*A. Communication in the relations between school/teachers and students.*

*B. Communication between the teachers, respectively teachers and the school managers.*

*C. Communication between school and community (parents including).*

*All things considered, it can be said that, according to the new requirements of the educational politics, the capable managers have the possibility and at the same time the duty towards themselves and the communities they manage, to establish the managerial strategy characterised by a set of values that they have to propose and promote within the learning and tuition process.*

**Keywords:** *management communication, strategies, values, perspectives*

**JEL Classification:** D00, I20

## **1. Managerial communication and its strategies at organisational level**

Managerial communication was set up as a subject of management out of the need of managers having at their disposal the optimal means of interaction in the view of fulfilling their functions and roles. Later, it developed as a subject of study which offers more than a “working tool” to managers and to their organisations. Efficient managerial communication represented a competitiveness factor, a strategic advantage of the organisations.

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### **Communication strategies at organisational level**

Communication is considered a vital component and resource of the functioning of the organisation. “**The organisational culture** represents a structured assembly of the material and spiritual materials of the organisation integrating a system of values and beliefs which is systematically cultivated and transmitted within its members and outside the respective organisation “(Puiu Alexandru, 2004, p. *Management – Analize și studii comparative*. Pitești: Ed. Independența economică).

It is rather difficult to define the notion of “communication within the organisation” bearing in mind that it applies to a totally different area and fields. They can be summarised and classified into **four categories**:

1. Interpersonal rapports within the organisation: motivation problems, recruitment of the personnel, daily rapports between the clerks, spatial organisation of working places;
2. Information distribution, circulation and use, in other words, the enterprise as an information system: dispositions, procedure formalisation, spreading of intern information;
3. Communication management between the leading staff and the employees: human resources management, internal journals;
4. External communication based on products (advertising, marketing, products way of using) or on the organisation itself (institutional communication).

At organisational level, the strategies of individual communication acts have to integrate within a unitary communication strategy which should assure the implementation of the organisation strategy, both through direct action, but also indirect, through the created communication climate.

Function of the specific situation in which the organisation is at a certain moment, but also of the direction which it follows, different types of communication strategies are appropriate. The most frequently used strategies are:

#### **a) Control strategy**

By means of this strategy the manager coerces and directs. It is a one direction communication which uses feedback especially for qualification. It is frequently based on the individual styles of the “reprehending” and “informing/conducting” types. It is recommended in urgency situations when time is the critical element and the manager needs indisputable authority over the people involved. It is also useful in the instruction process of the new employees, in working with dependant, unable employees or who are not motivated for the work they do. If the control strategy is used in a wrong way, it can generate negative feelings, resistance to change or opposition from the part of those not bearing direct control. For this reason the control strategy is not recommended for the change implementation situations.

#### **b) Dynamic strategy**

Communication is direct and concise and the content of the messages is pragmatic and action-oriented. It is based on the “informing/conducting” and “persuading” individual styles. Communication is not of the supportive type but it is oriented to immediate activities the manager and the organisation confront with. It is not to be applied in situations which involve distant future. It is to be recommended to the managers who act in areas found in a rapid change. It differs from the control strategy in that the manager, in his communication acts, presents a brief declaration of his position and afterwards he delegates the authority in making decisions and acting to the interlocutor who, at the same time, he stimulates and motivates and motivates. The key of the success of this strategy consists in the performer’s competence and the existence of a trust climate.

#### **c) Acceptance strategy**

It is characterised by the acceptance of the interlocutor’s viewpoint which can be, for example, a team of consultants or the auditing commission. It is to be applied when the

purpose of the communication is, for example, that of eliciting the opinion of some specialists regarding the internal processes, the market or the competition. It is an inappropriate strategy for situations in which the responsibility transfer is desired or in the communication with people without initiative since they could interpret the respective means of communication as a sign of weakness and incompetence.

**d) Egalitarian strategy**

It is characterised by a bilateral transfer of information in which the influence is reciprocal; supportive communication elements are manifested. Making decisions is based on consensus. Through this strategy a mutual agreement atmosphere is generated. The predominant individual communication style is the “problem solving” one. It is recommended in forming and uniting the groups, in implementing participating management, in communicating with small groups when time is not a constraint, in the process of mandating employees. It is a very indicated strategy for the decreasing of the resistance to change and for the introduction of the change and but it is not effective in communication with incompetent people, lacking experience, knowledge or initiative, in urgency and crisis situations.

**e) Structural strategy**

This kind of strategy is successfully used by managers in establishing order in the process of institutional reorganisation, in the introduction of organisation and planning in very complex situations in which clarifications and permanent transmission of instructions are needed. As a predominant individual style, the manager uses “informing-directing” or “persuading” through maintaining standards and procedures, establishing objectives, distributing and explaining tasks, encouraging the employees to respect deadlines. The managers conduct communication towards the assistance of the structure. Structural strategy is not recommended in critical situations or with emotional implications, in evident and simple situations or when the organisation functions in a stable environment.

**f) Avoidance strategy**

This strategy is used to avoid communication in relation with certain situations, events or states. In general, it solves few problems and it is recommended in situations in which the avoidance of delivering information is to be imposed or when the emotional tension is very high.

**2. Communication in tuition institutions**

Managerial communication can be defined as an intentioned process of transfer of information and meanings between people, groups, levels or organisational subcomponents and whole organisations. At educational level systems and communication procedures are built having as their purpose the realisation of managerial functions (projecting, organising, monitoring, evaluating, etc) in the specific functional areas (curriculum, human resources, physical and financial resources, institutional development and cooperation). The specific functional areas have been analysed both from the point of internal communication (at the level of organisational subsystems) and that of external communication (with other institutions and organisations from the tuition system and from the outside). Using the existent data, there have been tackled the following aspects:

A. The presence of pupils as communication partners. Communication with pupils will not be tackled from the educational point of view (even if the managerial perspective is justified in this case), but from the organisational one.

B. Communication between teachers.

C. Communication between teachers and the school managers.

D. Communication between school and family.

E. Communication with the school partners within and outside the school system, from the local community and from the outside.

### **“Valuable education – education for values”**

A. The socio-economic and political context of the current school year imposes the necessity of connection to the European standards and requirements in the educational field. The study of the European educational systems and the implementation of progress elements are becoming a moral obligation towards the young generation. The initiation and organisation of some activities to lead to the achievement of these standards are taken into consideration when creating the Managerial Plan.

B. The SWOT analysis of the activity carried at “Maria Teiuleanu” Economic College in Pitesti within the current school year highlights the following aspects:

#### ***Strengths***

- pupils are motivated for learning;
- pupils’ encouragement to obtain some prizes at regional, national and international level;
- “Maria Teiuleanu” Economic College in Pitesti offers good academic training;
- relaxed atmosphere, of reciprocal trust;
- varied offer of school and extra-school programmes which leads to the personalisation of the teaching-learning process;
- good equipment;
- good relations with parents and community.

#### ***Weaknesses***

- mainly extrinsic motivation for professional development, complacency, tendency to exaggerate their own role in the pupils’ successes;
- indifference, passivity, lack of attitude of some substitute teachers in what regards the teacher-pupil relationship;
- lack of real communication, coordination, cooperation between the teachers to harmonise the educational influences (“we all have *the same pupil* and at the same time *a diversity* of pupils”).

#### ***Opportunities***

- a new batch of very good pupils;
- diversity of training courses addressed to the teachers, within convenient programmes;
- possibility of the pupils who have set up training firms to take part in National and International Fairs organised by ROCT.

#### ***Threats***

- lack of relevant means of motivation and enforcement for teachers;
- centralised hiring system based on irrelevant criteria;
- absence of sponsors to develop the school equipment.

The managerial conception for the current school year is based on the fulfilment of the educational ideal proposed by the Tuition Law and by the documents of educational politics of the National Educational Ministry. From this perspective the finalities of high school tuition have in view the training of a graduate able to decide on his own career, on his intellectual and professional development, being actively involved in the social life. In order to obtain this, the high school has to lead to the fulfilment of the following finalities:

- The formation of the ability to reflect upon the world, to formulate and solve problems, relating knowledge from various fields;
- The valorisation of personal experience;
- The development of functional competences essential for the social success (communication, critical thinking);
- The shaping of moral self-sufficiency.

#### **Managerial vision**

Starting from these wishes established by the effectual educational documents, in the current school year there is in view the concentration of the efforts in order for the students

to acquire a **good general training, deepened knowledge** in the areas relating to their future career, **competences** necessary to the **social insertion** and **intellectual work skills** to be able to learn throughout their life. The whole activity will be organised in such a way that within “**Maria Teiuleanu**” **Economic College** in Pitesti will be created a professional educational environment at high instructional and moral standards.

The moral and action profile of the graduate from “**Maria Teiuleanu**” **Economic College** in Pitesti is characterised by a set of values which we propose to promote by means of the teaching and education process.

***Values promoted within “Maria Teiuleanu” Economic College in Pitesti:***

Integrity – having the inner power to tell the truth, to act honestly.

Wise judgement – to define and understand valuable purposes and establish the priorities; to think by means of the action consequences and to fundament the decisions on practical wisdom.

Responsibility – to carry out consistently the obligations each one has, assuming responsibility for their own actions.

Respect – to show sympathy towards people, authorities, property and, not least, to their own person.

Perseverance – to be consistent and find the strength to go on despite the difficulties or personal failures.

Courage – to have the strength to do what is right and follow their own conscience.

Self discipline – to control their own actions, words, wishes, impulses and have an appropriate behaviour to each situation; to do their best in any situation.

Kindness – to show care and sympathy, friendship and generosity towards the others.

All the teachers have the moral and professional obligation to organise their lessons and extra school activities in order to form students able to:

- know their own value;
- communicate efficiently with the others;
- plan and fulfil tasks;
- think independently;
- solve problems by themselves;
- try to overcome themselves;
- learn to protect themselves.

In order to form these competences in students, all the teachers from “**Maria Teiuleanu**” **Economic College** have to prove by daily activity that they have these competences too.

**„Maria Teiuleanu” Economic College - Mission**

*Our mission is the development of each student at their maximum potential; we place great emphasis on the development of the values promoted through the educational philosophy of the school and of the key competences which permit their social insertion and lifelong learning.*

**Strategic priorities**

For the current school year we will direct the whole activity, the teaching and educational process on the following **strategic priorities**:

- Raising the teachers’ professional level;
- Adopting strategies for the personalisation of the teaching-learning process;
- Elaborating teaching and evaluation standards within “Maria Teiuleanu” Economic College in Pitesti for the speciality subjects, Romanian language, Mathematics, ICT and Foreign languages;
- Developing ICT skills, using ICT as a learning tool;
- Raising the responsibility of each teacher towards pupils, parents and community.

For the current school year we have in plan to continue the structuring of the managerial activity with the involvement of each department and the teachers while planning it in the idea of building a managerial plan in which every person should recognise themselves and which should be assumed by all the staff. The managerial plan contains objectives and activities conceived in a more general perspective. The teachers responsible for each department propose activities which correspond to the strategic objectives from this year, activities included in the managerial plan. We believe that, in this way all the teachers, all the auxiliary teaching and non-teaching staff have the possibility to promote their creativity and at the same time to prove responsibility, building and achieving the specific activities proposed, adapted to the area to which they belong. The working plans of the departments and commissions reflect, through concrete activities, these objectives. Moreover, we consider that, in this way, we do practise the principles proposed with the school mission within the managerial activity, too.

### **3. Perspectives**

As a consequence, in what regard the training of teachers in the direction of education of communication, the following perspectives open:

1. The development of some real collaboration relations between the experts who teach didactics and psycho-pedagogy in such a way that the partnership to achieve:

- a) the coherence of education efforts of communication competences for the future teachers and of the competence to facilitate their development at students;
- b) the dissemination of positive communication attitude of the future teachers;
- c) the promotion of active strategies and of evaluation complementary methods as procedural acquisitions within didactics and psycho-pedagogy courses to offer a basis in order to build real communication contexts by the future teachers;
- d) the reformation of speciality classes from the perspective of interactive approaches in order to stop the repetition of over-verbalised practices in classrooms by the future teachers.
- e) the pleading of communication masters – as a starting point in forming the didactics teachers as facilitators both initial forming and also in the continuous one;

2. The training of some teachers who should be able to use the textbook within the conditions of the modern curriculum. The previous syntheses have proved, on the one hand, the persistence of some traditional textbooks, and on the other hand, the confusion of teachers regarding the syllabus and the textbook. Continuing a pattern transmitted by the tradition of a unique textbook identical from the point of view of the analytical syllabus content, primary school teachers and teachers refer to the textbook when syllabus is discussed! In this context the training programmes have to include:

- a) the development of operating competences with the modern textbook, strongly interactive and of substituting the lack of any textbook-more or less innovative;
- b) the development of selection competences of some textbooks adequate to the group of students and the personal profile;
- c) the development of the syllabus reading competences, personalised didactic project and application of the curriculum through the development of adequate strategies.

3. The reform of the promoting system on the grounds of the revision of the teacher's status and the official introduction of some standards of the didactic profession. These have to stipulate professional competences which all the teachers are to acquire, the differences between the promotion steps being given by the level of performance within each competence. In this way, the list of the wished professional competences has to be completed with the performance indicators, corresponding to each promoting step. It is to be discussed the possibility of introduction of some research competences, action necessary for the last promoting steps (which should not be obligatory at the beginning of the didactic career).

a) the introduction in the continuous training offer of some courses specialised in the development of communication competences at students and within school as a learning organisation;

b) the correlation of the different components which aims at training from the Phare and World Bank programmes from the perspective of complementary training supports and of the efficiency of costs;

c) the taking over in continuous and initial training of the markers of curricular projecting and of the course supports developed within PIR;

d) the promoting of using ICT in the teaching-learning-evaluation process;

e) the sensitise of school managers for the improvement of the communication by means of training at the school level.

The communication models will change only with the dominant organisational culture, therefore in a longer period of time. As a consequence, the proposals which will follow will aim only some of the aspects which can improve communication within the school in the present situation and within the existent institutions.

A. For the improvement of the communication in the relations between school/teachers and students, the proposals could be:

1. The real functioning of the students' councils which have to represent the students' interests and options even if these do not correspond to the teachers' or school managers' opinions.

2. The offering of a motivated answer to any request, verbal or written, coming from the part of the students (through the Students' council or outside it).

3. The responsibility of the students for communication – at the level of the classroom and of the school – through the management, by the students, of some informative boards, of the radio-broadcast station or of the web page.

4. The introduction of some feedback solutions and evaluation of communication effects: formal and informal discussions referring to the national exams, grants and other elements of school life; pools for suggestions, questions, critics (under the anonymous protection); completion, by the students, at the end of a term or school year, of a survey (anonymous) with reference to the main aspects of school life, followed by the presentation in front of students and parents of the conclusions (on informative boards, in meetings, etc).

5. The priority training of teachers in the area of educational communication.

6. The de-formalisation of school life – for example by giving up to separate entrances/steps for teachers and students or asking the students' opinions and contributions in decorating the classrooms and the school, in maintaining the school uniform or not, etc.

B. The suggestions for the improvement of communication between teachers and teachers and the managerial staff are as follows:

1. Promoting the cooperation between the teachers beyond the discipline they teach by promoting the topics within curriculum at the school decision.

2. De-formalisation of school life by encouraging the celebration at school of some personal events (birthdays, etc) and by organising some common informal actions (trips, etc.).

3. Training focused on the school – for example: a training programme on didactics communication topics to which all the teachers in the school should take part; specific teambuilding programmes. These programmes contribute to the creation/consolidation of organisational culture..

4. Using all the communication channels to distribute the information at all the levels- informative boards, radio station, internet page, etc.

C. Proposals for the improvement of the communication between school and community (parents including):

1. Curriculum at the school decision to really reflect parents' options.

2. Offering a motivated reply to any request, verbal or written, coming from the part of parents or the community.



3. Inviting parents, local representatives and other community representatives to the school and extra school activities. In some schools there is the practice of “open days” and “open lessons for parents”.

4. Necessity of reporting to parents and community of the results of school inspections (which is required by the laws which apply nowadays).

5. Introduction of some feedback solutions and evaluation of the communication effects similar to those presented above.

“The capable managers have the possibility and at the same time the duty towards them and the staff they manage, to establish their leading strategy by correctly choosing the methods of management which best fit the given situation and not to consider the choice as being fixed, keeping into account that we live in a dynamic world in which the speed of change has sped very much”.

Being known that “the spiritual life” has always been “the engine of human society”, nowadays, in the conditions of the scientific progress being the decisive factor of performing economic development, the tuition problems are extremely complex. Therefore, the exigency towards the managers in this field is more important as a way of expression according to the new requirements of the educational politics.

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# THE ANALYSIS OF SCHOOL EXPECTANCY INFLUENCE ON THE GROSS DOMESTIC PRODUCT AT THE LEVEL OF THE ROMANIAN ECONOMY

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## Abstract:

*At the level of the Romanian economy, Gross Domestic Product is one of the most important indicators. Analyzing its evolution we observe that the effects of the economic and financial crisis strongly influenced it, the year 2009 representing the proof that the Romanian economy was not stable. Along with the Gross Domestic Product variation, in this paper we present school life expectancy indicator, one of the components of the education indicator in the Human Development Index. The link between the two indicators is analyzed using regression for the period 2002-2012. The independent variable is considered school expectancy and the dependent variable is Gross Domestic Product.*

*The calculations led to the conclusion that the variation of Gross Domestic Product is explained at a rate of 41% by the variation of school expectancy.*

**Keywords:** school expectancy, GDP, economic and financial crisis, Human Development

**JEL Code:** A10, C25, O15

## 1. Introduction

The evolution of mankind, and especially the cyclical economy shows that in order to successfully overcome the difficult times, we must be informed. In this sense, today more than ever, education makes the difference, and the power of education, in general, the highest education, in particular, increases the level of welfare and hence the competitiveness of a nation. (Badea, Rogojanu, 2012, p.123).

Education allows us to make informed choices, to adopt the best decisions for us and for the close ones. The benefits of education are evident, first, for the one who holds it, but it also generates an effect on the quality of life of people interacting with that person. (Pană, 2012, p.117)

However, it should not be limited the connection between the individual and labor market link that confirms skills and experience held by each of us. Currently, the economy based on knowledge requires an education system that significantly contributes to the development of knowledge and skills. People need to prepare for jobs that are rapidly changing due to dynamic developments in technology and work organization. (Șerban, 2012, p.134) We note that today's business environment has undergone rapid change with consequences that affect the business organizations around world. (Ducu, 2013)

Clearly, increasing education positively affects the living standards of the individual, the welfare that he enjoys. One way of quantifying the welfare is the Human Development Index, indicator introduced in the early 90s. The Human Development Index "is a quantitative measure of the degree of success of a country to develop human capital", being considered useful because of the coverage degree, higher than that of the Gross Domestic Product (GDP) (9).

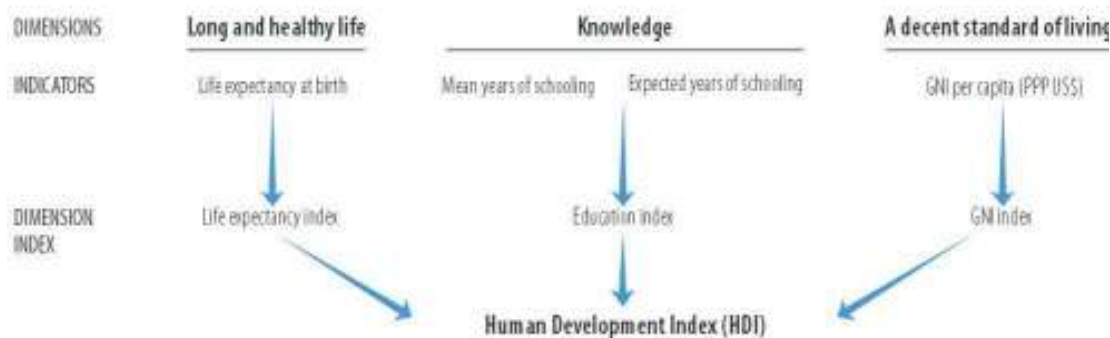
The index represents the geometric mean of three indicators. As illustrated (Figure 1), the first indicator takes into account life expectancy at birth, the second takes into account the level of education and the third takes into account the gross national income per capita (in U.S. Dollar power parity) (11).

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**Figure 1. Human Development Index**

Source: Human Development Report 2010, p.215

The value of human development index belongs to the interval (0,1) and is presented annually in the Human Development Report (10), published by the United Nations Development Programme

Alongside “mean years of schooling”, school life expectancy (SLE) (also called “expected years of schooling”) represents the second education indicator used in the calculation of the Human Development Index (8).

Below is presented the way of calculating school life expectancy, as shown in (Rigotti, 2013)

$$SLE_a = \sum_a^b n \times {}_n m_v, \text{ with} \quad (1)$$

$${}_n m_v = \frac{{}_n f_v}{{}_n P_v}, \text{ where} \quad (2)$$

$a$  = age at the beginning of school

$b$  = the upper limit of age

$n$  = age range

${}_n m_v$  = Rate of enrollment of students aged between  $v$  and  $v+n$  in the year  $t$

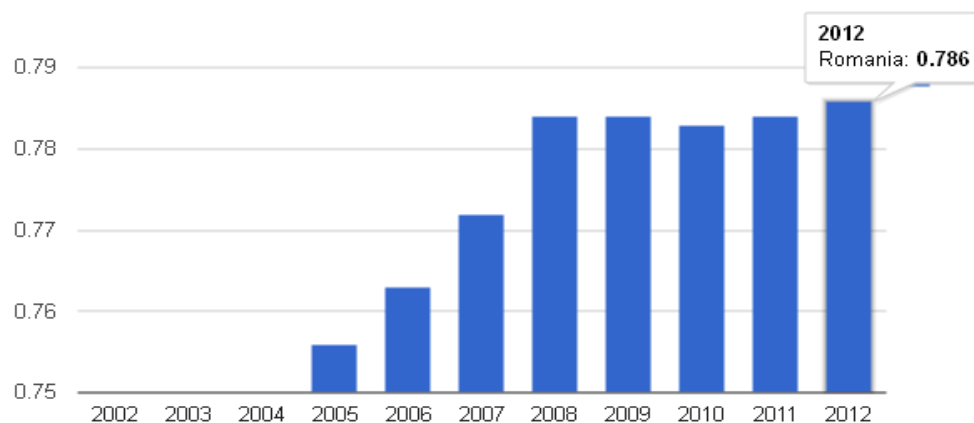
${}_n f_v$  = Number of pupils aged between  $v$  and  $v+n$  and enrolled in school in the year  $t$

${}_n P_v$  = population aged between  $v$  and  $v+n$  in the year  $t$

The values of human development index for Romania in the period 2002-2012, are shown in (Figure 2).

From (Figure 2) it is noted that in 2012 Human Development Index in Romania reached a peak of 0786, placing our country at position 55 of the 187 countries considered. According to data provided by the United Nations Development Programme, the first three positions are occupied by Norway (HDI = 0.943), Australia (HDI = 0.931) and Switzerland (HDI = 0.916). The last places are Central African Republic (HDI = 0.365), Congo (HDI = 0.335), and Niger (HDI = 0.333).

In this paper we want to highlight the existence of a link between two of the indicators by means of which it is calculated the Human Development Index, namely between school expectancy and GDP. A determination of the relationship between these indicators is followed by establishing the direction and its intensity, as well as to obtain a regression function. We believe that education has a strong impact on macroeconomic results recorded at the state level, but especially that increasing the level of education leads to GDP growth.



**Figure 2. Romania Human Development Index**

Source: [http://www.theglobaleconomy.com/Romania/human\\_development/](http://www.theglobaleconomy.com/Romania/human_development/)

## 2. School expectancy and GDP in Romanian economy

According to the National Institute of Statistics and Economic Studies, “expected years of schooling are the number of years during which a child entering infant school can expect to spend in full-time and part-time schooling in the course of their life cycle, based on the school enrolment rates of the time”(13).

The advantages of the use of this indicator are represented, on the one hand, by the relatively simple calculation method and, on the other hand, by the fact that does not require standardization in comparisons involving countries with different age structures. Below is the evolution of school expectancy for Romania between 2002-2012.

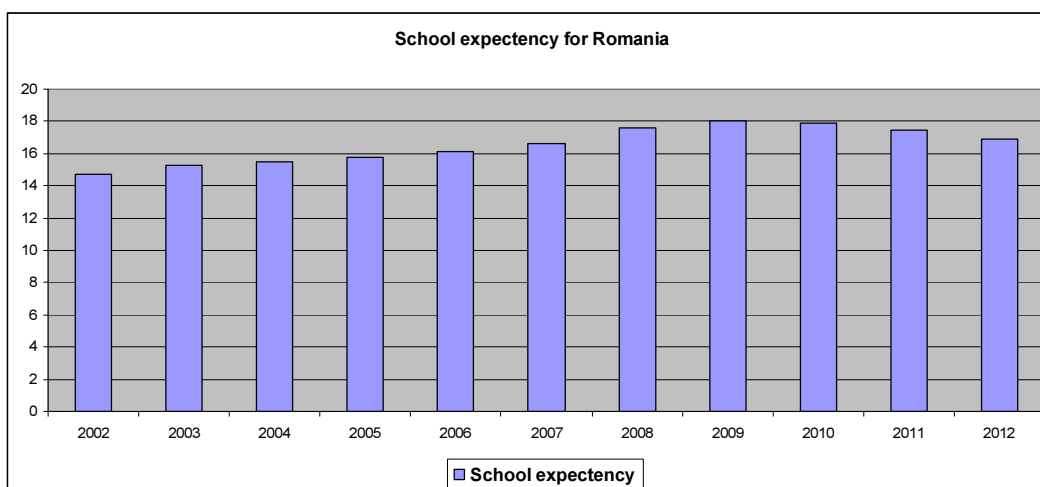
**Table 1. School expectancy for Romania**

Year	School expectancy
2002	14.7
2003	15.3
2004	15.5
2005	15.8
2006	16.1
2007	16.6
2008	17.6
2009	18
2010	17.9
2011	17.5
2012	16.9

Source: [http://epp.eurostat.ec.europa.eu/portal/page/portal/product\\_details/dataset?p\\_product\\_code=TPS00052](http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=TPS00052)

School expectancy in Romania in the analyzed period registered an upward trend, even if the obtained values do not have a significant increase. In 2002 the school expectancy was 14.7, in 2012 to reach the value of 16.9.

If we divide the analyzed period in two intervals depending on the evolution of the indicator, it is observed from (Figure 3) an increasing trend of school expectancy for Romania in 2002-2009, followed by a downward trend in 2010-2012. For the studied period, the maximum is reached in 2009, with an increase of 3.3 years, from 14.7 to 18.



**Figure 3. School expectancy for Romania**

Source: Created by authors based on the values in Table 1

In (Table 2) is shown the evolution of the Gross Domestic Product of Romania during 2002-2012.

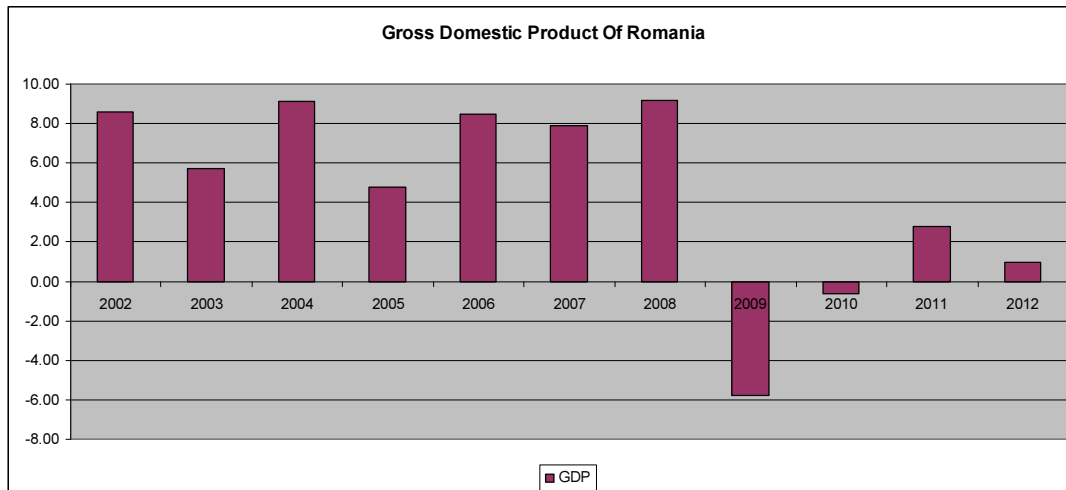
**Table 2. Real Gross Domestic Product per capita, growth rate of Romania**

Year	Gross Domestic Product
2002	8.60
2003	5.70
2004	9.10
2005	4.80
2006	8.50
2007	7.90
2008	9.20
2009	-5.80
2010	-0.60
2011	2.80
2012	1.00

Source: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdec100>

In the analyzed period GDP recorded a downward trend, despite existing fluctuations, particularly in 2004, 2006 and 2008. In 2002 the GDP reached the value of 8.6%, opening the next 10 years of high values.

The graph shown in (Figure 4) illustrates the fluctuating evolution of GDP in the period under review. Higher levels of GDP in the period 2002 - 2008 are recorded before the effects of the financial crisis to hit the Romanian economy. The year 2009 illustrates clearly how strong and stable was the economic growth of our country. Dramatic decrease of GDP by 5.8% has demonstrated the fragility of the Romanian economy, but especially emphasized that crisis does not forgive anyone in this time of globalization. The year 2010 also registered a negative value of the indicator, but this time very close to 0, so that the next two years to have positive values. In 2011 and 2012 the GDP values, even if they are positive, can not reach the figures recorded in the first years of the analyzed period.



**Figure 4. Gross Domestic Product of Romania**

Source: Created by authors based on the values in Table 2

### 3. Interdependencies between school expectancy and GDP

For the analysis of the interdependence between the Gross Domestic Product and school expectancy for Romania in the period 2002-2012, we use Data Analysis in Tools menu of the Microsoft Excel spreadsheet program.

The existence of the link between the two indicators is shown in Table 3.

**Table 3. Table of results – The statistic correlation method**

	GDP	School expectancy
GDP	1	
School expectancy	-0,64257	1

Source: Created by authors based on the values in Table 1 and Table 2

The computations show that between Gross Domestic Product and school expectancy there is a reverse link, because the result is -0.64257, being negative. This value allows us to establish the intensity of the relationship between the two indicators, which is a moderate connection.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.642574847
R Square	0.412902434
Adjusted R Square	0.347669371
Standard Error	3.924704477
Observations	11

**Figure 5. Summary of data processing**

Source: Created by authors based on the values in Table 1 and Table 2

The value of the correlation coefficient between time series of Gross Domestic Product and school expectancy for Romania is  $r = 0.64257$ , the significance is that between the two variables is an average positive correlation.

The coefficient of determination (R Square) being of 0.41290 indicates that the variation of Gross Domestic Product is explained at a rate of 41% by the variation of school expectancy.

To counter the effect of increasing the coefficient of determination by including more variables in the model, it is determined the adjusted value of determination coefficient (Adjusted R Square), here with the value of 0.34766.

26	ANOVA								
27		<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
28	Regression	1	97.49752562	97.498	6.3296	0.032990948			
29	Residual	9	138.6297471	15.403					
30	Total	10	236.1272727						
31									
32		<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
33	Intercept	50.10624824	18.10464375	2.7676	0.0218	9.150698777	91.0617977	9.150698777	91.061798
34	School expectancy	-2.748591152	1.092497138	-2.516	0.033	-5.219991374	-0.277190931	-5.219991374	-0.277191
35									

**Figure 6. The results of regression method**

Source: Created by authors based on the values in Table 1 and Table 2

To show the relationship between the two variables, we use a linear model of simple regression of the form:

$$Y = a_0 + a_1 X + \varepsilon, \text{ where} \quad (3)$$

$Y$  = Gross Domestic Product in Romania during 2002-2012

(endogenous variable)

$X$  = School expectancy for Romania during 2002-2012

(exogenous variable)

$\varepsilon$  = random variable that summarizes the influence of other variables (unspecified in the model) on the Gross Domestic Product

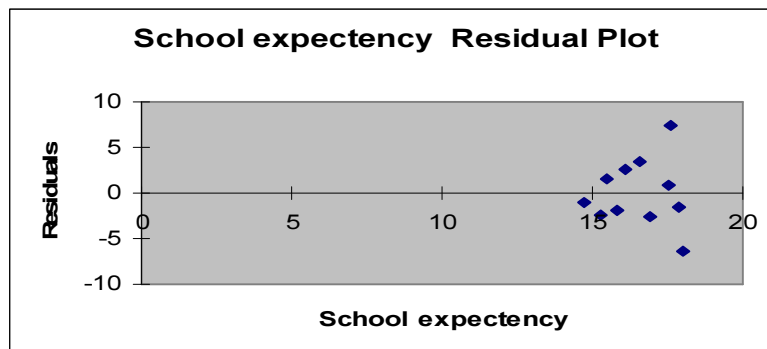
Using the values from Coefficients column, we obtain:

$$Y = 50.10624824 - 2.748591152X \quad (4)$$

To validate the model, in the ANOVA table (Figure 6) there are calculated the values for the F-test, respectively the significance limit. Since F is 6.3296 and Significance F is 0.032990948 (lower than 0.05) we conclude that the regression model is valid and we can use it to analyze the relationship between the two variables.

The free term equal to 50.10624824 represents the value of the dependent variable when the independent variable is equal to zero. Since  $t \text{ Stat} = 2.7676$  and  $P\text{-value} = 0.0218 < 0.05$ , means that the coefficient is significantly different from 0, and the confidence interval is [9.150698777; 91.0617977]. The coefficient for the independent variable, recorded the value of -2.748591152, is negative and indicates a reverse link between Gross Domestic Product and school expectancy.

In this case,  $P\text{-value} = 0.033 < 0.05$ , the coefficient is significant and the confidence interval for the variable is [-0.277190931; -5.219991374].



**Figure 7. Independent variable diagram versus residue**

Source: Created by authors based on the values in Table 1 and Table 2

The lack of correlation between the independent variable and the residue is shown in (Figure 7) and it means that the model is well chosen.

#### 4. Conclusions

Through the Microsoft Excel spreadsheet we highlighted the existence of a link, its purpose and its intensity between Gross Domestic Product and school expectancy. Following the calculations performed, it was obtained the existence of an inverse link between the two indicators in the Romanian economy, which leads to the conclusion that reducing school expectancy indicator will result in an increase of Gross Domestic Product and vice versa. This result was obtained by using data recorded by these two indicators in Romania, but we believe that in a stable economy the relationship must be direct.

Clearly, attention given to education is reflected in the obtained macroeconomic results. Increased spending on education, reducing dropout, but especially keeping pupils and students with exceptional results at national and international competitions will lead to sustainable growth in GDP. We believe that what happens in the Romanian economy is an anomaly that should be removed in the next period, because an educated population is an asset for any economy.

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