

# **MANAGEMENT STRATEGIES**

## **STRATEGII MANAGERIALE**

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## REGIONAL PRIORITIES FOR EDUCATION DEVELOPMENT

Aurel-Gabriel, Simionescu<sup>1</sup>  
Mariana-Carmelia, Dragomir<sup>2</sup>

*„The state should ensure regional development policies in line  
with the objectives of the European Union”  
– Romanian Constitution art. 135 al. 2d.*

**Abstract:**

*Often worded, the competence of coordination and stimulating the development in a larger scale, is the most visible prerogative of regional level and relates to territorial dimension (in the present context we are talking about territories of 30,000 km<sup>2</sup>) and population (on average about 2.5 million people). The fulfillment of this goal must be preceded by a series of public policies and strategies specific to the region, but obviously with references and localization in the national strategies that should meet the general framework in which the regional level should be able to carry out their initiatives depending on specific priorities, competitive advantages, population requirements, local possibilities, etc. and of course taking into account European regional development, the way the territorial administrative entities work and act at European level and the need for complex activities of European countries, generally, during this period.*

**Key words:** sustainable development, schools, 2020 Europe

**JEL Classification:** I25

### 1. Introduction

Starting with the debate about regionalization, in Romania talks were resumed on a range of tasks that would be assigned to this level of administrative organization and the financial support these administrative units should have in order to lead out their duties.

„Europe is going through a period of transformation. The crisis has wiped out years of economic and social progress and highlighted structural weaknesses in Europe's economy. Meanwhile, the world is moving fast and long-term challenges (globalization, pressure on resources, aging) are increasing. Europe can succeed if it acts collectively, as a Union. We need a strategy that will allow us to emerge stronger from the crisis and turn the EU in a smart, sustainable and inclusive growth “says the “ Europe 2020 Strategy “. (European Commission, 2010a, European Commission, 2008, 2010)

In this context, we consider we should look at the efforts at regional level, where boundaries become wider and more permissive, action power sensitively increases and the access to an European and even global level noticeable easier to achieve with superior effects.

Which may, however, be the directions where the regions efforts may focus now? E.U. proposes, in 2020 Strategy, three mutually reinforcing priorities:

- Smart growth: developing an economy based on growth and innovation;
- Sustainable growth: promoting a more efficient economy in terms of resource use, greener and more competitive;
- Inclusive growth: promoting an economy with a high rate of employment to ensure social and territorial cohesion.

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Also the E.U. Commission proposes the following main objectives:

- 75% of the population aged between 20 and 64 have a job;
- 3% of EU G.D.P. - should be invested in research – development; the target of spending 3% of G.D.P. to research and development has been resumed in 2020 Europe Lisbon Strategy. (Tilford, S. 2010)
- The rate of early school leavers should be reduced below 10% and at least 40% of the younger generation to have higher education;
- The number of people at risk of poverty to be reduced by 20 million.

These objectives must be translated into national targets and trajectories.

## 2. Strategies and public policies for the regional development

A very important objective is to increase the percentage of population aged 30-34 having completed higher education from 31% to at least 40% by 2020, taking into account that education plays a key role in employment and competitiveness by increasing employment opportunities and long-term promotion (Gros & Roth, 2008).

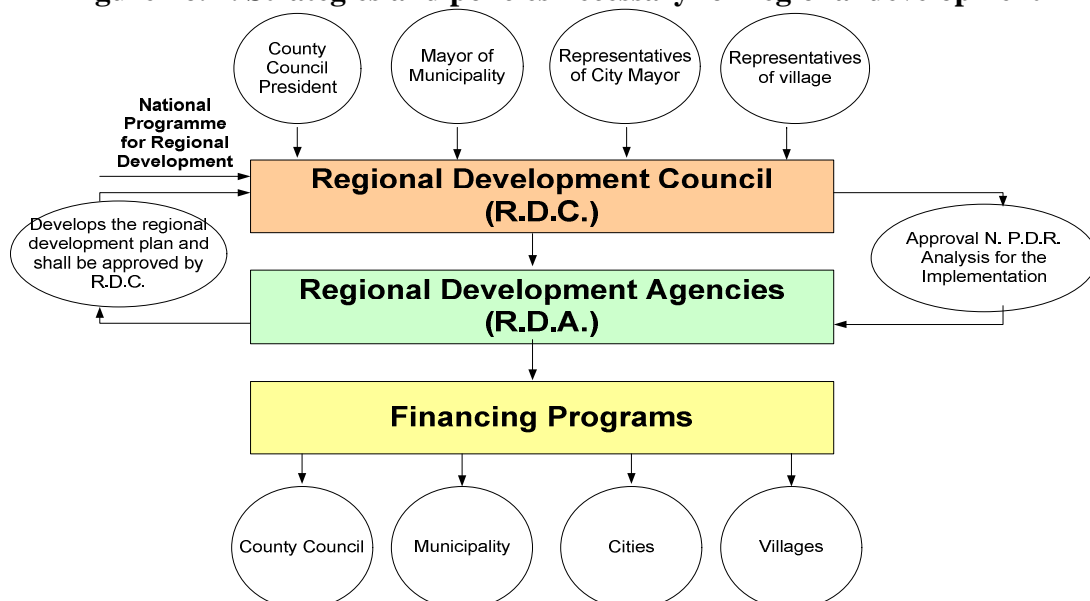
In this context the National Reform Programme (N.R.P.), adopted in Romania for the period 2011-2013, is the framework for the development and implementation of Romania's economic development policies according with EU policies. Priorities of the N.R.P. aim to achieve a smart, sustainable and inclusive economy, with high levels of labor employment, productivity and social cohesion.

Among the objectives listed in N.R.P. are included:

- Resumption of economic growth and creation of new jobs;
- Protecting the population groups most affected by the economic crisis;
- Ensure long-term sustainability of public finances and restructure and streamline public administration;
- The implementation of priority reforms in the short and medium term and specific measures to achieve national objectives set in the context of Europe 2020.

Overall N.R.P. aims to boost competitiveness, productivity and growth potential of Romania, social and territorial cohesion and economic convergence, all contributing to reduce the gaps between Romania and Romanian regions and other regions and countries of Europe.

**Figure no. 1. Strategies and policies necessary for regional development**



The current division of the territory of Romania in the so-called "development regions" by its very name indicates, the role for which they were "created" these entities, the main activity which they have to perform is to generate development strategies supported by the Regional Development Plans (R.D.P.) according to the priorities established under the Regional Development Council (R.D.C.) and implemented by the Regional Development Agencies (R.D.A.).

As shown, institutional we created regional, even if not under an administrative regime, the required framework to establish strategies and public policies needed to develop that territory. Especially since these programming documents are due to summation of public policy at local and county level and includes major projects that the local governments cannot coherently "assemble" following duties and limited funds at their disposal.

The development of R.D.P. is a dynamic process that is modified every year to adapt to the constantly changing socio-economic environment. Thus a comparison of the priorities of the R.D.P. 2010 and 2013 may show a number of interesting things for what has happened in the S-E region in three years.

**Table no. 1. 2010 and 2013 Regional Development Plans**

<b>R.D.P. 2010</b>	<b>R.D.P. 2013</b>
1. Create favorable conditions for the development of the institutional environment	1. Integrated sustainable urban development
2. Development of the regional transport network	2. Development of regional transport infrastructure
3. Promoting energy efficiency and the use of renewable resources	3. Improving the competitiveness of the regional economy, in the context of promoting smart economic specialization
4. Modernizing rural economy	4. Improving the tourism quality at regional level
5. Developing a skilled workforce to respond to labor market needs in order to maintain and create quality jobs	5. Environmental conservation and protection
6. Improving the performance of education and training system	6. Improving energy efficiency and the use of renewable resources
7. Promoting social inclusion through the development of social services, health services and through sport and culture	7. Improving quality in education, health and social inclusion
8. Protection and development of natural heritage and promoting environmental policies	8. Better use of resources in rural areas and the modernization of the rural economy
9. Integrated sustainable urban development	9. Improving human resources at the regional level in the context of smart regional specialization
10. Improving administrative capacity	10. Promoting cross-border and interregional cooperation

We thereby see that the sustainable and integrated urban development has a greater attention in 2013, the city and especially the major municipalities are seen as centers of development, poles from which to radiate development and to be included in the main economic and cultural activities of the area.

Also we can see that from the target priority "creation of favorable environment for investment climate" has continued in 2013 to "improve the competitiveness of the regional economy in the context of promoting smart economic specialization" which obviously means really a quantum leap in the way of action and vision of public authorities about their place and role in regional development.

It is worth mentioning that since the "modernization of the rural economy", in 2013 we are talking about "better use of resources in rural areas and modernization of the rural economy."

If some priorities remain virtually in the same form away for 3 years, but evidence of their importance and the fact that time has failed to achieve the expected results (improving

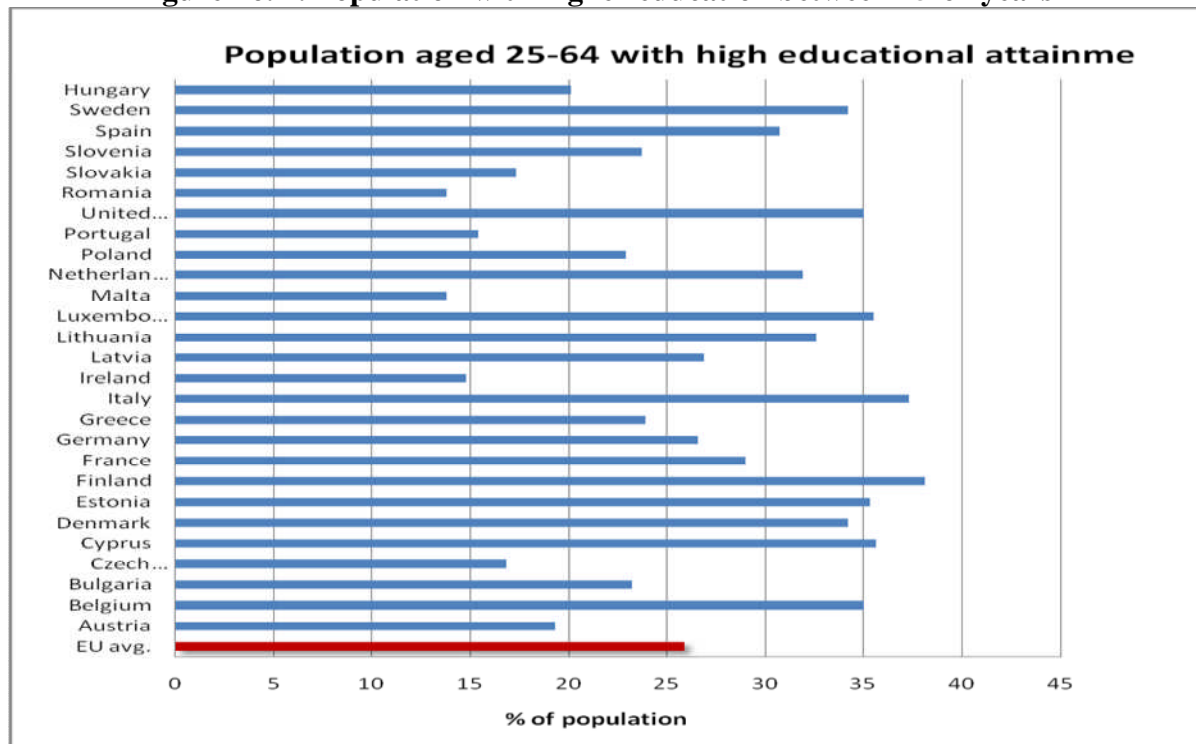
energy efficiency and use of renewable resources, the development of regional transport infrastructure) is observed to occur entirely new priorities as "cross-border and interregional cooperation" new evidence which the regional dimension tends to assume as a result of regional cooperation realities both inside and outside Romania in the following the border and as a result relations between European regions and counties of Romania.

Looking closely, however, at the 10 priorities we cannot fail to notice the inclusion in their names, explicitly or implicitly, a desire to emphasize the quality of work and performance that must accompany. Competitiveness, sustainable integrated development, specialization, smart economy, quality of tourism, improvement of energy efficiency, renewable resources, better use of resources, promotion, etc. are keywords that appear along the way and say that priorities are actually the very essence that these requirements reflect.

## 2. Improving performance in education for a smart growth

An economy based on smart growth can be achieved only by and through education taken to the next level, innovative and capable of meeting short-term needs of the society and especially those in the medium and long term.

**Figure no. 2. Population with higher education between 25-64 years**



Therefore, in 2010 and 2013 R.D.P talks about improving performance in education and training, associating in 2013 education with the health and social inclusion and improving the human resources at the regional level in the context of smart regional specialization.

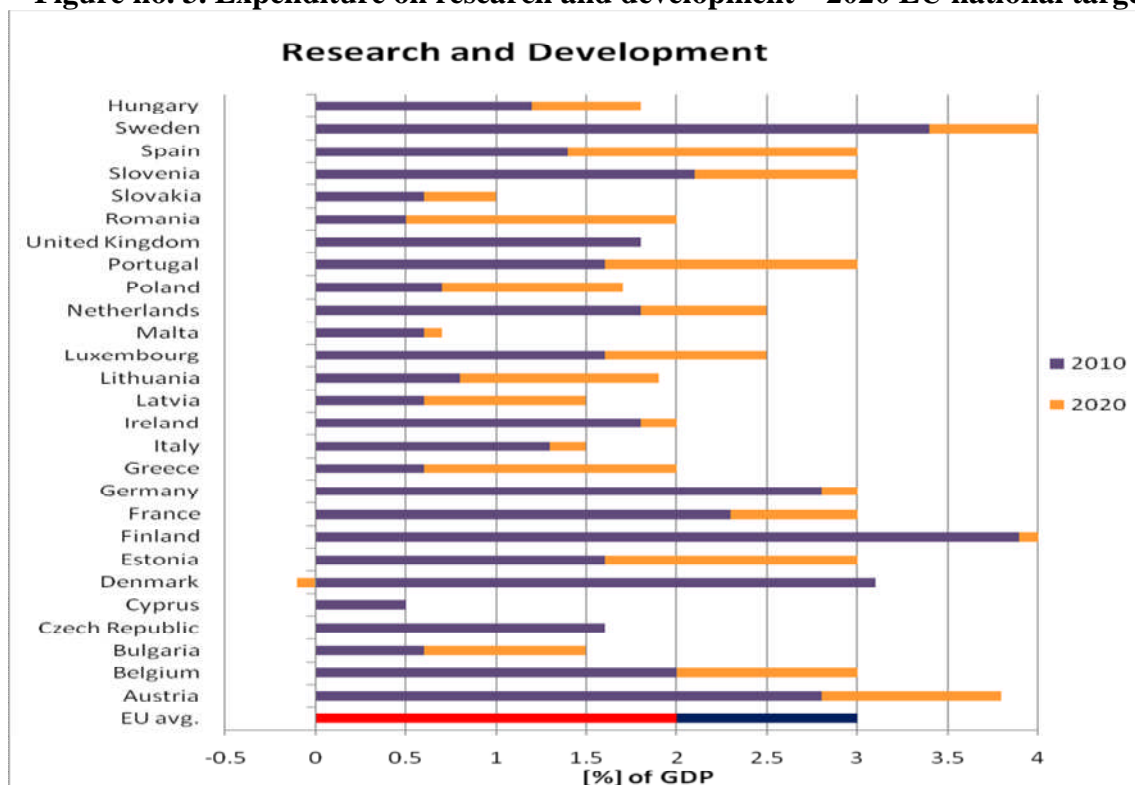
"Smart growth means strengthening knowledge and innovation as drivers of our future growth. For this it is necessary to improve the quality of our education systems to strengthen research performance, promoting innovation and knowledge transfer, to fully use information and communication technologies and ensure that innovative ideas can be turned into new products and services that generate growth, quality jobs and help address challenges facing society "says the 2020 Europe strategy.



An analysis for the European level shows that a quarter of all pupils have poor reading skills, one in seven young people leave school early, 50% reach medium qualifications level, one third of Europeans have a university degree compared to 40% in the U.S. and 50% in Japan. Also within the EU are important discrepancies particularly if we look at the situation of university studies. (European Commission, 2012a)

A natural appearing result is that research and development expenses in Europe stands at less than 2% of GDP compared with 2.6% in the U.S. and 3.4% in Japan and here with large differences between EU. And obviously a great impact on future developments and strategies in a world where globalization is not to the advantage of those who remain behind. (European Commission, 2012b)

**Figure no. 3. Expenditure on research and development – 2020 EU national target**



This is why an analysis of concerns, role and actions of local authorities in education, where already have a number of tasks, we appreciate that it can be enlightening for future actions at a regional level.

From this point of view R.D.P. propose specific aim to improve quality in education "increase the rate of public participation in the education and training adapted to the new requirements of the labor market and infrastructure and improved facilities." (National Reform Programme 2011-2013, 2010)

Regarded as a key component of the structure of services, particularly in urban and rural areas as pooled, education, intensive development is vital to regional and local competitiveness. Moreover orientation 9 of the Guidelines for the employment policies of the Member States of the EU is aimed at "improving the performance of education and training at all levels and increasing participation in tertiary education." In this context, Member States should ensure an improvement in the functioning of the education system to raise the level of competence and meet the needs of the labor market which is in constant transformation. (Regional Development Plan of South-Eastern Europe, 2013)

### 3. Analysis of the educational system

A summary analysis by region of the situation of schools in the education system in Romania is as follows:

**Table no. 2. Analysis of the situation of schools in the educational system in Romania**

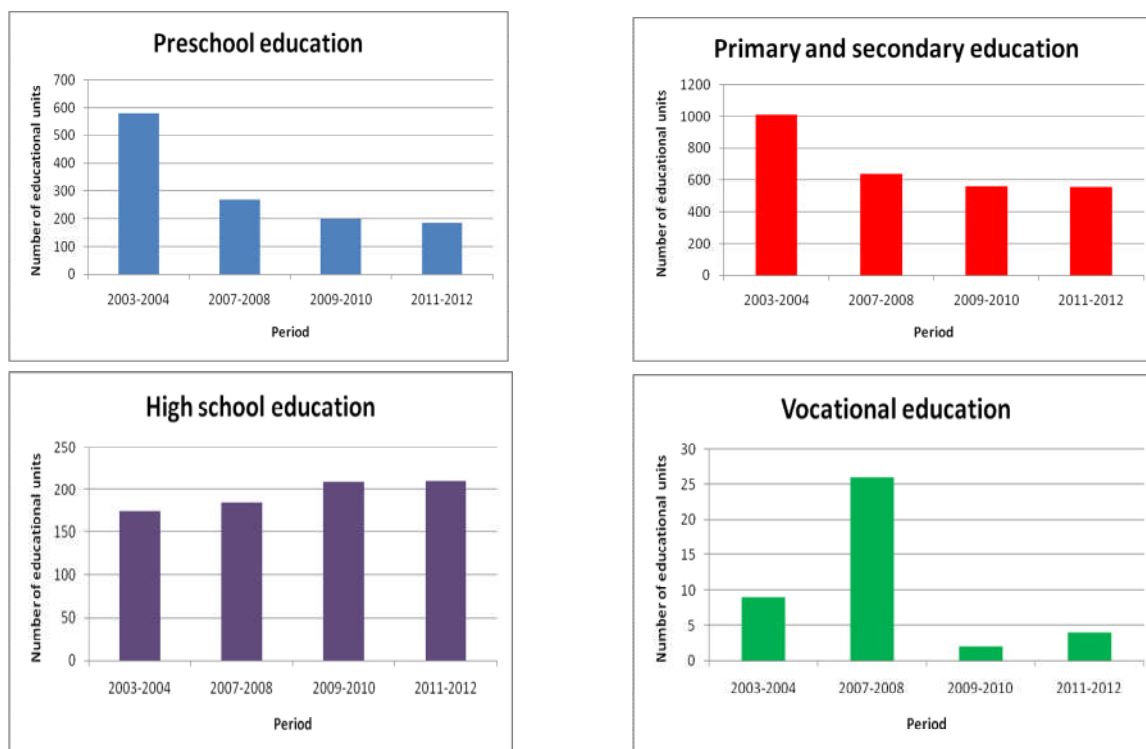
Region	Pre-school	Primary and secondary	High school	Professional	Post high school	Foremen	Higher education	Faculties
Romania (total)	1,367	4,022	1,615	6	86	0	108	614
North-East	156	710	260	1	17	0	15	75
South Muntenia	145	684	216	1	12	0	4	36
West	136	315	166	1	4	0	14	71
Center	239	545	213	0	12	0	13	76
Bucharest-Ilfov	232	227	134	0	4	0	35	171
South-West Oltenia	96	476	160	0	8	0	4	36
South-East	173	528	209	3	12	0	7	53
Brăila County	29	69	24	2	1	0	0	3
Buzău County	19	101	34	1	4	0	0	2
Constanta County	69	99	68	0	4	0	5	28
Galati County	41	114	39	0	3	0	2	18
Tulcea County	5	55	20	0	1	0	0	0
Vrancea County	10	90	24	0	3	0	0	2

Without necessarily considering, the amount as the most relevant item in question, we must notice discrepancies between the number of high school educational institutions and vocational ones.

Although the small number of schools with professional profile can be attributed to technological high schools it is obvious that theorizing Romanian high schools it's a mass occurrence. This and amid plummeting employment in industry but also because of a general approach to triad parents - teachers - students, a phenomenon about we will discuss.

A nationally analysis of the evolution in the last ten years of the number of schools shows a continuous decrease (38.12%). Each region should establish their own strategies in this regard because there are different developments of the situation in each region and in each county. It is noteworthy that statistical analysis such number of scholar units/100.000 people may become irrelevant when discussing remote areas (Danube Delta, the mountains of Vrancea and Buzau) can give reasonable signals about the need of merging some school units and the impact of this measure in the area or can be an important part in making a decision when analyzing a new investment in education in a particular city or an area of municipality, depending on the demographic trend in that territory.

**Figure no. 4. Evolution of regional schools by the level of education**



It should be noted that in the medium term (4-5 years) and especially long-term, the demographic trend is one descending.

A parallel on the fields of study that practically reveals the situation of the school population by age shows that in preschool we have a drop of 63.73%.

Even though the high school level has increased by 14.54%, even if we speak of the impact of "class 0" and the transition to school level we cannot see that in the medium and long term we will have serious problems in administrating the space that become available. Therefore, it requires serious analysis and measures by which these spaces can be developed for all preferred alternative activities in school – educational activities like the after - school, children's clubs, spaces for NGOs Sites with cultural and educational activities, activities for children with special performances or disabled, etc.

It should be taken into consideration trends of career choices by students. Their options tend not to target the so-called jobs. That is why the offers for mechanical, construction, agriculture, electrical and food industry are not be found among the options of the eighth grade graduates.

It will also be kept in mind that, due to the economic crisis and the drop in income parents the tendency to come to the big cities drops down, especially those with modest education results remain close to the locality in which they reside, no matter what educational opportunities these can provide. As will be considered, the impact of school consolidation with the low income of some parents, on school dropout. For although today the region is below the figure of 10% the situation may deteriorate very quickly.

Of course the question is whether a series of choices for students are so because they are made by the teachers we have. If every year we don't have candidates to complete all the enrolment places, why do we have nature science specialization classes to 5-6 high schools? Same thing if we talk about tourism or economic profile. How much tourism can be done in a county like Braila, Ialomita, Calarasi, etc? What insights can a class of forestry have in an agricultural county that in 2011 had no class in the agriculture profile? Where to get wood for some graduates of profile classes "manufacture of wooden products" that we have for years.

What future awaits the graduates of several classes, year after year of social sciences? And the questions could go on. (Appendix 1).

Therefore, a much better correlation, in line with market requirements at regional level, of these schools guidance should be a priority for the system. A regional LEAP, a regional direction of education, with a broader vision on both the educational system and the economic development strategy in the field, a review of workforce needs in the medium and long term are essential to the future of the region and that those who today are in primary and secondary schools to be included in future citizens with jobs and stable incomes in the region.

In terms of university studies the regional level may also exert an important influence. There is in every major city, every county the desire to have a university. Private education intervention made this possible and some state universities have opened branches. Thus in the 2011-2012 academic year in the S-E region are faculties with more than 12,000 students and 200 teachers. Although we can have quantitative information on the evolution of the number of higher education institutions in Romania and in the region we believe that this is not the most important element in the analysis and development of the lines of action for the future.

**Table no. 3. The evolution of the faculties in South Eastern region by counties during 2000/2001 - 2011/2012**

Regions	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2006-2007	2008 - 2009	2009-2010	2010-2011	2011-2012
Romania	696	729	742	754	742	770	755	631	629	614
South East region	48	53	55	58	60	66	65	54	54	53
Brăila	3	5	5	4	4	4	4	3	3	3
Buzău	1	1	1	2	2	3	3	1	1	2
Constanța	28	30	31	32	33	32	32	30	29	28
Galați	14	15	16	17	19	24	24	19	19	18
Tulcea	0	0	0	0	0	0	0	0	0	0
Vrancea	2	2	2	3	2	3	2	1	2	2

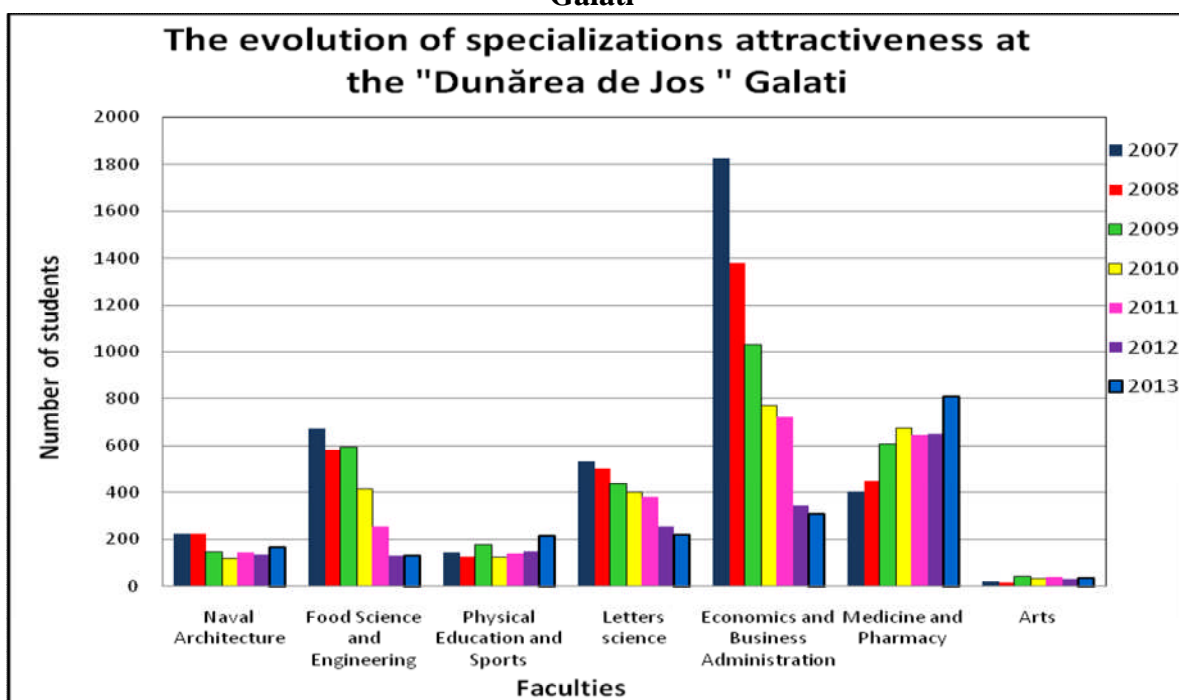
Source: Statistical Yearbook of Romania, NIS, Bucharest - 2012 edition

We have a wide offer but here too public policies should aim at a longer time horizon. What will require the regional, national and European market over 5-15 years? To what extent do we offer high school graduates "package" solutions of training - employment? What is the practical training that students receive during their studies and how they adapt to labor market conditions after graduation? These are only a few of the questions that public policies in education at national and regional level should respond.

For taking one example, at the "Dunarea de Jos" University from Galati the evolution of specializations offered attractiveness to 14,000 students showing some stability to some of them (physical education, art, boats) and a decrease (letters science, food engineering, economics) or a sharp rise in others (medical and pharmacy).

If this is the trend, with the certainty for the future environment, but especially for the one over 10 to 15 years from now measures should be taken now to meet market requirements. Because after all, even if there is an assessment of the offer, the training request, with all the arguments underlying, is what will determine the future development of the university system.

**Figure no. 5 The evolution of specializations attractiveness at the "Dunarea de Jos" Galati**



Source: <https://www.admitere.ugal.ro>

Analyzing the economic and social situation in the EU, the EU Commission proposed to the European Parliament and Council a report "the concentration of resources on a limited number of important areas such as employment (especially for young people), training and education, social inclusion, innovation and an open economy to the inclusion of ICT infrastructure and digital development measures "(European Commission, 2013)

This proposal comes as a continuation to the message sent by the European Council in March 2012 which said that "the five targets set for 2020 remain fully relevant and will guide further the actions of the Member States and the Union to promote employment, improve the conditions for innovation, research and development, improving education and promoting social inclusion "(European Council, 2012)

### Conclusions

Under these conditions, creating a stable and predictable legal framework in line with European standards enabling concerted action at local, regional and national level is a priority in Romania.

Flexibilisation of decision, subsidiarity and proximity to the territorial analysis and decisions relating to primary and secondary schools and a new vision regarding the high school level with a focus on educational and vocational guidance and an offer in connection with the present realities, especially with the future well-reasoned and supported arguments against different categories of graduates are regional priorities.

Certainly we have to realize that it is important to invest in infrastructure, upgrading the facilities to the European requirements. It is important to know for whom and in what to invest to get out of the past and to truly find ourselves in the common European future.

It requires a concentration of public and private high education in major universities, strong both by the number of students and teachers and the quality of education that can be supported by a growing economy and benefiting from financial support considerably both for training and development.

A system of fundamental and applied scientific research both in universities and specialized institutions that can be supported but are also self-supporting through their own work, will lead to a development of the area in turn interested in supporting this work.

And perhaps not least openness at all levels and the development of coherent public policies, not only assembled by summing but also by coordinating regional efforts will result in taking the best decisions to make the education a truly pillar of future development.

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**Appendix 1**

High School /College	Specialization	Total number for student's admission	Available no. for student's admission	Candidates admitted	The first mark	The last mark
"C. Brancoveanu" Technological High School Brăila	Textile industry and leather goods	29	28	1	7.09	7.09
Technological High School Insuratei	Textile industry and leather goods	29	0	29	7.38	5.64
Technological High School Insuratei	Electro mechanics	29	0	29	8.06	6.14
"C. Brancoveanu" Technological High School Brăila	Electro mechanics	29	29	0	0	0
"C.D.Nenitescu" Technical College Brăila	Mechanics	29	24	5	8.28	5.04
Theoretical High School "G. Valsan" Faurei	Mechanics	58	6	52	7.94	4.49
"GH.K.Constantinescu" Technological High School Brăila	Tourism and Food	29	27	2	8.02	5.86
"N.Oncescu" Technological High School Ianca	Tourism and Food	29	1	28	8.53	4.89
Technological High School "Grigore Moisil Brăila	Electronics automations	29	28	1	6.82	6.82
"P.Istrati" Tehnical College Brăila	Electronics automations	29	24	5	7.02	5.23
"C.D.Nenitescu" Tehnical College Brăila	Electronics automations	29	27	2	7.38	5.14
"P.Istrati" Tehnical College Brăila	Electric	29	23	6	7.76	4.69
"Grigore Moisil" Technological High School Brăila	Electric	29	25	4	5.54	4.67
"GH.M. Murgoci" National College Brăila	Mathematics and Computer Science / Bilingual	29	0	29	10	9.78
"GH.M. Murgoci" National College Brăila	Mathematics informatics	58	0	58	9.98	9.56
"GH.M. Murgoci" National College Brăila	Natural Sciences	58	0	58	10	9.53
"GH.M. Murgoci" National College Brăila	Social Sciences	29	0	29	9.86	9.45
"GH.M. Murgoci" National College Brăila	Philology / Bilingual	29	0	29	9.99	9.23
"Nicolae Iorga" Theoretical High School Brăila	Social Sciences	29	0	29	9.66	9.19
"Nicolae Iorga" Theoretical High School Brăila	Natural Sciences	29	0	29	9.9	9.16
"Nicolae Balcescu" National College Brăila	Mathematics informatics	87	0	87	10	9.1

High School /College	Specialization	Total number for student`s admission	Available no. for student`s admission	Candidates admitted	The first mark	The last mark
"Nicolae Balcescu" National College Brăila	Social Sciences	29	0	29	9.57	9.05
"Nicolae Balcescu" National College Brăila	Natural Sciences	58	0	58	9.9	8.97
"Nicolae Balcescu" National College Brăila	Mathematics and Computer Science / Bilingual	29	5	24	9.97	8.96
"Nicolae Iorga" Theoretical High School Brăila	Mathematics informatics	87	0	87	9.99	8.73
"D.P.Perpessiciu" Pedagogical High School Brăila	Social Sciences	29	0	29	9.75	8.67
"D.P.Perpessiciu" Pedagogical High School Brăila	Natural Sciences	29	0	29	9.16	8.5
"Ana Aslan" National College Brăila	Natural Sciences	87	0	87	9.77	8.38
"D.P.Perpessiciu" Pedagogical High School Brăila	Philology	29	0	29	9.6	8.38
"Panait Cerna" Theoretical High School Brăila	Natural Sciences	29	0	29	9.49	8.1
"Panait Cerna" Theoretical High School Brăila	Social Sciences	58	0	58	9.15	8.04
"Nicolae Iorga" Theoretical High School Brăila	Philology / Bilingual	29	0	29	9.77	8
Technological High School Insuratei	Philology	29	0	29	9.57	7.99
"Panait Cerna" Theoretical High School Brăila	Philology	29	0	29	9.26	7.96
"Panait Cerna" Theoretical High School Brăila	Mathematics informatics	58	0	58	8.75	7.69
"G. Valsan" Theoretical High School Faurei	Philology	29	0	29	9.62	7.47
"C. Angelescu " Theoretical High School Ianca	Philology	29	0	29	9.11	7.34
Technological High School Insuratei	Natural Sciences	29	0	29	9.59	7.28
"G. Valsan" Theoretical High School Faurei	Mathematics informatics	29	0	29	9.9	7.23
"C. Brancusi" Technological High School Brăila	Forestry	29	28	1	7.22	7.22
"Mihail Sebastian" Theoretical High School Brăila	Social Sciences	58	0	58	8.74	7.14



High School /College	Specialization	Total number for student`s admission	Available no. for student`s admission	Candidates admitted	The first mark	The last mark
"Ion Ghica" Economical College Brăila	Tourism and Food	58	0	58	9.54	7.07
"C. Angelescu " Theoretical High School Ianca	Natural Sciences	29	0	29	9.81	6.72
"Mihail Sebastian" Theoretical High School Brăila	Philology	29	0	29	7.94	6.41
Technological High School Insuratei	Trade	29	0	29	7.93	6.36
"C. Brancusi" Technological High School Brăila	Manufacture of wood	29	26	3	7.53	6.23
"A.Saligny" Technological High School Brăila	Natural Sciences	29	19	10	7.87	6.07
"C.D.Nenitescu" Technical College Brăila	Food industry	29	25	4	7.42	5.94
"C. Brancusi" Technological High School Brăila	Environmental protection	29	25	4	7.06	5.92
"A.Saligny" Technological High School Brăila	Electronics automations	29	12	17	8.8	5.88
C. Angelescu " Theoretical High School " Ianca	Mathematics informatics	29	12		9.76	5.8
"Mihail Sebastian" Theoretical High School Brăila	Natural Sciences	58	4	54	8.31	5.5
"E.Nicolau" Technical College Brăila	Buildings, installations and the public works	58	54	4	6.32	5.43
"Ion Ghica" Economical College Brăila	Economic	116	18	98	8.68	5.38
"Grigore Moisil" Technological High School Brăila	Economic	29	27	2	7.54	5.19
"C. Brancoveanu" Technological High School Brăila	Mechanics	29	28	1	5.12	5.12
"GH.K.Constantinescu" Technological High School Brăila	Economic	29	28	1	4.96	4.96
"E.Nicolau" Technical College Brăila	Tourism and Food	29	0	29	7.81	4.93
"A.Saligny" Technological High School Brăila	Mechanics	87	46	41	7.69	4.93
"N.Oncescu" Technological High School Ianca	Mechanics	29	20	9	7.2	4.8

<b>High School /College</b>	<b>Specialization</b>	<b>Total number for student`s admission</b>	<b>Available no. for student`s admission</b>	<b>Candidates admitted</b>	<b>The first mark</b>	<b>The last mark</b>
"N.Oncescu" Technological High School Ianca	Agriculture	29	26	3	5.69	4.74
"Ion Ghica" Economical College Brăila	Trade	87	34	53	8.7	4.73
"E.Nicolau" Technical College Brăila	Food industry	29	23	6	6.93	4.63
"C.D.Nenitescu" Technical College Brăila	Environmental protection	29	24	5	7.76	4.4
"GH.K.Constantinescu" Brăila Technological High School	Aesthetics and hygiene of the human body	29		14	7.31	4.39
"GH.K.Constantinescu" Brăila Technological High School	Agriculture	116	81		8.17	4.31
"C.D.Nenitescu" Technical College Brăila	Tourism and Food	29	6	23	7.66	4.3
"P.Istrati" Technical College Brăila	Mechanics	116	68	48	8.45	3.96
"M.Basarab" Technological High School	Food industry	29	15	14	7.86	3.96

Source: Ministry of Education and Research, Romania.

# SUSTAINABLE TERRITORIAL DEVELOPMENT STRATEGIES

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Aurel-Gabriel, Simionescu<sup>2</sup>

## Abstract:

*The development of the different regions of Europe throughout history has known different phases and evolutions according to the conditions which they have gone through. The aim of this article is to present an analysis of European regions depending on three essential elements of a unitary development including: concentration of resources, connecting regions and cooperation, highlighting a number of directions for a sustainable development.*

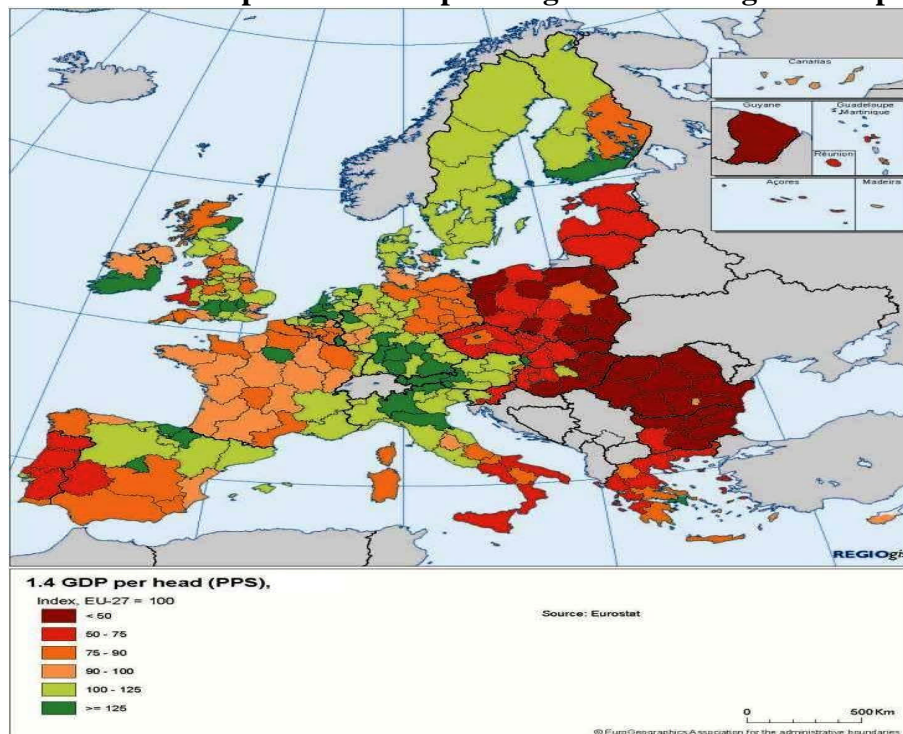
*From this perspective in the EU financial period 2014-2020, national targets and regional funding should take into account varied issues, focusing on the structure and the concentration of population for the necessary conditions of housing and living (infrastructure, utilities, public services, education, health and social services) to be satisfied.*

**Key words:** sustainable development, territorial agenda 2020, connectivity

## 1. Introduction

From east to west and from north to south there are major differences of culture, civilization, resources, temperament, way of action, economic power, etc. although parts of a single country, there are major differences between regions easily recognized that at both national and European level must be taken into account. Moreover, discussing the conditions of classification of regions, according to EU development objectives, we easily notice it (by color differences), representing the degree of development of the regions concerned, it is obvious.

**Figure no. 1. The development of European regions according to GDP per capita**



Source: Eurostat

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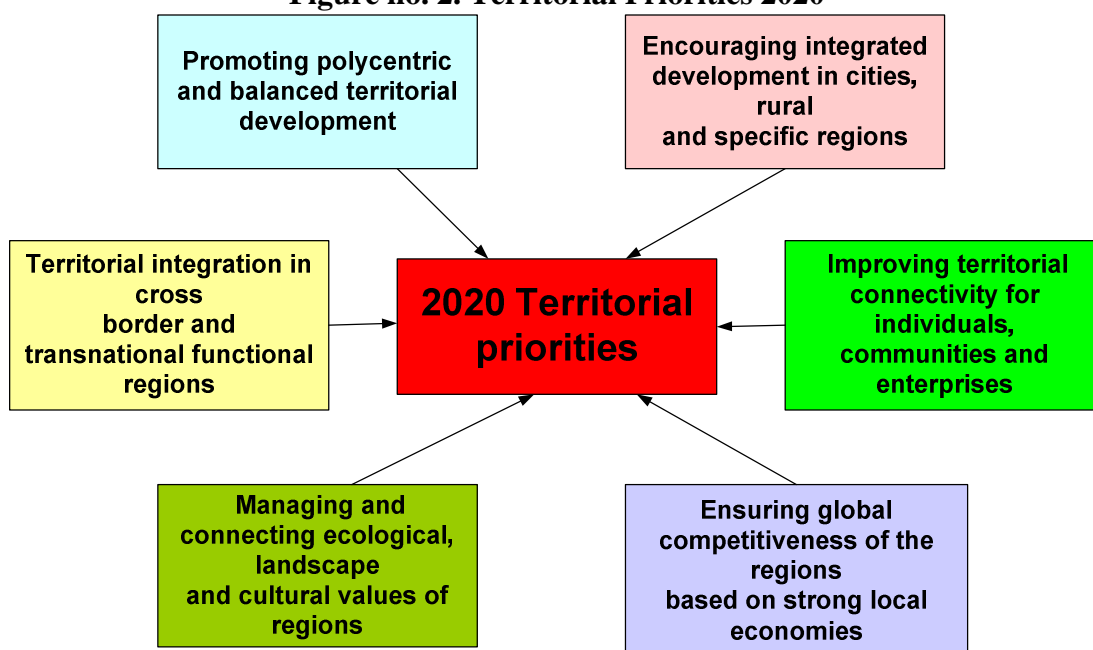
Considering this issue at EU level has been observed the need to develop a document that provides the framework for better policies at the local level and their coherent assembly for a unified development in Europe.

Territorial Agenda of the European Union - "Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions ", agreed upon the ministerial meeting in Gödöllő in Hungary - May 2011, points out that in Europe there is an increase of the importance of the territorial dimension of policies. This dimension was added to social and economic dimensions and constitutes a political objective committed in the EU.

"We believe that the EU targets defined in 2020 Europe strategy for smart, sustainable and inclusive growth can be achieved only if it's taken into account the territorial dimension of the strategy whereas the development opportunities vary from one region to another." (European Commission, 2010)

Territorial Agenda 2020 sets out six territorial priorities for development:

**Figure no. 2. Territorial Priorities 2020**



- **Promoting polycentric and balanced territorial development** underlining the need for more developed regions to cooperate in generation of more extensive development areas to include small and medium cities that can play an important role in regional development

- **Encouraging integrated development in cities, rural and specific regions** emphasizing that the objectives and concerns arising from a number of other documents aimed at urban development (Leipzig Charter on Sustainable European Cities, statements from Marseille and from Toledo on development urban) must be taken into account in the decision making process at all levels. "The transformation of cities in engines of smart, sustainable and inclusive development and attractive places to live, work, visit and invest in" remains a constant concern in the EU. Also for a balanced territorial development some priority objectives should be taken into account such as developing and supporting the diversity of rural areas using all available resources at this level, increased accessibility, promoting entrepreneurship, increasing attention given to the poor peripheral areas.

- **Territorial integration in cross-border and transnational functional regions** which can ensure better use of the natural, economic, cultural potential available to each region. It is pointed out that cooperation projects at this level can deliver progress and good

results using participant's experience. The integration of these projects into national and regional development strategies can contribute to a better international cooperation to a better understanding and getting better results at the regional level in a world from becoming globalized.

- **Ensuring global competitiveness of the regions based on strong local economies.** A good cooperation of different territories, the development of strong economic sectors, globally integrated would generate a strong local and regional economies, competitive, to be able to support each other and the existing competitive environment,

- "integration of heritage, characteristics and local traditions in the global economy it is important to strengthen local responses and to reduce vulnerability to external forces" it's assessed in the Territorial Agenda 2020

- **Improving territorial connectivity for individuals, communities and enterprises** From this point of view, equitable and affordable services of general interest to information, knowledge and mobility seems to be fundamental for territorial cohesion.

The need to ensure optimal conditions for rail, air, road, water, electricity and gas transport networks for efficient intermodal transport, development of trans-European networks and secondary networks is particularly important at regional and local level.

- **Managing and connecting ecological, landscape and cultural values of regions.** Territorial Agenda 2020 underlines the fact that the proper functioning of ecological systems, protection and improvement of cultural and natural heritage are important conditions for long-term sustainable development. Shared accountability is needed for mitigation and risk taking that everything we do now affects the future. (Territorial Agenda 2020, 2011)

We appreciate that at this moment discussions aimed at territorial development agreement focuses on several directions of action with the following nuances:

- The harmonious development of the territory
- Harnessing the competitive advantages that every region has
- Public policy orientation around a few basic principles:
  - The concentration of human, material and financial resources with irradiance effects in larger areas
  - Connecting territories by "shortening" distances, time to go through and the quality of relationships in transport
  - Cooperation - understanding the need to promote and develop relations and actions that unite us to be stronger in a highly competitive world (European Commission, 2010b)

## **2. Concentration of human resources**

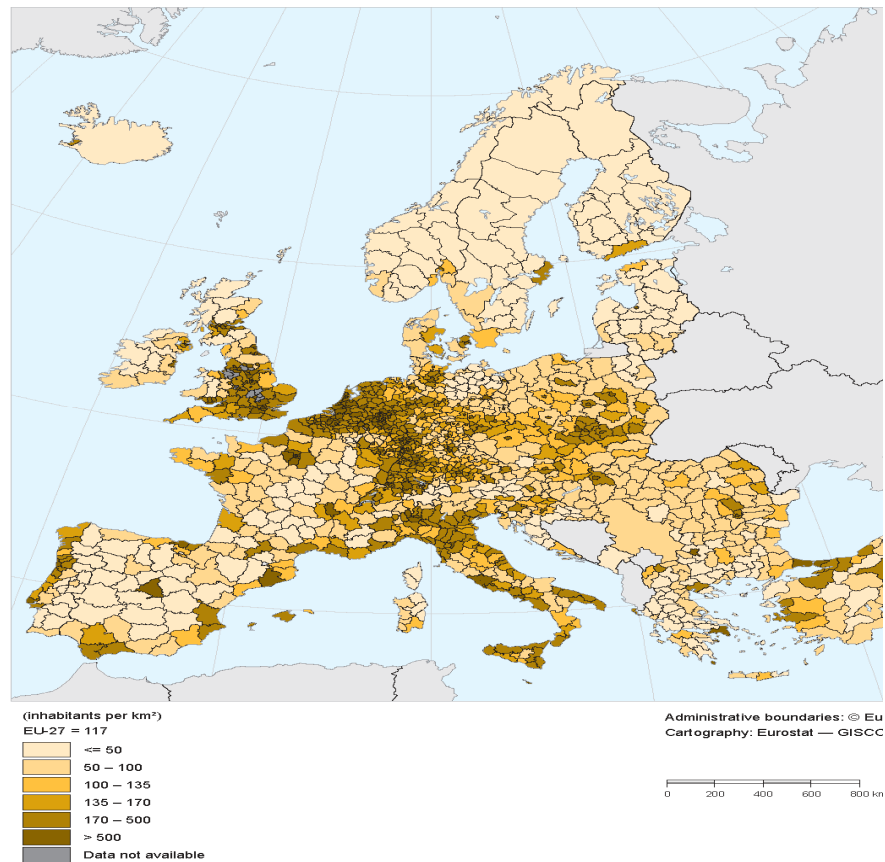
Thus, in terms of human resources concentrations we naturally conclude that public service needs and those jobs largely depend on the number of inhabitants in these areas. The pressure put on local authorities by population is proportional to the density of people living in cities or regions.

If we analyze the density of the population in different regions of the EU, significant differences can be observed.

Even if there are some exceptions like the situation in Monaco (16403 inhab/km<sup>2</sup>) or Gibraltar (4697 inhab/km<sup>2</sup>), a high concentration of population is observed in some regions of England (244.2 inhab/km<sup>2</sup>), Netherlands (393 inhab/km<sup>2</sup>) Belgium (336.8 inhab/km<sup>2</sup>), Germany (233.2 inhab/km<sup>2</sup>) compared with significantly lower concentration observed in the Nordic countries (36.6 inhab/km<sup>2</sup> Latvia, Estonia inhab/km<sup>2</sup> 31.3, Finland 15.3 inhab/km<sup>2</sup>, Sweden 19.7 inhab/km<sup>2</sup> and a density between 60-150 inhab/km<sup>2</sup> in Eastern European countries (68.7 Bulgaria inhab/km<sup>2</sup>, 130.1 inhab/km<sup>2</sup> Czech Republic, Romania 89.6 inhab/km<sup>2</sup>, 111 inhab/km<sup>2</sup> Slovakia, Hungary 108.3 inhab/km<sup>2</sup>, Slovenia 95.3 inhab/km<sup>2</sup>).

**Figure no. 3. Population densities by NUTS 3 regions**

Population density, by NUTS 3 regions, 2011 (\*)  
(inhabitants per km<sup>2</sup>)



Source Eurostat – GISCO, 05/2013

Obviously, resources and consumption have a different distribution, a significant importance having also the geographical position (relief, climate) and the percent of urban / rural population. (European Commission, 2011a).

We observe that there are significant differences between the countries of Northern and Western Europe with a urban-rural ratio of 80-20% and those from Southern and Eastern Europe with a ratio of 70-30%, with a high concentration in those countries capitals and big cities, where the concentration exceeding 10-15% of the population. In these circumstances seems natural the need for differentiated approaches to specific issues facing each region, with a strong agricultural areas in Spain, central France, southern Italy, Eastern Europe that need policies other than Northern Italy, Bavaria from Germany or center of England.

**Table no .1. Urban / rural population in Europe**

Country	The urban population	% urban	The rural population	% rural
Europe	533,295,008	72.80%	199,463,538	27.20%
Belarus	7,161,731	74.70%	2,426,209	25.30%
Bulgaria	5,357,409	71.50%	2,139,873	28.50%
Czech Republic	7,656,181	73.50%	2,754,605	26.50%
Hungary	6,791,244	68.10%	3,181,897	31.90%
Moldavia	1,678,733	47.00%	1,896,841	53.00%

Country	The urban population	% urban	The rural population	% rural
Poland	23,187,195	61.00%	14,850,899	39.00%
Romania	12,177,262	57.50%	9,012,892	42.50%
Russia	102,701,802	73.20%	37,664,759	26.80%
Slovakia	2,974,631	55.00%	2,437,009	45.00%
Ukraine	31,252,239	68.80%	14,181,176	31.20%
Denmark	4,761,345	86.90%	719,938	13.10%
Estonia	930,752	69.50%	408,707	30.50%
Finland	4,548,742	85.10%	797,084	14.90%
Iceland	307,598	93.40%	21,681	6.60%
Ireland	2,842,493	61.90%	1,746,509	38.10%
Latvia	1,517,111	67.70%	723,154	32.30%
Lithuania	2,180,558	67.00%	1,074,766	33.00%
Norway	3,855,657	79.40%	999,658	20.60%
Sweden	7,869,504	84.70%	1,423,522	15.30%
United Kingdom	49,295,437	79.60%	12,603,835	20.40%
Albania	1,645,097	51.90%	1,523,990	48.10%
Bosnia and Herzegovina	1,827,955	48.60%	1,931,678	51.40%
Croatia	2,546,069	57.70%	1,863,590	42.30%
Greece	6,868,158	61.40%	4,315,235	38.60%
Italy	41,082,995	68.40%	19,014,569	31.60%
Macedonia	1,211,976	59.30%	831,384	40.70%
Malta	388,139	94.70%	21,860	5.30%
Montenegro	384,431	61.50%	241,085	38.50%
Portugal	6,514,856	60.70%	4,217,501	39.30%
Serbia	5,525,249	56.10%	4,330,608	43.90%
Slovenia	1,002,440	49.50%	1,022,472	50.50%
Spain	35,073,326	77.40%	10,243,260	22.60%
Austria	5,665,972	67.60%	2,721,519	32.40%
Belgium	10,420,648	97.40%	276,940	2.60%
France	53,398,202	85.30%	9,238,378	14.70%
Germany	60,598,356	73.80%	21,458,419	26.20%
Luxembourg	418,923	85.20%	72,849	14.80%
Netherlands	13,799,187	82.90%	2,854,159	17.10%
Switzerland	5,591,372	73.60%	2,003,189	26.40%

Source: [http://www.geohive.com/earth/pop\\_urban.aspx](http://www.geohive.com/earth/pop_urban.aspx)

Analyzing the situation in Romania, the sustainable territorial development with different dimensions in each of these regions is as follows.

We note, as we have pointed out that, there is a strong concentration of population in the area Bucharest (13.8 times the national average) and a minimum density (59.6 inhab/km<sup>2</sup>) in the Western region, this one being the most developed in Romania unlike North - East with a double density (100.3 inhab/km<sup>2</sup>) than West region but with a lower economic development. This conclusion shows that the number of inhabitants, as human resource, is an important factor for the economic development of an area, but not enough to cause development and territorial competitiveness.

**Table no. 2. Urban / rural population in Romania**

Development Region County	Total (inhabitants)	Urban	Rural	As a percentage of total		Inhabitants / km <sup>2</sup>
				Urban	Rural	
Total	21354396	11727153	9627243	54.9	45.1	89.6
North - West	2711016	1440177	1270839	53.1	46.9	79.4
Center	2520540	1491569	1028971	59.2	40.8	73.9
North - East	3695831	1587203	2108628	42.9	57.1	100.3
South - Muntenia	3243268	1342035	1901233	41.4	58.6	94.1
Bucharest - Ilfov	2253827	2064235	189592	91.6	8.4	1237.7
South - West Oltenia	2225108	1068281	1156827	48.0	52.0	76.2
West	1910469	1197596	712873	62.7	37.3	59.6
South - East	2794337	1536057	1258280	55.0	45.0	78.1
Brăila	355173	230536	124637	64.9	35.1	74.5
Buzău	477215	195772	281443	41.0	59.0	78.2
Constanța	724276	502835	221441	69.4	30.6	102.4
Galați	604627	339932	264695	56.2	43.8	135.4
Tulcea	244103	120461	123642	49.3	50.7	28.7
Vrancea	388943	146521	242422	37.7	62.3	80.1

Source: Statistical Yearbook of Romania, NIS, Bucharest - 2012 edition

Certainly the EU financial 2014-2020 allocations at European level, but also funding lines for the focused objectives will have to take account of varied issues, focusing on the structure and the density of population in order that ensuring the necessary conditions for housing and living (infrastructure, utilities, public services, education, health and social services).

### 3. Connectivity relationships

Analysis of different connectivity relationships show that they are following the needs expressed by the concentration of population and economic development. Again the center zone, England, Belgium, Netherlands, Germany and the European capitals are significantly more developed than other regions and Eastern Europe remains substantially at a lower level even if we speak about the road network or the railway.

Of course one cannot deny a certain historical reality, a development of the West compared to the East. In a world increasingly connected but mostly by economic and social relations, freedom of movement of goods, services and people, quality and quantity of transport services is essential for sustainable territorial development.

Analyzing the situation from Romania, we observe a relatively balanced distribution across regions, with a concentration in the capital for roads and railways and differences within regions that are determined by economic conditions (for example access to Black Sea resulted in increasing road density in Constanta) and by landscape conditions (the existence of the Danube Delta from Tulcea, an area less accessible both by road and especially rail). (Regional Development Agency, 2013).

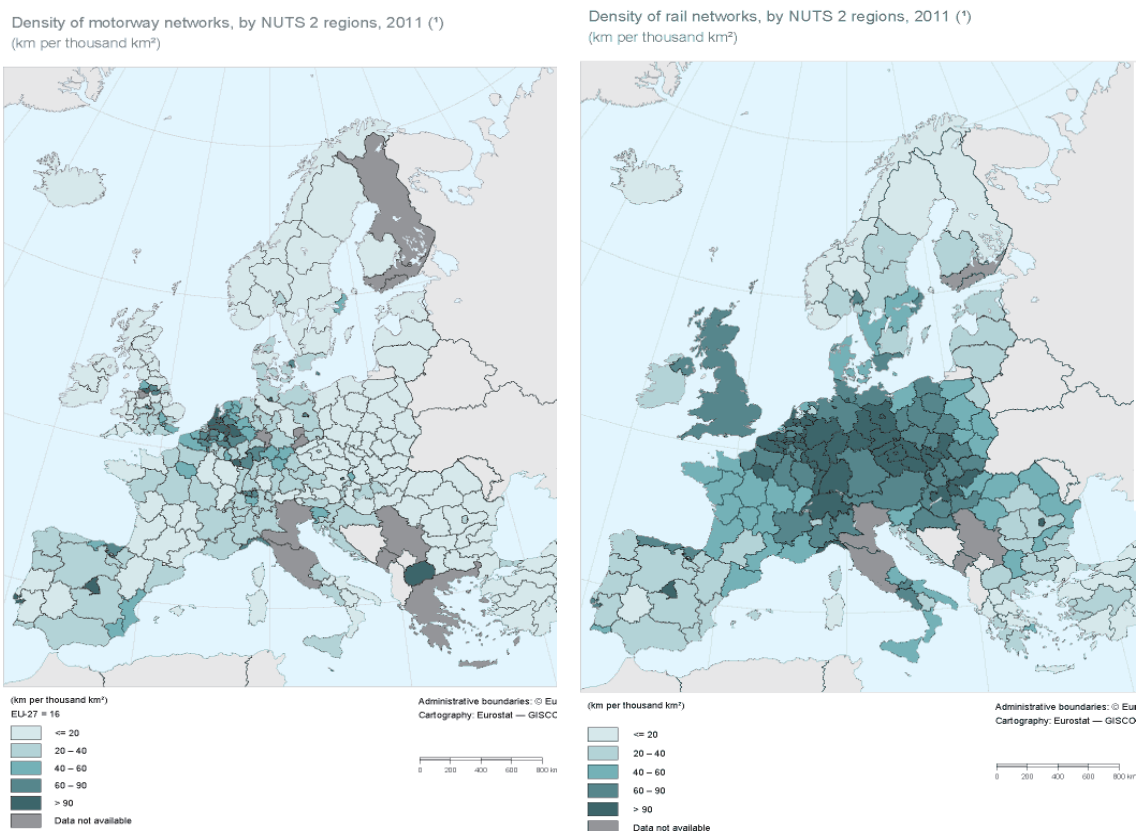
The issue of infrastructure in Romania is not necessarily related to quantity but especially to quality. The low number of km of highway, national road quality, reduced railway speed, outdated port infrastructure, are the main problems that our country is facing, and often causes a low attractiveness for economic area, but also for the tourist and services. So certainly this will require the existence of national and regional policies, especially related to development of motorways and high-speed railways, many of the today's highways could become of regional interest and managed much better at this level.

Certainly it will be difficult from the very beginning to conceive and accept the major regional projects. Discussions about where will be the capital of the region and who will be



president of region occupied the foreground in public space while analyzes of common projects, financial support, cooperation institutions, etc. should have been the dominant issue.

**Figure no. 4. Density of motorways (left) and density of railway network (right)**



Source: Eurostat GISCO, 05/2013 GISCO, 05/2013

**Table no. 3. Public roads, in territorial, 31 December 2011**

Development Region County	The public roads - total	The national roads	The counties and communal roads	The public roads density per 100 km <sup>2</sup> area
Total	83703	16690	67013	35.1
North - West	12459	2302	10157	36.5
Center	11057	2294	8763	32.4
South - Muntenia	12707	2791	9916	36.9
Bucharest - Ilfov	890	309	581	48.9
South - West Oltenia	11001	2177	8824	37.7
West	10452	1914	8538	32.6
North - East	14239	2688	11551	38.6
South - East	10898	2215	8683	30,5
Brăila	1187	263	924	24,9
Buzău	2651	322	2329	43,4
Constanța	2425	484	1941	34,3
Galați	1524	314	1210	34,1
Tulcea	1330	326	1004	15,6
Vrancea	1781	506	1275	36,7

Source: Statistical Yearbook of Romania, NIS, Bucharest - 2012 edition

**Table no. 4. Railway operating in territorial, 31 December 2011**

<b>Development Region County</b>	<b>Total</b>	<b>of which: electrified</b>	<b>Density of railway tracks per 1,000 km<sup>2</sup> territory</b>
Total	10777	4020	45.2
North - West	1668	312	48.8
Center	1332	669	39.1
North - East	1620	663	44.0
South - Muntenia	1251	439	36.3
Bucharest - Ilfov	279	259	153.2
South - West Oltenia	988	507	33.8
West	1894	649	59.1
South - East	1745	522	48.8
Brăila	158	124	33.2
Buzău	244	113	40.0
Constanța	776	85	109.7
Galați	303	102	67.8
Tulcea	103	-	12.1
Vrancea	161	98	33.1

Source: Statistical Yearbook of Romania, NIS, Bucharest - 2012 edition

In this context it should be noted that the EU has launched the concept of integrated territorial investment as a tool for regional development which imply the existence of integrated territorial development strategies relating to a designated area, a set of actions that can be implemented to achieving the objectives of the integrated territorial development strategy, and the governance mechanisms for integrated territorial investment management. Basically, ITI are subprograms that comprise integrated multi-dimensional measures. (European Commission, 2013),

This would involve the existence of an integrated development strategy, territorial features, but the lack of any dependence on administrative limits and would allocate 5% of ERDF funds from nationwide.

We consider that further concentrated intervention is required for the national level and for the regions to establish those coordination structures which to ensure a formula acceptable for the cooperation between counties, micro-regional, regional or interregional.

Should be noted that, now, there is the legal framework that ensures the possibility for counties and municipalities to join the development of projects of common interest.

A close look on the overall needs of the population reveals that the transport situation presented is not unique. It is associated with problems of public services particularly because once inside the EU, European citizens of Romania, but also those visiting Romania they claim to have services at European level. Moreover, diversification and multiplication of extreme events (storms, floods, droughts) in recent years determined the need for major interventions with high expense of existing resources that current counties or municipalities don't have. So in many cases population necessities defeated personal or group egos and territorial administrative units joined together to solve common problems they had.

According to the local public administration legislation, two or more administrative territorial units have the right, within the limits of their deliberative and executive competences to cooperate and associate according to the law, forming intercommunity development associations with legal personality of private law and the public benefit. The intercommunity development associations are public utility, by the effect of this law.

We already have regional institutions functioning (Public finance, Environmental protection agencies, Statistics Agency, Agency for Payments and Intervention in Agriculture, forestry inspectorates) and public regional services (railway, Electrica, Distrigaz). Discussions have been going on for a long time about regional hospitals. Regional Development Agencies is operating from 1998. This framework should be used and developed going over various local interests.

### **Conclusions**

Focusing on our main issues and valuing opportunities and potential of our regions, developing the communication on all levels and using technical, scientific and economic information and knowledge, cooperating at local, regional and interregional level we can achieve territorial development and by adding at national and European level.

In the end the principle that united we can be strong should be understood and applied. With strong regions we can build on wide areas, sustainable actions, we can generate the development to be competitive in an Europe of cohesion, cooperation but competitive.

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# FOREIGN DIRECT INVESTMENT IN ROMANIA - PRIORITY FOR ECONOMIC DEVELOPMENT

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## Abstract:

*The research developed in the present work is mainly aimed at the development of analysis of foreign direct investment in Romania present, and highlighting positive impact on the Romanian economy. Foreign direct investment has been a growth engine for the Romanian economy, bringing transnational companies and a contribution of 70% in foreign trade of Romania. Given the international economic crisis, foreign direct investment inflows fell above the European Union average, Romania's priority is to create a competitive investment climate to attract them. Therefore, considered vital to attract foreign direct investment in the economy and particularly in agriculture and tourism, as are areas that they can make an important contribution in Romania's gross domestic product, even if at the moment of their contribution is very small.*

**Key words:** FDI; transnational companies; foreign trade; tourism; agriculture; economic crisis.

**JEL Classification:** F21; F23

## 1. Introduction

On 1 January 2007, Romania joined the European Union, which has boosted economic growth and improving the business environment in our country, taking into account the conditions will be created for attracting a large amount of foreign investment, due to the needs of development, particularly in terms of infrastructure (transport, trans-European energy networks, etc.) and agriculture, providing additional safeguards for domestic and foreign investors for business development.

Great Romania's external vulnerabilities, both negative under current international economic and financial crisis and economic disarticulation, already almost untreatable by unresolved imbalance between consumption and production operations, are above all work of foreign banks, and not foreign direct investment, which has have been the engine of growth of the Romanian economy.

In the past two years, Romania's macroeconomic indicators, such as reducing inflation, the budget deficit at a low and sustained growth of gross domestic product (GDP) have been encouraging. In recognition of these positive trends, the international rating agencies Moody's, Standard and Poor's rating significantly improved country risk for Romania.

Romania must continue the sequence of reforms, to stimulate the economic policies to attract foreign investment and attracting external funds, for economic and social development of Romania.

## 2. Swot analysis of Romania as investment destination

The research developed in the present work is mainly focused on the development of foreign direct investment analysis present in Romania, and highlighting the positive impact on the development of Romanian economy. 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 foreign direct investment in Romania and the European Union, 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.

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The main data sources were taken from the World Investment Report - United Nations Conference on Trade and Development (UNCTAD), the National Bank of Romania (NBR), National Institute of Statistics (NIS).

It should be noted that there is no comprehensive analysis of the role of foreign investment, notably those made by transnational companies (or multinational) in the economy of Romania. Such analysis simply missing, despite a massive part of the economy is under foreign control (use half the oil and gas resources, distribution of gas and electricity, cement and steel production, telecommunications, the entire banking system insurance). Economic research institutes of the state and private centers will have to make further studies in this area.

Unfortunately, government institutions involved in the field remain at the surface of things, contenting himself with details on the categories of products and activities without understanding the research to highlight the dynamics of exports and imports of transnational firms and export dependence, respectively, imports of achievements transnational and foreign capital, generally.

Surveys and assessments conducted by national organizations and international confirm that yet, corruption remains a serious and widespread problem that affects many aspects of society, including climate.

Corruption Perceptions Index ranks countries according to the degree to which corruption is perceived existence among public officials and politicians. It is a composite index, based on 10 different polls and surveys carried out by several renowned institutions, that ranks 180 countries in terms of the degree to which corruption is perceived. It reflects the views of business people and analysts from around the world, including experts from the countries evaluated.

Since 1997, Romania was one of the worst ranked countries in the region and consistently the last candidate countries. In the report for 2012, Romania is ranked 66 with a CPI score of 44 points out of 100, making a significant score improvement, over the global average score which is 43, surpassing other EU countries: Italy - 72nd, Bulgaria - 75th and Greece - 94th.

The World Bank analysis shows that transnational companies decide to invest in a country after closer inspection, based on specific criteria: political uncertainty, macroeconomic instability, law, the taxes, corruption, etc.

For Romania the following hotspots are identified: high level of corruption, macroeconomic instability, high taxes, etc..

Although, Romania has a number of advantages: a member of the EU, internal market size, resource availability and access to export markets, political stability, cheap labor, etc., - lack of consistency and firmness of the authorities in the implementation of economic policy, inadequate infrastructure, an inefficient and corrupt government bureaucracy - are factors that discourage investment activities of transnational companies.

Economic policies must be made: to support and build the capacity of SMEs, to efficient agriculture, environmental protection, poverty reduction and social exclusion, taking action so as to avoid many dangers such as: higher exposure competition in globalized markets, strengthening Romania's image as an economy focused on sectors with low added value, migration of industries to foreign locations with lower costs, external migration of workers with a high educational level, climate change and environmental degradation (table 1).

But developments in the last two years shows that, apparently, Romania has come out of "the shadow" and start becoming a more advantageous location for foreign investment, as shown by a series of studies conducted by national institutions and international organizations.

**Table no. 1. SWOT analysis of Romania's attractiveness as investment destination**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>◆ macroeconomic stability</li> <li>◆ labor-intensive, low-cost and an acceptable level of initial education</li> <li>◆ natural resources</li> <li>◆ energy</li> <li>◆ a series of successful sectors in manufacturing and primary sector</li> <li>◆ number of specialist ICT</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>◆ concentration in low value added sectors / strategies based on low cost</li> <li>◆ low level of research and development and innovation and fragile link with economy</li> <li>◆ weak entrepreneurial culture developed / underdeveloped SME base</li> <li>◆ low capacity of SMEs</li> <li>◆ difficult access to finance and information in business</li> <li>◆ low degree of sophistication of the market</li> <li>◆ high energy intensity</li> <li>◆ outdated technology / high production cost (less labor costs)</li> <li>◆ degraded infrastructure and insufficient / low accessibility inside and outside the country</li> <li>◆ inadequate environmental management (including in terms of infrastructure)</li> <li>◆ inefficient agriculture (labour intensive), excessively fragmented agricultural area</li> <li>◆ underdeveloped tourism infrastructure and inadequate marketing</li> <li>◆ reduced adaptability of the labor force and low lifelong scholars</li> <li>◆ important segment of the population affected by poverty and social exclusion</li> <li>◆ underdeveloped administrative capacity</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>◆ EU accession</li> <li>◆ size (the second most populous country in the NMS 10 +2)</li> <li>◆ new sources of investment, including the Structural and Cohesion Funds</li> <li>◆ FDI</li> <li>◆ Romania as a tourist destination-tourism niche</li> <li>◆ potential regional hub in the transportation of natural gas and electricity</li> <li>◆ full liberalization of public procurement</li> <li>◆ market liberalization and modernization business models</li> <li>◆ development of business infrastructure</li> <li>◆ e-commerce/ e-governance</li> <li>◆ modernization of agriculture</li> <li>◆ modernization of the capital and other key urban centers</li> <li>◆ need / accept the need for change</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>◆ greater exposure to competition on global markets</li> <li>◆ long periods of stagnation / decline at european or global economic</li> <li>◆ migration of industries to foreign locations with lower costs</li> <li>◆ strengthening position / image of Romania as an economy focused on sectors with low added value</li> <li>◆ external migration of workers with a high educational level</li> <li>◆ climate change / environmental degradation</li> </ul>

UNCTAD has regularly published its FDI Attraction and Potential Indices in its annual World Investment Report since 2002. The Inward FDI Attraction Index ranks countries by the FDI they receive in absolute terms and relative to their economic size. It is the average of a country's rankings in FDI inflows and in FDI inflows as a share of GDP.

FDI potential index is based on 12 economic and policy variables, and covers 141 countries, according to UNCTAD methodology. All countries that have index below 70 are not considered efficient economy. Romania's economy has a low index of potential FDI, as foreign investors assessments (table no 2).

**Table no. 2. Romania rankings by Inward FDI Performance Index, Inward FDI Potential Index 2007-2010**

Year	Inward FDI Performance Index	Inward FDI Potential Index
2007	57	65
2008	42	64
2009	63	60
2010	73	...

Source: [http://www.unctad.org/Sections/dite\\_dir/docs/WIR11\\_web%20tab%2028.pdf](http://www.unctad.org/Sections/dite_dir/docs/WIR11_web%20tab%2028.pdf)

FDI performance index measures the impact of FDI on the host economy development, Romania is more than expected by FDI performance index, in the opinion of foreign investors.

FDI contribution index classifies economies by taking FDI TNCs subsidiaries in host countries economy. Comparing FDI Contribution Index, the share of FDI stock in GDP of a country, Romania ranks 4th in 2009 after Hungary, Belgium and the Czech Republic.

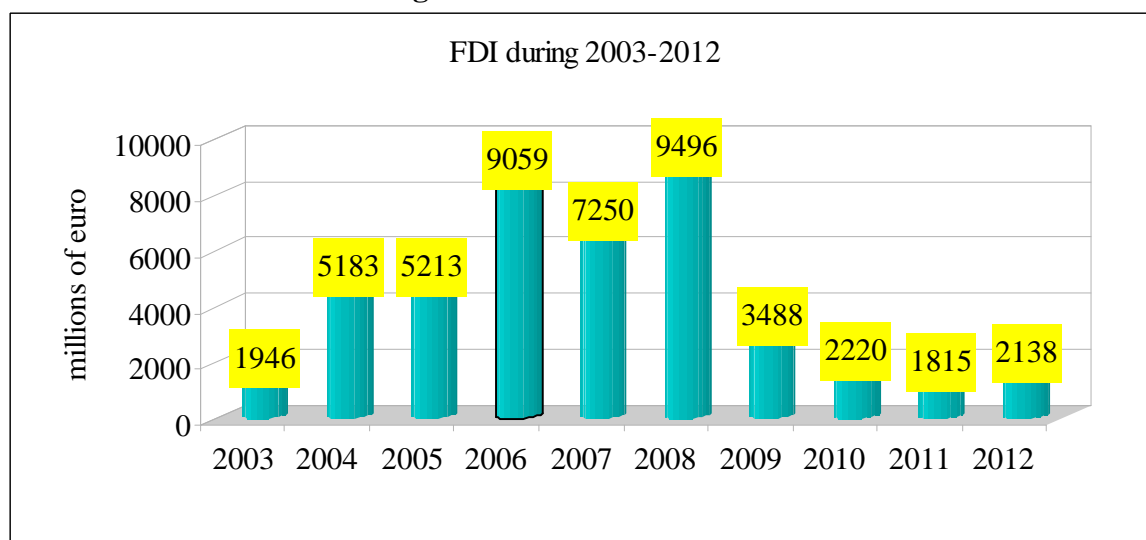
### 3. Evolution and role of FDI in Romania

Foreign investment at 31 December 2012 is 59.1 billion euros.

The first four countries ranked by the share of FDI in Romania on 31 December 2012 are: Netherlands (22.4%), Austria (18.5%) Germany (11.0%) and France (8.9%) remaining orders unchanged from 2009.

FDI inflows in 2003-2006 showed 21.4 billion euros, in 2007-2012 registering inputs only 26.4 billion euros, although Romania joined the EU on 1 January 2007 (Figure 1).

**Figure no. 1. FDI in Romania**



Source: processed by the author on official data from National Bank of Romania

Due to recession in major countries providing foreign direct investment and generally, international financial crisis, inflows of foreign direct investment in Romania in 2009-2012, was only 9.7 billion euros, falling on average by over 80% the level of FDI inflows in 2008, the situation is worrying because it exceeds by far the EU fall and worldwide.

Thus, in developed countries, including the European Union, FDI inflows were recorded in 2009-2012, a decrease of 50% of the FDI inflows in 2008. Globally, the situation is better in the crisis, FDI inflows declined only 30% of the FDI inflows in 2008. This is mainly due to the fact that Latin America and East Asia and South-East made the

most important contribution in 2009-2012, registering an increase of over 50% and 30% of FDI in 2008.

The UNCTAD report 2008 for the first time, Romania is officially classified in the category of developed countries, ranking 13th in EU by FDI attracted. Unfortunately, in the 2013 report, Romania dropped to place 17 of the 27 EU member states as the level of FDI attracted in 2012.

National Bank of Romania has made since 2006 a statistical survey on foreign direct investment, together with NIS. In the period 2006-2012 were investigated resident direct investment enterprises (foreign investor holds at least 10% of share capital), which exhaustively researched - average 7.117 companies, that have provided an average share of 90% in FDI on 31 December 2012.

Import-export activity of companies FDI has had a positive impact in the period studied, their contribution to exports averaging 71%, while the contribution of imports averaged 61% (table no 3).

**Table no. 3. Exports FDI enterprises during 2009-2012 millions of euros**

<b>EXPORTS (FOB)</b>	<b>2009</b>		<b>2010</b>		<b>2011</b>		<b>2012</b>	
Total, of which:	19.643	69,8	25.950	72,4	31.418	71, 4	30.672	70, 3
Industry, of which	17.264	79,3	22.887	63,8	27.257	61,9	26.429	60,6
Manufacturing	16.440	79,7	21.934	61,2	26.135	59,3	25.327	58,1
Retail and wholesale	1.827	51,7	2.495	7,0	3.338	7,6	3.546	8,1
Other activities	552	19,3	3	0,0	2	0,0	3	0,0

Source: <http://www.bnro.ro/PublicationDocuments.aspx?icid=9403>

The results of this study are similar to global data, where about two thirds of world trade is carried out by TNCs.

According to official statistics, during 2007-2012, on average 71% of Romania's foreign trade (71% of exports and 72% of imports) was conducted with members of the European Union.

In the period studied, the top three countries of destination for Romanian exports were Germany (18%), Italy (12%), France (7%).

On import, the three Romanian partner countries were Germany (17%), Italy (12%), Hungary (9%).

#### **4. Priorities**

Romania needs primarily by foreign direct investment, which would ensure economic growth and competitiveness by creating new jobs, increasing income, export promotion and a transfer of knowledge and technologies, integration into the European economic system and worldwide.

For this, it is necessary to create a good investment climate, for foreign investors are important: the size of the internal market, the existence of significant natural resources, cheap labor, the possibility of access to foreign markets, domestic economic liberalization policies, the technical progress and quality human resources, elimination of corruption and bureaucracy etc.



Under normal circumstances, government intervention is required to be minimal. But if the current crisis in mitigating the impact of state involvement is paramount. The state capital injections may involve the financial sector, public investment programs in infrastructure, facilitating exports, ie the actions that would invigorate economic activity.

In Romania, the government policies and measures should be aimed at improving the business environment, creating opportunities in the manufacturing sector, more competitive, especially those for exports.

Romania has an urgent need for massive foreign investment in industry and agriculture, infrastructure (construction of modern roads and highways will contribute to tourism development).

To achieve these objectives, it requires effective government policies that lead to increased absorption of external grants awarded by the EU, operational programs accessing the fields funds will contribute to economic growth and development of Romania. We have convincing example of Poland, only UE country which was not affected by the economic crisis and because it had a very high degree of absorption of external funds.

Unfortunately, for Romania, the extent of absorption is currently only 25% (10% during 2007-2012) of external funds for operational programmes 2007-2013.

We believe that attracting foreign direct investment and external grants in agriculture and tourism is a priority, because they are areas that can make a big contribution in Romania's GDP, even if at the moment of their contribution is very small.

#### ***4.1. Tourism***

Foreign direct investment at 31 December 2012 in agriculture and tourism accounted for only 2.4% and 0.6% of total FDI.

At this point, the direct contribution of tourism to gross domestic product (GDP) is about 1.5%, below the world average of 5.2%.

According to WEF Report 2013, Romania ranks 35 in the region and 68 worldwide on the degree of competitiveness in tourism (table no 4).

Situation number of foreign tourists in Romania is worrisome, compared to neighbors in the area. In 2011, Bulgaria had 4 times more foreign tourists than Romania, of which 1 million people were Romanian tourists in Bulgaria.

Tourism can play an important role in the economy, but with substantial investment and effort bolstered by the authorities.

The measures set out in the national development program aims to:

- ◆ sustainable exploitation of cultural heritage and natural resources with tourism potential;
- ◆ improving the quality of tourism and leisure infrastructure will create new jobs and develop local economies;
- ◆ arranging sightseeing natural tourism potential (canyons, gorges, caves, glacial lakes, Delta etc.) under permanent monitoring of environmental pressure;
- ◆ exploitation of mountain tourism, including arrangement of access, camping sites and alpine huts, marked walking trails, installing rescue posts;
- ◆ development of health tourism, by creating a network that provide complex wellness, promote gerontological treatment medication and original Romanian.
- ◆ promoting a positive image of Romania, defining national tourism brand, achieving a unified tourism information and statistics on-line.

**Table no. 4. Top 20 regional competitiveness in tourism**

Country	Regional Index	World Index	Number of foreign tourists (million of people)	Revenue received (millions of dollars)
Cyprus	19	29	2,4	2,5
Estonia	20	30	2,7	1,3
Czech Republic	21	31	8,8	7,6
Greece	22	32	16,4	14,6
Croatia	23	35	9,9	9,4
Slovenia	24	36	2,0	2,7
Hungary	25	39	10,3	5,6
Montenegro	26	40	1,2	0,8
Poland	27	42	13,4	10,7
Turkey	28	46	34,0	23,0
Latvia	29	48	1,5	0,8
Lithuania	30	49	1,8	1,4
Bulgaria	31	50	6,3	4,0
Slovak Republic	32	54	1,5	2,4
Russian Federation	33	63	22,7	11,4
Georgia	34	66	2,8	1,0
Romania	35	68	1,5	1,4
Macedonia, FYR	36	75	0,3	0,2
Ukraine	37	76	21,4	4,3
Albania	38	77	2,9	1,6

Source: World Economic Forum, The travel & Tourism Competitiveness Report 2013

Romania, as a country brand, is positioned at 100 in a sample of 118 countries, according to the latest survey conducted by Future Brand.

Attracting a large number of foreigners in the country can be achieved by promoting Romania *"as a destination more accessible in terms of price."*

Romanian loses for not knowing to attract Moldovan neighbors, that come in a very small number in the country. In one year, Romania is visited by thousands of tourists only a very small number, as distinguished specialists in the field. Favorite travel packages Moldovan tourists in the country are, especially, the mountain tourism (especially resorts in the Prahova Valley, Predeal and Poiana Brasov) and rural tourism, the first being Bran-Moeciu. On the other hand, the Romanian seaside is unknown for Moldovan tourists who prefer to spend their holidays at the seaside in Bulgaria.

Romanian northern coast has greatly expanded, modern hotels and clubs, cultural and sporting events, but to the south have made major investments.

The south coast to support, bear in mind that the beaches have nothing to look at state institutions, but must be managed by the hotel owners. They must decide and ensure the necessary investments for the beaches do not become places filled with garbage or space for vendors nonsense. Also, every resort in the south must have a proper zoning plan, clear to explain how each resort will show over 20 years and the directions of development.

In addition, the south coast needs an unconventional promotion, using new ideas and technological means, adapted to modern tourists today. South not to be forgotten or neglected area, because this area is huge potential. South coast is targeting customers of normal financial condition, who save for a year to afford a stay at sea. These customers deserve quality services for their efforts during the year and that turned into Romanian seaside, which is why, must not disappoint them.

Southern coastline covers 25 percent of the Romanian tourism accommodation and 50 per cent of accommodation across the coastline. This 50 percent was damaged in recent years by the lack of investment. Irrigation of green areas is needed to take resort in vegetation. The disappearance of the green belt that adorned resorts south means the loss

of a mark which was the pride of the area. Bulgarian neighbors have taken the example of Turkey and developed the "all inclusive" for the big hotels, which contributed to the increase in the number of foreign tourists, especially, Germans.

#### ***4.2. Transport infrastructure***

One area, that is closely linked to the development of tourism, is transport infrastructure.

Romania currently has 530 km, of which: 135 km built before 1989, 110 km representing A1 Bucharest-Pitesti highway built in 1972. So, Romania can boast only the construction of a highway - A2 Bucharest-Constanta 203 km, of which 25 km the Fetesti-Cernavoda was built in 1987.

Romania has built in 23 years of the revolution, on average 17 km highway per year, with a minimum cost of € 5 million / km, more than twice the Bulgarian neighbors.

It is imperative to complete construction Transylvania highway. Project Transylvania Highway, the route Brasov-Bors, started in 2004, under a contract with a value of EUR 2.2 billion euros for the U.S. company Bechtel. After 11 years of signing the contract, the Romanian state has 52 kilometers of highway in operation and 1.4 billion euros already paid, in 2013 the Romanian government terminated the contract with the American company Bechtel.

Romania's planned 2020 construction of 836 km of highway, of which: 473 km to complete the highway A3 Transylvania, 363 km to complete A1 Bucharest-Nădlac.

Investment infrastructure will facilitate the mobility of people and goods between regions and within them, reducing transport costs for goods and passengers, increase business efficiency, improve access to regional markets, increasing the number of tourists.

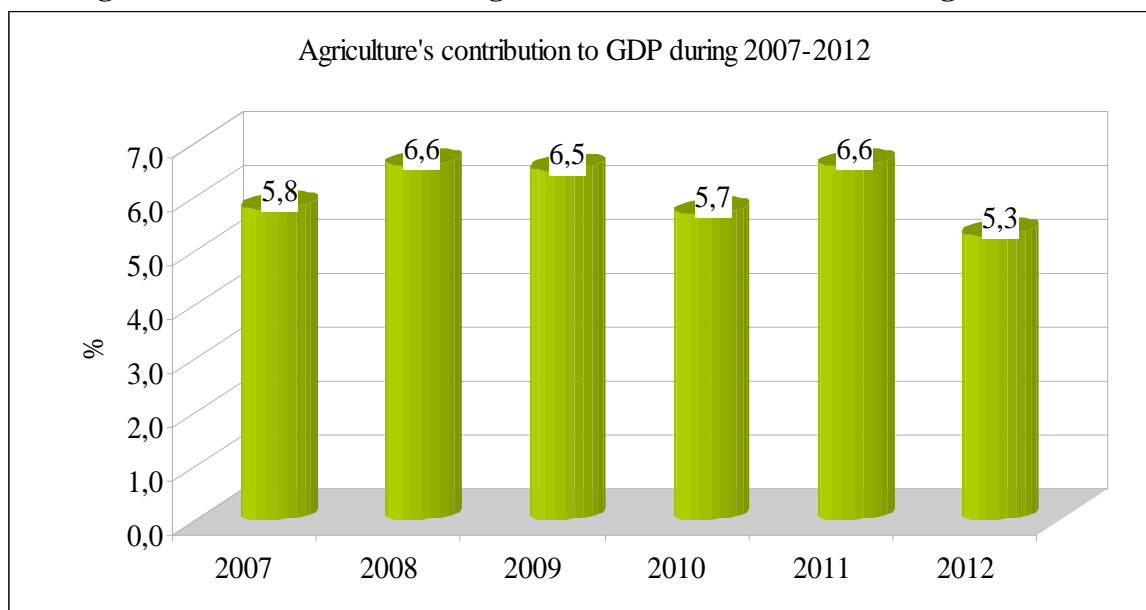
#### ***4.3. Agriculture***

In agriculture, according to official data, during 2007-2012, an average of about 30% of the employed population working in agriculture, with an average contribution of just 6% of GDP (figure no 2). Net investments in this area was only 4% for the period.

Main objectives will be met for development of improved agriculture:

- ◆ development of competitiveness of agriculture, forestry and fisheries based on knowledge and private initiative;
- ◆ reduction of employment in agriculture in conjunction with the creation of viable farms;
- ◆ reducing the fragmentation of agricultural land and stimulating concentration of small farms;
- ◆ maintaining the quality and diversity of the countryside and forest, seeking a balance between human activities and natural resource conservation;
- ◆ measures to support producers to adapt agriculture to climate change;
- ◆ establishment of product, including biomass and biofuels;
- ◆ development of niche food production, organic and traditional products, to protect the name, recipe cooking procedures and appropriate promotion;
- ◆ stimulating the formation of producer groups and agri-food sector, encouraging subsistence farms to enter the market, modernization of agricultural holdings;
- ◆ improve product quality and increase the performance of food industries;
- ◆ conservation and improvement of natural resources and habitats by encouraging use agricultural production methods compatible with environmental protection, biodiversity conservation and improving water quality soil and landscape.

**Figure no. 2. Contribution of agriculture to GDP creation during 2007-2012**



Source: processed by the author on official data from National Institute of Statistics

## 5. Conclusions

Any country, wishing to benefit from foreign direct investment, must create an appropriate business environment. In this context, we can mention that the positive trends in recent years show that the Romanian economy, largely, adapt to market conditions.

In Romania, the government policies and measures should be aimed at improving the business environment, creating opportunities in the manufacturing sector, more competitive, especially those for exports.

The fact is that foreign investments are beneficial for any economy and therefore for the Romanian, as in countries where they found a favorable environment and were heavily involved, the rapid pace of economic growth and welfare have become essential feature in relation to negative.

Therefore, attracting them is the vital solution for the Romanian economy.

Remains a priority and increasing absorption in attracting external grants for projects, that will contribute to the development of the Romanian society.

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# OIL AS POLITICAL WEAPON

Mariana, Buican<sup>1</sup>

## **Abstract:**

*Oil (called by some black gold) has not always been as coveted and used, but only in the last hundred years has established itself as a highly sought after as an indispensable proper functioning of modern economic activity that an important factor in international politics.*

*International oil regime has changed in the last decades. In 1960, oil regime was a private oligopol which had links with governments main consuming countries.*

*By then the price of a barrel of oil was two U.S. dollars and seven major transnational oil companies decided the amount of oil that will be produced. Meanwhile the world region with the largest oil exports were more strongly expressed nationalism and decolonization.*

*Result, it was so in the late 60s in the region occur independent states. They have created an organization aim of this resource to their advantage - OPEC (Organization of Petroleum Exporting Countries).*

*Thus since 1973 there have been changes in the international regime governing oil field, namely producing countries were fixed production rate and price. After this time the oil weapon has become increasingly important in the management of international relations.*

*Oil influenced the great powers to Middle East conflicts that occurred in the last century, but their attitude about the emergence of new sources of oil outside OPEC. In the late 90's, Russia has become a major supplier of oil to the West.*

*Today when the economic interdependencies increasingly manifest, oil continues to play an important role in the system of international relations.*

**Key words:** *oil feedstock, a political weapon, energy security.*

## **Introduction**

The oil or petroleum (named the black gold) has not been as coveted and used all the time, but only in the last hundred years has imposed itself as highly sought after, as an indispensable element of modern business the proper functioning of and an important factor in international politics.

## **Oil as political weapon**

International oil production after the Second World War, was controlled by seven major transnational oil companies that were owned by Americans, British and French. They decided the amount of oil that would be produced, and its retail price.

Transnational companies were willing to keep the price low because they only produce crude oil and sells it to the main businesses in turn sold it to the world market price, ie the price of U.S. high.

In this way the companies were making large profits, while producing countries had to settle for very low fees. For example American company Exxon, decided on two occasions in February 1959 and August 1960, by unilaterally and without consulting anyone, to reduce the price of crude oil.

Decisions were motivated by the influx of Russian, Libyan and Algerian oil threatening to disturb the market. So that, the development of the producing countries was blocked. (Jacques de Launay, Jean-Michel Charlier, 1989).

These decisions led to the creation of the Organization of Petroleum Exporting Countries (OPEC) in September 1960 in Baghdad.

After 1973 there has been a major change in the international regime governing oil field. By then the major powers in the international system, occasionally intervened to keep the system running.

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For example, in 1953 a nationalist movement was in Iran, whereby the Prime Minister decided to nationalise Iranian oil. At the same time, a removal action started the ruling Shah. United Kingdom intervenes indirectly in this action, so that the Labourite Party has banned AIOC Company longer pay royalties Iranians, even those they owe and suppresses and suppresses exchange benefits they provide Iran, which led to the outbreak a crisis of currencies. In fact British have offered to provide the Iranians a third of royalties instead of a fifth while on Teheran streets people spoke only a fifty percents.

Immediately Prime Minister created the National Iranian Oil Company (NIOC), which had to replace the English (AIOC), but English staff went on strike refusing to work for the Iranians.

On July 5th 1953, The Court of The Hague announced by AIOC gave a provisory verdict: the exploitation should continue with English personnel up to settlement. Two days later Prime Minister Mossadegh announced withdrawal from The Hague Conventions.

In these circumstances the U.S. President Truman intervened to unblock conflict.

After long talks in 1954 an agreement was signed which stipulated inter alia that all oil facilities becoming property of Iranian and oil export had to do by British Company AIOC.

Another example is from 1967, when Egyptian president Nasser closed port of Akaba between Saudi Arabia and Sinai peninsula for ship carrying goods including oil for Israel. The reasons for this action were related to the existence of the Hebrew state in area and Palestinian refugees' issues. In this circumstances the oil were seen a political weapon by Egyptians. Immediately, Israeli Army attacked Egyptian airfields destroying aircrafts and tanks.

This conflict is known as „The seven days war”, ended with a successful Hebrew.

Nasser immediately launched a call for oil embargo on Israel and its friends countries. OPEC agreed with this. Western countries have found a solution that non-Arab countries to produce more. This reality is the further fact that Jordan has abandoned Egyptian action. And the other producing countries in the region have shown weaknesses (Saudi Arabia, Kuwait, Iraq ) on the grounds that they found their territory Egyptian team that sabotaged oil wells.

Thus Egyptian embargo has no effect, because Iran has oil delivered Israel, Germany and Britain considered accomplices of the Jews, and they owned the stock for over 5 or 6 months. In fact, Libya and Algeria, loaded oil on German tankers to send to Europe. Regarding the Americans, they asked for deliveries to be made in Asia, and for their own needs sourced from Venezuela or North Africa.

In the early 70s the role of great powers in the Middle East began to change, and scientists have more explanations.

One is about the relationship between American and British powers that affected the balance of power in the Persian Gulf. When OPEC was created, and in the period before United Kingdom was considered policeman Persian Gulf and the early 70's it was going through a period of economic problems. Therefore the United Kingdom government tried to reduce the increasingly international commitments. Some compare this to 1947, when United Kingdom was unable to maintain its role as major power in the Eastern Mediterranean. At that time the United States intervened to help Greece and Turkey, and formulated the Truman Doctrine. But in 1971, the United States were not in a position to intervene to replace Britain as they did in 1947. The United States were involved in the Vietnam War, and no longer able to take another military role in the Persian Gulf. Following President Nixon and Henry Kissinger security advisor devised a strategy which relied heavily on American regional powers. Iran zonal leader was seen by that they thought they could replace British police left the area.

Another explanation is related to changes in oil production in the United States. For a long time this country was the largest oil producer in the world, but U.S. production peaked in 1971. U.S. imports started to increase thereafter.

During the Middle East conflicts in 1956 and 1967, the Arab countries tried to impose an oil embargo, but their efforts were thwarted because the United States produces enough oil to supply Europe when he was interrupted by the Arab countries. Thereafter, the United States could no longer keep in balance the market, the role fell the task of Saudi Arabia and Iran.

A third explanation is the fact that during the 60's in the area manifested a phenomenon where multinational corporations have gradually lost power. When a corporation enters into a country rich in resources, it comes with large investments. At first this is beneficial for poor country even if it receives a small percentage of profit resource exploitation, as in time corporations unwittingly resources and technology transfer to the country of adoption. They also train local people, teaches them how to manage oil fields, pumping stations and loading terminals. Local residents improve their knowledge of marketing, etc.

With time resource rich state desires a more equitable distribution of profits. Under these conditions even corporations threaten withdrawal, poor country no longer feels vulnerable because it is able to manage the business itself. So while multinational power, especially in commodity transactions diminishes on the host country.

At the same time with other large companies have entered less who began to wrap their transactions oil producing countries. Thus, when producing country wanted to drop the large corporations may enter into transactions with them. (Joseph S. Nye, Deciphering international conflicts, pp. 193-194).

Oil producing countries began to worry more and more control over that material, so in turn they began to nationalize this resource: Iran a nationalized since 1954 , Algeria did so on 24 February 1971, in the proportion of 51 % , and Iraq 100 % , and Saudi Arabia and Kuwait Qatar in successive stages from 25 % in 1973 to 51 % in 1982. In 1973 Libya has done the same, the entire capital gain such status has been integrated into the Libyan National Oil Corporation, which thus became the owner of two-thirds of Libyan oil.

From an institutional perspective in this period an increase in the role of OPEC as a cartel in the oil. Cartels work better when there is shortage of oil, but they are surplus, people want to sell their production and tend to reduce the price set by the cartel.

At first OPEC had trouble exercising authority as it was quite oil. As long as oil was surplus producing countries tended to cheat in order to grab a larger share of the market. OPEC failed thus impose financial discipline it, since it was founded in 1960, and early 70s. But when the low bid, OPEC role in coordinating power trading increased.

The 1973 Middle East war spurred OPEC.

Arab countries have called on Israel to evacuate the territories occupied in 1967, as planned at the end of the conflict. The Israelis have refused to do so, citing the United Nations Declaration 242, but a fact that this ambiguity was not saying that the Israelis had to withdraw from the Occupied Territories, but from Occupied Territory , which could mean as well the all occupied territories (Arabic interpretation, Soviet and French), or from some occupied territories ( Israeli and American interpretation).

In early September 1973, around Egypt has been an Arab reconciliation. Saddat Egyptian head of state received the sovereigns of Saudi Arabia, Kuwait and Qatar, and President Assad of Syria and President Gaddafi of Libya, also visited Egypt and King Hussein of Jordan.

In these circumstances the Israeli-Arab conflict broke (6 to 24 October 1973) immediately OPEC member states have decided to cut production by 5% per month until Israeli withdrawal from the occupied territories. On the same occasion, and prices increased.

The Arab oil turned into a political weapon, they put an embargo on all supplies to its allies with Israel: U.S., Netherlands, Portugal and South Africa.

This has been a shock to Western states that after the Second World War have continuously increased oil consumption of 773 million tons 530-2.

As I said Arab states have decided to turn oil into a weapon, so in a few months, from October 1973 to December 1974, the price of oil has increased fivefold.

In the medium term this shock resulted in the fact that crude oil price has increased more and more, so consuming countries have begun to act on their own to conclude bilateral agreements with OPEC countries.

Arab-Israeli war ended on November 11, 1973 by the signing of a ceasefire at km 101 on the Cairo-Suez road.

Israel won militarily, but Arab states have joined a political victory for the United States played a conciliatory role in regulating commitments Arab-Israeli conflict.

But oil weapon had no power to radically change U.S. foreign policy in an alliance with Israel to support the Arab cause.

Why this? The answer is related to U.S. relations with Saudi Arabia.

Saudi Arabia has become an important state in the oil market, and have large investments in the United States. If the Saudis would bring great damage the U.S. economy. They would harm their economic interests. In addition, the State was dependent on U.S. security. In the long term, the United States was the only country able to maintain a stable balance of power in the Persian Gulf region. Saudis know this, so they were careful how much can go with gun oil.

What was the role of labor as a source of power in the oil crisis of 1973? There was no military intervention by the great powers of the world. Moreover, Saudis benefits guarantee long-term security provided by the United States. Thus the force played an underground. There was an indirect link between interdependence and interdependence oil security. Force was too expensive to be used openly, but has played a role as power resource fund. (Joseph S. Nye, Deciphering international conflicts, 2005).

In the coming years more and more shares were in favor of OPEC producing countries.

OPEC met in Vienna in September 1975, and the radical organization (Libya, Iran and Algeria), requested a 20% price increase, but received only 10%. Follow consuming countries reduced their imports, while producing an average rate of 11% (17% Saudi, 20% Nigeria and Venezuela).

In December 1977, at Caracas held another meeting of OPEC member states, he decided a price freeze, thus maintaining the status quo.

At that time there was a slump in Western countries has affected the oil market. In May 1978, at Taif (Saudi), OPEC decided to explore new reality, to develop a common strategy that would be implemented in terms of production, this has turned to a special committee.

But they came contradictory news from Iran, where the Shah triggered a process of modernization of society. Opponents of this process were actually Shia clergy, who claimed that it was a work against faith. Criticism of these clergy became stronger when the state has expropriated lands, and they have been undertaken for the emancipation of Iranian women.

Since June 1963, the church's highest authority, Ayatollah Khomeini expressed views on land reform and the emancipation of women, which he criticizes. Things calmed down after the Ayatollah was expelled from the country. Disputes were rekindled in 1977, when the state decided to completely suppress subsidies clergy. Since that time the 11 000 mosques in the country were held jobs as state policy and the Shah was increasingly criticized. The opposition in the Jewish clergy throughout the country switch- riot actions of the authorities. Authorities declared martial law as a result of oil industry workers have introduced a general strike, after which production dropped from 5 million to 100 000 barrels per day. That while only state consumption was 700 000 barrels, so the oil industry was paralyzed.

On 3 January 1979, the Shah after he appointed a new Prime Minister, announced he was leaving the country for a short holiday actually has never returned to Iran by setting up an Islamic republic.



The area has sparked a rivalry between Iran and Iraq which has resulted in open conflict. Iraqi Army entered Iran, the main targets were oil refineries and tanker port Khorramshar near Abadan.

The question would be what triggered a conflict between the two Muslim states? One reason was the Islamic revolution that overthrew the shah of Iran. In fact in political and religious appearances pursuing economic aspects. During the Shah, Iran claimed the whole sea between Iran and Iraq (in the northern Persian Gulf at the mouth of the Tigris and Euphrates rivers).

Following a partial disruption of oil supplies of Iran and Iraq, but also a diplomatic rift between Iraq on one hand, and Syria, Libya, on the other hand, accused Iranian weapons supplies.

The oil market was in turmoil. Meanwhile Britain and Norway were prospecting in the North Sea, where they found oil, which was launched at a fairly high price \$ 15.85 a barrel. OPEC reaction was that every price increased at will.

In October 1980, Libya , Algeria and Nigeria, who claimed to have a better oil (less sulfur), put a barrel of crude oil price of \$ 26.27, others were more balanced expression: Iran - \$ 23.50, Iraq and Kuwait - \$ 22; Arabia - \$ 18.

The oil price has been impressive in the 17 months from December 1978 to May 1980, prices have increased by 120% in Saudi light oil with 140 % in other Gulf countries, Venezuela and Indonesia, with 160 % in Iran and 165 % in African countries.

Iran began to sell part of their production on the open market, the example was followed by other states. It foreshadowed danger of collapse in oil prices since autumn 1980 or later than the spring of 1981. (Jacques de Launay, Jean - Michel Charlier, 1989).

Under these conditions there was an OPEC meeting (June 1980) in Algiers, the representatives of the Member States decided: study indexing develop a plan based on the impact of global inflation, fluctuations in currencies strengths and development OPEC member states. Despite talks between the countries, the price was fixed at \$ 32, while in October 1981 in Vienna, OPEC increased to \$ 34 per barrel.

Following the oil shocks of the event, we can draw some conclusions:

- The oil companies have lost control of the global market;
- Have lost ownership of the land with fields in OPEC countries;
- Companies only had technical activities (production, transport, distribution);
- OPEC will continue to lead the market, despite the differences among Member States;
- oil consumption has doubled every 10 years at the end of World War until 1973;
- Policy measures have taken In Europe to use energy more efficiently. It was a law of general average fuel efficiency, so car manufacturers began to produce cars that still have lower fuel consumption.
- On the supply side, appeared outside OPEC oil resources, this having the effect of increasing competition on the world market;

After 1982, there is a reverse trend on the price of this raw material for several reasons: some economic, others need money to finance the economic or military, others to seize market etc.

During bipolarity, Middle East conflicts were short-lived, because each superpower supported its allies, then things have changed.

In 1990 in the Persian Gulf has sparked a new crisis when on August 2 Iraq invaded Kuwait. In fact Iraq has always claimed that the emirate of Kuwait is a creation of the colonialists and should not exist as a separate state. In 1961, after independence by Kuwait, Iraq attempted to take over this country, but Britain opposed. The crisis of 1990 was based on economic reasons primarily because Iraq was in trouble because of the period of conflict with the Iranians. He had a foreign debt of 80 billion dollars, which grew by 10 billion annually. Meanwhile, the border is an important financial source, Kuwait, with large oil resources and low population. Iraq also claimed that last OPEC agreement to reduce the price of a barrel of

oil, it costs a billion dollars a year. The annexation of Kuwait seemed a solution to the economic problems of the Iraqi state. Saddam Hussein, said that given the location of Kuwaiti deposits, it extracts and actually sell Iraqi oil. Therefore conquest emirate could result in a drop in economic output and therefore higher prices, so an increase in revenue.

Iraq has made several mistakes, including one that covers relations with the United States. With the Islamic revolution in Iran, Americans have lost an important ally in the region, so turned to Saddam Hussein. It was known that this is based on the Soviet Union, and since has acquired supreme power in 1979, the country imposed a bloody dictatorship. But that wage war against Iran, which silence monarchies of the Arabian Peninsula and agreed western states. The two states perturbing, the Middle East neutralize each other. Therefore Saddam Hussein, believes it will be left to act of his own.

Things did not go in this direction, however, the United States did immediately call the UN. After annexation, Saudi Arabia an ally of the Americans in the area feel threatened, which aggravated the instability in the region. Therefore Security Council adopted Resolution 660, which called for the immediate withdrawal of Iraqi troops. A coalition of States was formed against Iraq. Thus, on August 10 Saddam Hussein launched the Arab states a call to holy war, but had no results.

Meanwhile, the Security Council adopted resolutions above resolutions. The number 661 of August 6 provide stopping all commercial transactions with Iraq, including oil imports. Resolution 662 of August 9 declare null and void the annexation of Kuwait, following established maritime blockade. Resolution 678 of November 29, Iraq launched an ultimatum: if by January 15 shall not apply to previous resolutions, all necessary means will be used against him.

War broke out on January 17, 1991, Operation Desert Storm. On February 26, Saddam Hussein announced that he would withdraw troops from Kuwait and accept UN resolutions.

Why the United States and other countries answered this way? One answer would be when the oil. Oil exports have made this region an important one. Another answer would be that the conflict was a preventive great powers and realized that Iraq develop a nuclear weapons program, if in addition she possesses and Kuwaiti oil revenues, it will become stronger. Some experts said that if all will be no conflict, better then than later. Technological developments have made to reach oil geologists that arrived before it was impossible.

In the late 90's, Russia has become a major supplier of oil to the West. Oil and gas are now pillars of economic growth for the state.

Other states will influence the future energy markets such as China and India. The two have a population of large, growing quite rapidly, so will increase their demand for energy, because it modernized and industrialized. China has large reserves of coal and natural gas in Xinjiang province in the west of the country, however, will depend increasingly on oil imports to meet domestic needs.

The United States will likely continue to rely on oil imports to meet their energy needs, and this means that large oil producing regions such as the Persian Gulf, will play a key role in geopolitics.

Despite the emergence of new sources, such as Russia, experts anticipate that Saudi Arabia and its neighbors will meet two-thirds of global demand continues. As a major producer of oil, any regime change in Saudi Arabia, will have an effect on the oil market.

Worldwide distribution of natural energy resources is uneven. We speak more than one energy diplomacy. It has become a foreign policy priority in all Chancellery and security experts and analysts take into account.

Great actors of the world (U.S., China, Japan) were drawn of national energy security strategy.

China, for example, speaks of the need for more and more use in developing their relations with African and Latin American concept of energy diplomacy. China believes that its energy security in the years to learn the three variables: economic growth, energy security

and environmental protection. Japan has adopted a strategy focused on two strategic axes, one of which relates to maintaining acceptable price of oil on the world market. (Constantin Hlihor, Security policy in the contemporary international: Energy, 2008).

In recent years put more problems securing the oil fields because of the conflicts that occur in areas where some fields there. In fact many of them derive from the existence of these resources. For example: the conflict in East Timor, Aceh province in Indonesia, Russia's breakaway republic Chechnya conflict not to lose control of a major energy corridor linking Central Asia to the West.

All this shows that the problem of securing energy resources is no longer a peripheral on the agenda of governments, and increasingly in the coming years it is claimed that the U.S. military will increasingly turn into a Global Oil -Protection Service.

More and more NATO official believes that the organization should be involved in addressing energy security missions of the Member States. Therefore the last Strategic Concept adopted in Lisbon in December Organization 2010 expressly provides that NATO wants to contribute to energy security, including the protection of energy infrastructure and transit areas and major routes.

While raw materials are less essential than the computer was industrial economies, oil still matters.

### **Conclusion**

Energy has become a highly disputed geopolitical field after the big oil shocks of the last century, but also an important factor in assessing the security state of contemporary society both domestically and internationally. For the first time in the human history, the energy divided political space in friends and enemies, and oil replaced with more success the conventional weapons in confrontation between states and other type of the actors in the international arena. These aspects have fundamentally modified traditional relationships of the market. In this circumstances, consumers and energy suppliers are not longer solely to the rules and principles of market economy, but also in political understandings/constraints. For this, energy security become today a priority for all actors on the international arena, but especially for those with poor energy resources. Therefore they need to develop elastic security strategy, able to adapt quickly to the global and even local changes. They must be aware of the threats against them in an effort to secure from energy point of view.

The scientists consider that the development of efficient and credible security policy, the first step would be to design the scenarios as tools to anticipate and identify potential developments in this type of security.

Today no state, irrespective of its economic power, it can't built an effective security policy based only on its own resources and considering only internal developments.

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# NEW DOMINANT ECONOMIC LOGIC AND ITS IMPACT ON EUROPEAN LEVEL. AN ECONOMETRIC APPROACH

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**Abstract:** *The world is changing; a new dominant economic logic appears. What we can see now is that this change doesn't seem to come from economic leaders, it comes from emergent economies like BRICS Group or the "4 Asian Tigers". The European Union economic links with those groups are more and more obvious, so this thesis wants to be an analysis of how those dominant logical changes influence the European Union economy. In this way, we made an analysis of statistic dates and an econometric analysis using multiple regressions.*

*The research results are that turbulences on the world great economic market, - like it was expected - have repercussions on the economic development of the European Union, but with a good strategy and politics this could stay in the ranking of the great economic powers in the future.*

**Keywords:** *the dominant economic logic, economic integration, economic development, an econometric model, macroeconomic indicators*

**JEL Classification:** F1, F15

## I. Introduction

At the present moment, the whole world desperately seeking a change, whether it's social, economic, political, ecological, etc. The progress of humanity was felt on all levels, demographic developments, either in our planet and home to a population of more than 7 billion people whose life expectancy has increased over past centuries, whether we speak of technology where inventions and innovations have been a real momentum, whether it's about the economic field where it was found that globally the middle class is more significant than ever and that certain countries which have so far stayed hidden in a shadow Cone, being regarded as poor, have failed to show his true potential, and examples of this can continue.

The crisis that struck humanity at all of these levels has not done anything other than to be like an alarm clock to wake theorists and specialists (practitioners) and to realize that the economic models and policy tools, as well as their manner of use must adapt to these changes occurring in the global economic and financial system.

If a few years ago, the dominant economic logic was divided between the band and the Keynesian-classical Keynesian (i.e. a combination of Macroeconomics of Keynes and neoclassical microeconomics for represented by specialists as Hicks, Samuelson, etc.), development of economy took shape through extrapolation, and sometimes criticizing clasico-Keynesian synthesis, thus putting into question the fundamental macroeconomics aspects such as: structural surplus of labor supply; the wide divergence between the prices set out on the market and social costs; the role of institutions in shaping behaviors; the importance of continuity and phase imbalance in the growth process; effects of asymmetrical development in the context of international specialization, etc.

We are thus in generic words, in a change of capitalism. Following this statements is born an inherent question "what lessons we failed to learn from the crisis that has rocked the foundations of humanity?". In our view, as well as many specialists in this area, including Stiglitz, is that markets have proven to be unstable and ineffective by some one.

It was seen as quite clearly that the world should not be seen through a simple point of view like capitalism versus socialism, and that the current model of capitalism that has suffered some changes towards theory, transforming the economic reality of our day in a jungle of business, in a society where winners take all, contrary to democratic principles. Therefore, the

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new model of capitalism has primarily need ethical spirit of Adam Smith reiterated (2006) or Max Weber who had put in relationship capitalism with the Protestant ethic.

The new logic in this sense must recognize a planetary type organized economy into a system on several levels. Must contain in addition to the principles of social justice and equity and those related to human interference and preservation of nature, because the first two categories are no longer enough. These new principles should be applied, for a correct operation of the new model, both at the level of national savings, and at the level of international economies.

The impact of these economic logic of dominant shimbări was felt and at European Union level, which we wanted to analyze it in the present study. In this respect, we started from the analysis of three major macroeconomic indicators, namely, the real growth rate of gross domestic product in the Euro area, flows of foreign direct investment as share of GDP and the growth rate of the population employed in the Euro area.

## II. Methodology

As research methods in this study, we used both statistical methods of data analysis and econometric methods, i.e. multiple regression method. Technological platforms are Microsoft Office Excel and Eviews. Microsoft Excel has helped in the formation of the database, while the Eviews platform was used to test the model and making predictions.

## III. The impact of the new dominant economical logic on EU-27 economy, more specifically on the Euro area

The period chosen for this endeavour is located between 1996 and 2010. This includes both years before the introduction of the single currency, but also years during the current crisis facing the entire planet.

Symbol	Semnification	The nature of the variable
pib_ze	Real growth rate of gross domestic product in the Euro area (%)	Endogenous variable (criterion)
isd_ze	The growth rate of foreign direct investment in the Euro area (%)	Exogenous variable (predictor)
pop_ocup_ze	The growth rate of the occupied population in the Euro area (%)	Exogenous variable (predictor)
$a_1, a_2, a_3$	Econometrically determine coefficients	

**Table 1. Evolution of indicators between 1996 and 2010 (%)**

Year	pib_ze	isd_ze	pop_ocup_ze
1996	1,5	1,33	0,6
1997	2,6	1,42	0,9
1998	2,8	2,75	1,9
1999	2,9	6,72	1,9
2000	3,8	11,62	2,5
2001	2	5,75	1,4
2002	0,9	5,31	0,7
2003	0,7	3,59	0,5
2004	2,2	2,04	0,8
2005	1,7	4,35	1
2006	3,3	3,96	1,6
2007	3	6,62	1,7
2008	0,4	2,92	0,8
2009	-4,3	3,37	-1,8
2010	1,9	2,72	-0,5

Source: Table drawn up by the authors based on data taken from [www.eurostat.eu](http://www.eurostat.eu)

Analyzing the evolution of gross domestic product in the Euro area in the period from 1996 to 2010, it is observed that in the year 2000, it reached a peak, reaching a growth rate of 3.8 percent. A similar increase was felt in 2006, reaching a value of 3.3%. Perhaps this trend upward in 2006 would have continued if not break out in 2007 and began to propagate the global financial crisis. It is noted that these shocks on the international markets have produced a major change to this trend, as the minimum to be achieved in 2009, when he had a value of 4.3%. Measures to combat the negative effects of the crisis, managed in 2010 that the real growth rate of gross domestic product in the Euro Area to take back positive values, with 1.9 percent.

In terms of foreign direct investment in the Euro area, it is noted that they have been positive throughout the period of reference. The peak of these investments was reached in 2000 when their growth rate was at 11,62%. After this year, this indicator has seen a significant increase in 2007, exactly at the beginning of the crisis. Minimum point was in 1996, only 1.33%.

Another indicator taken into account and which has a major influence on the endogenous variable is the rate of increase in employment in the Euro area.

Note that for this indicator, the maximum was reached in 2000 when he recorded a value of 2.5%, and the minimum was reached in 2009, with a value of -1.8%.

Identification of regression function is carried out with the help of graphic of variable  $pib\_ze$  depending on the other two variables,  $isd\_ze$ , respectively  $pop\_ocup\_ze$ .

Analyzing the graphs noted that the link between  $pib\_ze$  and  $isd\_ze$ , respectively  $pib\_ze$  and  $pop\_ocup\_ze$  can be approximated by a straight line. Thus, the model chosen is a multifactorial, because being correlated with linear  $pib\_ze$   $isd\_ze$ , the  $pop\_ocup\_ze$  is available, and it will be easily correlated linearly and in relation to both factors.

Further we realized the estimate model parameters. For this we turned to the least-squares Method applied in Eviews, which requires the following calculation: getting the system of equations by calculating the partial derivatives with respect to the parameters of the model.

$$F(a_1, a_2, a_3) = \min \Sigma(pib\_ze - a_1 - a_2 * isd\_ze - a_3 * pop\_ocup\_ze) \quad (1)$$

After estimating equation we obtained the following results:

Dependent Variable: PIB\_ZE  
Method: Least Squares  
Date: 03/06/12 Time: 12:36  
Sample: 1996 2010  
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ISD_ZE	-0.142968	0.116482	-1.227383	0.2432
POP_OCUP_ZE	1.781048	0.293636	6.065503	0.0001
C	0.645497	0.491528	1.313246	0.2137
R-squared	0.780217	Mean dependent var		1.693333
Adjusted R-squared	0.743587	S.D. dependent var		1.924825
S.E. of regression	0.974678	Akaike info criterion		2.963438
Sum squared resid	11.39998	Schwarz criterion		3.105048
Log likelihood	-19.22579	F-statistic		21.29970
Durbin-Watson stat	1.863813	Prob(F-statistic)		0.000113

$a_1 = 0,645497$        $\sigma_{a1} = 0,491528$       Prob. = 0,2137 > 0.05 => accept  $H_0$   
 $a_2 = -0.142968$        $\sigma_{a2} = 0.116482$       Prob. = 0.2432 > 0.05 => accept  $H_0$   
 $a_3 = 1.781048$        $\sigma_{a3} = 0.293636$       Prob. = 0.0001 < 0.05 => accept  $H_1$   
 $\sigma_{et} = 0.974678$

Estimators are significantly different from zero, with a threshold of significance  $\alpha$  if it check the following relationships:

$$\frac{\hat{a}_1}{\sigma_{a1}} > t_{\text{calc.}}; \frac{\hat{a}_2}{\sigma_{a2}} > t_{\text{calc.}}; \frac{\hat{a}_3}{\sigma_{a3}} > t_{\text{calc.}}$$

Having all the data above and working at a threshold of significance  $\alpha = 0.05$ , the t-student distribution value for t, n-k-1, meaning  $t_{0,025; 12} = 2,179$ .

Thus, by comparing the results that we obtain for the  $a_1$ ,  $t_{\text{calc.}} = 1,3132$ , so it is smaller than the  $t_{\text{tab}}$ , from which it follows that the null hypothesis is accepted, so there is no free time estimator significantly different from zero.

We have that for  $a_2$ ,  $t_{\text{calc.}} = -1,227383$ , less than the value of the  $t_{\text{tab}}$ , so any estimator this parameter do not differ significantly from zero.

For  $a_3$ , its value  $t_{\text{calc.}} = 6,065503$ , greater than the value of the  $t_{\text{tab}}$ 's estimator, so this parameter is significantly different from zero.

These considerations were the results of the analysis carried out on a number of 15 observations. Due to the fact that I am counting on the assumption that the normal distribution is an estimation around the true value, the model obtained should be tested.

Test "t" has led to the conclusion that the  $a_2$  is not significant, being very close to zero, so the "foreign direct investment" was not too well chosen as the factor of influence of gross domestic product, having an indirect influence on them, while the  $a_3$  differ significantly from zero, so the population factor "occupied a determining influence on the gross domestic product.

To verify the model's verisimilitude we applied in Excel the ANOVAs and Regression tests, with the following results:

<i>Regression Statistics</i>	
Multiple R	0,88329915
R Square	0,78021738
Adjusted R Square	0,74358694
Standard Error	0,97467849
Observations	15

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	40,46935534	20,23467767	21,29970182	0,000112709
Residual	12	11,399978	0,949998166		
Total	14	51,86933333			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0,64549713	0,491527851	1,313246301	0,213657056	-0,425450054	1,716444317
X Variable 1	-0,1429677	0,116481739	-1,22738286	0,243212884	-0,396759596	0,110824217
X Variable 2	1,78104786	0,293635662	6,065502537	5,62395E-05	1,141270708	2,420825003

It is noted that the report of multiple correlation (Multiple R) is 0,88329915 and show a very strong link between the variables. Determination coefficient  $R^2$  (R-squared) has the value 0,78021738. It is expressed as a percentage (78%) and shows how dependent variable of the variance is explained by the estimated equation. The closer to 1 (100%), the proportion of the variation explained his  $pib\_ze$  is higher and so the link between variable intensity is stronger.

To test the validity of the model took into account the two hypotheses:

$H_0$ : the model is invalid

$H_1$ : valid pattern

How we have  $F_{\text{calc.}}$ , i.e.  $F_{\text{statistic}} = 21,29$ , and  $F_{\text{tabelar}}$ , in our case  $F_{05; 2; 12} = 3,885$ , so  $F_{\text{calc.}} > F_{\text{tab.}}$ , it appears that the model chosen is a valid one, and parameters are relevant for the model, the function being well chosen.

In the analysis of autocorrelation of residual variables the most commonly used test is the Durbin-Watson. Assumptions of this test are:

$H_0: \rho = 0$ , so there is no residue series-level autocorrelation

$H_1: \rho \neq 0$ , so there is the autocorrelation

Analyzing out-put of Eviews we noted that the DW statistic of the model chosen by us is 1.86. Critical values of statistics depends on the number of exogenous variables within the model (2), the number of observations (15) and the threshold of significance chosen (0.05). Breakpoints include tables for items specified as a pair of values d1 and d2, d1= 0.95 and d2 = 1.54. Note that DW belongs to the range (d2, 4-d2), which is why it can be asserted that there is no autocorrelation of error, so it is acceptable to the hypothesis  $H_0$ .

To test the heteroskedasticity test we applied White (cross terms).

White Heteroskedasticity Test:

F-statistic	1.599546	Probability	0.254373
Obs*R-squared	7.057764	Probability	0.216380

Test Equation:  
Dependent Variable: RESID^2  
Method: Least Squares  
Date: 03/06/12 Time: 12:43  
Sample: 1996 2010  
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.016804	1.832071	2.192494	0.0560
ISD_ZE	0.022519	0.553055	0.040718	0.9684
ISD_ZE^2	-0.210301	0.138511	-1.518297	0.1633
ISD_ZE*POP_OCUP...	1.309933	0.744812	1.758744	0.1125
POP_OCUP_ZE	-5.199660	2.498779	-2.080881	0.0672
POP_OCUP_ZE^2	-0.169761	0.365205	-0.464837	0.6531
R-squared	0.470518	Mean dependent var	0.759999	
Adjusted R-squared	0.176361	S.D. dependent var	1.652047	
S.E. of regression	1.499308	Akaike info criterion	3.937059	
Sum squared resid	20.23133	Schwarz criterion	4.220279	
Log likelihood	-23.52795	F-statistic	1.599546	
Durbin-Watson stat	1.885073	Prob(F-statistic)	0.254373	

It is defined for the following assumptions:

$H_0$ : the model is homoskedastic

$H_1$ : model is heteroskedastic

Test statistic:  $W = n * R\text{-squared} = 15 * 0.470518 = 7.05777$

The critical value of statistics depends on the number of parameters that appear in the application of White test (6) and significance level chosen (0.05). So, we'll determine the  $\chi^2$  distribution for 6 degrees of freedom and  $\alpha = 0.05$ , the critical value of 12,592. Note that comparing values we noted that  $W < 12,592$ , which means that the null hypothesis is accepted, and the model chosen is homoskedastic.

To test for the existence of multicollinearity we defined the assumptions:

$H_0: r_{x1/x2}^2 < R\text{-squared}$ , model does not present the phenomenon of multicollinearity

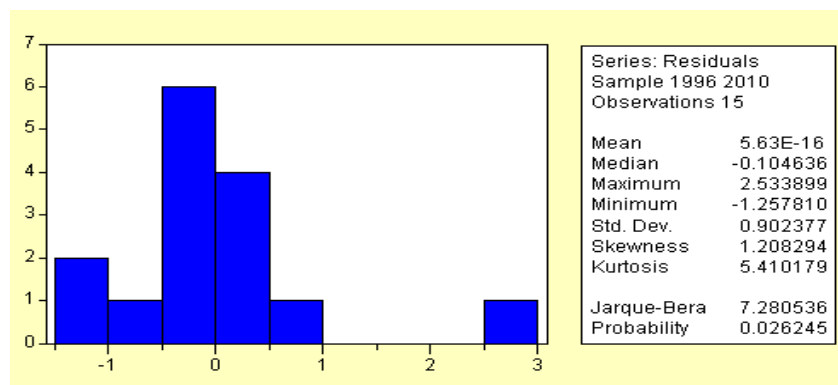
$H_1: r_{x1/x2}^2 > R\text{-squared}$ , it is suspected the presence of multicollinearity in the model

To verify the existence of the multicollinearity we applied the Klein test. So, we calculated the matrix coefficients of the linear correlation as explanatory variables, from which we extract the value  $r_{x1/x2} = 0.537449$ . Since  $r_{2x1/x2} = 0.28885 < R\text{-squared} = 0.780217$  one can say that the phenomenon of multicollinearity is not present in the regression model.

Correlation Matrix					
	PIB_ZE	ISD_ZE	POP_OCUP...		
PIB_ZE	1.000000	0.326182	0.867540		
ISD_ZE	0.326182	1.000000	0.537449		
POP_OCUP...	0.867540	0.537449	1.000000		

Testing of the normality we did it with the help of histogram.





We took into account the two hypotheses:

$H_0$ : Skewness = 0, Kurtosis = 3, so the distribution is normal

$H_1$ : the distribution is not normal

In the analysis we present that the distribution is asymmetrical, one oriented towards positive values (Skewness = 1.2), with a flattening of 5.4. Also, the Jarque-Bera shows a value of  $7.28 > 0.05$  therefore we accept the assumption that the errors are not normally distributed.

#### IV. Results

Following this econometric tests it has been observed that the term has coefficient 0,645497 free. The term free means that point of explanatory variables are 0. Since  $t = 1$ , the probability is 0,21 and threshold of significance is 0.05, it means that the coefficient is insignificant. Moreover, the fact that the lower limit of the confidence interval ( $-0,42545 \leq a_1 \leq 1,716444$ ) for this parameter is negative, and the upper limit is positive, show that the parameter is null.

Coefficient  $a_2$  is - 0,142968, which means that an increase of foreign direct investments by 1%, the GDP will fall by 0.14%. Since  $t = -1,227$ , probability is 0,2432, and in particular the significance threshold is 0,05 it means that the coefficient is insignificant. Moreover, the fact that the lower limit of the confidence interval ( $-0,396759 \leq a_1 \leq 0,110824217$ ) for this parameter is negative, while the upper limit is positive, we indicate that the candidate is approximately zero.

The  $a_3$  being 1,781048, we show that the employment is in direct positive relationship with gross domestic product, i.e. an increase of 1% in the rate of employment in the Euro area, the gross domestic product of the region will increase by 1.78%. The fact that the candidate is significantly different from zero and is confirmed by the confidence interval ( $2,420825003 \leq a_1 \leq 1,41270708$ ) which has both the lower and upper limit, positive.

Overall, the period taken into account it is noted that between gross domestic product and foreign direct investment in the region considered there was a reverse negative relationship. As I mentioned at the beginning of this review, in economic theory is noted that foreign direct investment would have positive effects on the economy of the region. However, there are cases, like the one described above, in which foreign direct investment may have an opposite effect on the economy of the region. Although foreign direct investment raises the productivity of investment and consumption, they may also decrease the economy due to the improper allocation of prices or biases of resources. Another cause which could determine this relationship negative would be that the output of the Euro area investment exceeds the level entries. It should also be borne in mind that the analysis is composed of 17 different countries with economies. Another important factor is that in the Euro area employment growth rate of population is quite low (some Euro area countries confronted with high unemployment) so that there is a lack of human capital, so the effect of FDI on the gross domestic product is negative.

## V. Conclusions

Based on the data analyzed in this paper, we can conclude that in the Euro area in particular and in the European Union, in general, are obvious changes of dominant economic logic, the occurrence of a new capitalism. Although the data taken into account in this analysis stop at 2010 for the last two years things have not evolved in a surprising way. They have seen small fluctuations, but unfortunately asymmetric shocks in the world still have the power to take their toll. The measures taken by Brussels in this respect, in our opinion, are quite slender, but centered on the nucleus of the problem itself. If the policies and strategies being implemented at EU level and that the eurozone would focus more on the real issues facing Member countries and less on the struggle for power, then things would take a normal path towards economic and social development.

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# THE EUROPEAN UNION EXPOSED TO THE RISK OF THE SOVEREIGN DEBT CRISIS. CASE STUDY: SPAIN AND PORTUGAL

Ioana-Iulica, Mihai<sup>1</sup>

## Abstract:

*The global economic crisis, intensely debated, started almost six years ago, subjected the EU to new resistance tests because of the macroeconomic imbalances in the Euro Zone, generated by the increase of sovereign debts, especially in the PIIGS countries (Portugal, Ireland, Italy, Greece, Spain). The situation has degenerated because of the lack of legal leverages through which the member countries should be forced to correct the fiscal imbalances and to meet the macroeconomic convergence criteria imposed. The Treaty on Fiscal Governance in the EU, signed on 2 March 2012, appears to be the key to the macroeconomic recovery in the Euro Zone, due to the more severe budgetary discipline it imposes.*

*This paper, by means of deductive analysis and causal explanations, outlines the current economic situation of the Euro Zone, under the impact of the member countries' sovereign debt crisis, focusing on Spain and Portugal. In addition to reliable statistics, the paper also presents the EU's economic recovery strategy that anticipates its future. Unfortunately, the perspective of the Euro Zone is still in a fairly high degree of uncertainty, strongly influenced by the economic development of the member countries and by solving the problems they face. Spain and Portugal are the actual example.*

**Key words:** EU; economic crisis; GDP; sovereign debt

**JEL classification:** O1; O4

## 1. Introduction

The EU is going through a difficult period in which the effects of the sovereign debt crisis recorded by some countries of the Euro Zone are still affecting the EU's stability and economic growth. The main fault lies with the PIIGS countries (Portugal, Ireland, Italy, Greece, Spain), which have lost control over the sovereign debt ceiling and have submitted the EU's macroeconomic stability to a maximum risk since 2011. The EU leaders have recognised the risk of contamination for other countries as well, and also the lack of legal leverages through which the guilty countries are held responsible for the situation created. The idea of amending the Lisbon Treaty was heavily debated in order to establish a stricter budgetary discipline within the Euro zone member countries, for each country to be held responsible if it does not comply with the Stability Pact. More precisely, these states can be automatically sanctioned or be placed under the supervision of the European institutions. The talks resulted in the signing of the Treaty of fiscal governance, on 2 March 2012, by the Member States, except the United Kingdom and the Czech Republic. A year and a half after signing the treaty, the EU is still in economic recession. The Gross Domestic Product (GDP) in the Euro zone shrank by 0.50 % in the second quarter of 2013 as compared to the same period last year. The biggest GDP contraction occurred in March 2009, of 5.20 %, and the highest growth, of 5%, occurred in March 1995 (Trading Economics, 1). The data presented by Eurostat show a spectacular increase in the Euro zone governmental debt, which reached a historical high of 92.2 % of the GDP in the first quarter of 2013. The Euro zone remains a major player on the world economic stage, the second after the USA. The 17 member countries participate differently in making the GDP of the area and the largest contribution is made by Germany (26%), France (21%), Italy (16%) and Spain (11%). A study in the EU countries shows a downward trend of the composite annual index *Living Standards, Labour and Social Inclusion Index* for several European countries, including Spain and Portugal. This situation that we find in most European countries, can be partly explained by the economic-financial crisis, which occurred during the period under review

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(Dindire, 2012, pp. 28-34). There is no doubt that the high degree of synchronisation of the international crisis and the Euro Zone peculiarities affected the two economies and slowed down the pace of the economic recovery.

## 2. Spain

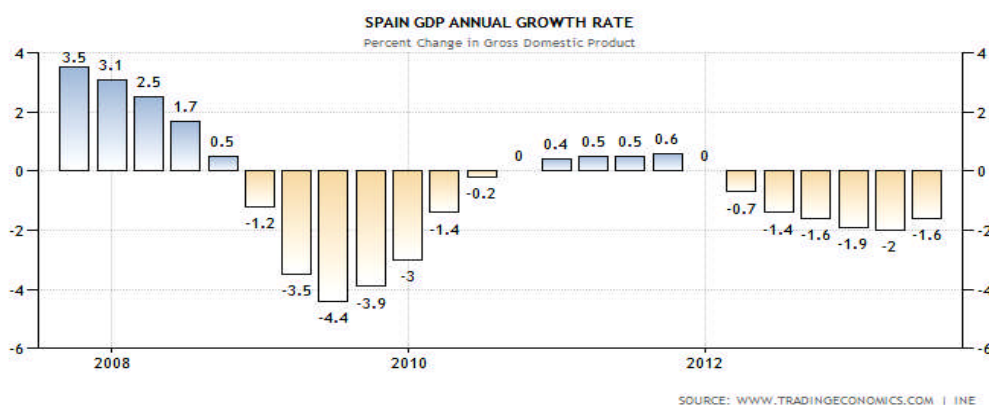
Since joining the EU (1986) to the start of the sovereign debt crisis, the Spanish economy has experienced rapid growth and diversification, the *engine* being *the foreign direct investments and the consumer demand* (Voicu I.I., Talmaciu I., 2012, p. 294). The domestic market dimension (46.2 million inhabitants) and the strategic positioning place Spain among the ideal destinations for starting international affairs. For this, the period 2010-2013 was marked by *extensive structural reforms* after the biggest economic downturn recorded in 2008-2010, considered by specialists unprecedented and which, unfortunately, continued in the subsequent years, including the first half of 2013. Basically, the economic boom recorded in the real estate and construction field, until the crisis, has pushed the country into a deeper recession than in many other European countries, considered of a *W type*.

### 2.1. The GDP evolution under the impact of the sovereign debt crisis

The current economic situation shows that the application of the broad governmental structural reforms process has not reached, not even by far, the expected results and the economy contracted markedly.

Spain has a large economy, strongly oriented towards services, the fourth in the Euro zone, with a strong and diversified manufacturing industry, with a GDP equivalent to more than 2% of the world economy. By sectors of activity, *the GDP has the following structure*: 73.6% services, 11.6 % industry, 9.3 % construction, 2.9 % energy, 2.6% agriculture, livestock, fisheries (Trading Economics, 2). Spain is *the third largest exporter of wine, fruits and vegetables*, one of the biggest tourist destinations in the world and the second European one, after France. *The foreign trade* records deficits, being strongly oriented towards the EU: 70 % of exports and 59 % of imports.

Table no. 1



In the period 1996-2013 Spain's GDP grew at an average annual rate of 2.25 %, with a peak of 5.8 % in March 2000 and with the largest decrease in June 2009 of 4.40 %. The effects of the crisis affected the Spanish economy, which continued to record a downward trend, including the first half of 2013. Thus, in the second half of this year, the GDP contracted by 1.6 % as compared to the same period of the previous year, the economy continuing to face serious structural problems.

## 2.2. The country with the highest unemployment rate in the EU

Since 2008 Spain was the country with the highest unemployment rate in the EU, in January 2012 it reached the level of 22.85% (Trading Economics, 3). Basically, in 2010 the unemployment rate in Spain was twice the average in the Euro zone (Global economic conjuncture, 2011, p. 76), and in December 2011 it exceeded twice the EU average (Global economic conjuncture, 2012, p. 95).

Table no. 2



Out of the total number of the unemployed, 40% are recorded as long term unemployed, and the youth unemployment has exceeded 46% (The Economist, 2011), indicator which has also increased on the overall OECD by 30%, but in Spain it has doubled as a percentage (The Economist, 2013). In the second quarter of 2013, the unemployment rate fell by nearly a point as compared to the first quarter, reaching 26.26 %. If in June 2007 this indicator recorded the lowest value, namely 7.95 %, in March 2013 it reached a record level of 27.20 %. The growing rate of unemployment and the payments of the subsequent benefit create major problems to the Spanish authorities.

## 2.3. Other issues with major economic implications

Moreover, the public debt has exceeded 60% of the GDP, the budgetary deficit, although declining as compared to the previous year, it was the third largest after that of Ireland and Greece, and the labour productivity continued to be below the EU average. Taxation in Spain is lower as compared to that of other EU countries, however, the fiscal consolidation appreciated by experts as crucial for enhancing trust among national officials and foreign investors contribute to the braking, on short term, of the economic recovery so necessary for generating new jobs (Global economy conjuncture, 2011, p. 84). For correcting the budgetary deficit, the current austerity measures focus on decreasing budget spending and increasing tax revenues from taxes, without violating the principle of proportionality. Basically, there must be a fair relation between the tax payers' ability to pay and the level of taxation.

The prognosis of the European Commission on the Spanish budgetary deficit for 2013 is of 6.3% of the GDP, but its level reached 6.5% in the first half of the year. Spain's commitment to correct this indicator by the end of 2014, when the level should not exceed 3% of the GDP, seems impossible to meet in the current context. The Standard & Poor's Financial Rating Agency estimates that Spain's economy will shrink by 1.5 % in 2013 and then it will recover slowly, reaching an increase of approximately 0.6% in 2014 (Capital.ro, 2013). Nevertheless, the public debt reached in June 2013 a new record level of 92.2% of the GDP, according to the figures released by the Central Bank of Spain, surpassing by 0.8 points the maximum ceiling set by the government, being by 15% higher

than the same period of the previous year. This leads to decreased investor confidence in the country's ability to pay its debts; it increases the cost of borrowings on the foreign markets and reduces the governmental bond yields. Estimates show that public debt could reach 100% of the GDP in the next three years.

#### 2.4. Conclusions

In this context, Spain's coming out of the crisis and economic recovery is a very difficult process, highly influenced by a number of **internal and external causes**, which make the country highly vulnerable in the coming years:

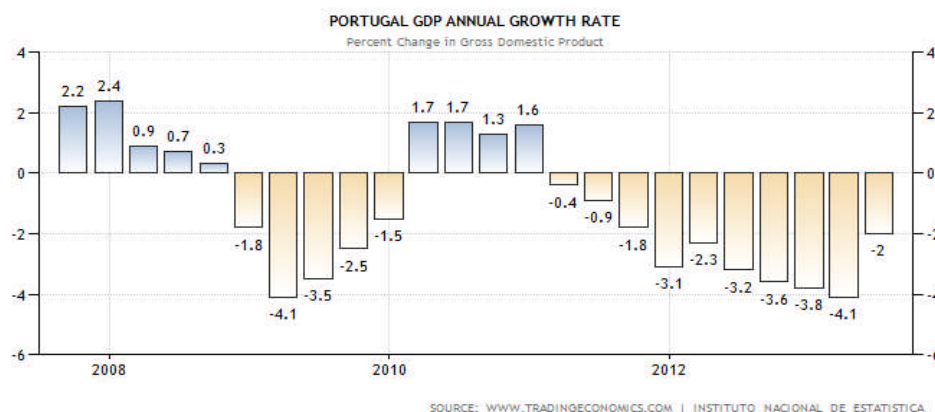
- Unemployment rate, which is out of control and came to unacceptable rates;
- Decrease of domestic consumption;
- Reduction of productive investment;
- Lack of strong levers for fiscal consolidation;
- Vulnerability of the financial-banking system, still exposed to risks generated by the real estate and construction sector;
- Decreased confidence of the population in the Euro currency and the rise in Euroscepticism;
- Growing budgetary deficit, unsustainable;
- Very high level of the public debt;
- Difficult access to crediting and refinancing of individuals and businesses;
- High cost of borrowings on the foreign markets;
- Foreign investors' decreased confidence in the Spanish economy as a result of the existing risks;
- Growing trade deficit as a result of the dependence on imports, especially on fuel and high value-added products;
- Increase of the world price per barrel of oil;
- The slowdown in the global economic growth because of the decrease in the volume of international trade.

### 3. Portugal

Portugal recorded in the past decade the slowest economic growth in the Euro zone, defined by an average annual rate of just 1%, because of some structural problems that persisted in the economy (Voicu I.I., Talmaciu I., 2012, p. 294). For this reason, Portugal has become extremely vulnerable to the effects generated by the global economic crisis, recording: high *budgetary deficit*, growing *public debt* and a very high rate of *unemployment*. Furthermore, Portugal is part of the PIIGS countries that have fuelled the growth of sovereign debt in the Euro zone, since 2008, thus generating large macroeconomic imbalances in the EU.

#### 3.1. Evolution of GDP in the context of the current economic crisis

Table no. 3





Portugal has become a diversified economy and increasingly based on services, after the accession to the EU (1986). The attraction of the *European funds* and *foreign capital* was the main basis through which the economic structure could modernise itself so quickly, and the industry could restructure itself. Over the past two decades, the successive governments have privatised many state-controlled firms and have liberalised the key areas of the economy, including the financial and telecommunications sectors. *The services sector* has experienced the fastest growth and diversification, participating with 74.5% to the GDP, out of which the trade, the restaurants and the hotel industry represents almost 20%. If in 2001, 35% of the active population worked in the tertiary sector, in 2011 the share was nearly of 63%. *The secondary sector* participates with 23.4% to the GDP and is dominated by the manufacturing industry, while *the primary sector* (agriculture, forestry and fishing) has reduced its weight in the past 10 years to 2.1 % of the GDP. Practically, Portugal's *GDP* increased during 1996-2013 with an average annual rate of 1.24%, in the context in which the average growth in the Euro zone was of 1.65%. Based on the economic crisis, in March 2009 the largest contraction in the GDP, of 4.10%, was recorded, and in December 1998 the largest increase up to date (5.6%). The downward trend of the GDP continued in the second quarter of 2013 when it fell by 2 % as compared to the same period of the previous year.

### 3.2. Unemployment - a high risk indicator

Table no. 4



The labour market recorded a deteriorating trend after the start of the global economic crisis, as in 2011, *the unemployment rate* reached the record level of 1998, of 12.9% of the total of the active population (Global economic conjuncture, 2012, p. 103). The situation has worsened steadily and in the first half of 2013 the unemployment reached the maximum historical level of 17.7%. Although in the second half of 2013 there was a slight decrease, up to 16.4%, this indicator remains at alarming levels, defining an extremely vulnerable labour market. Portugal is facing the highest level of unemployment in its history, ranked third in the EU, after Spain and Greece.

### 3.3. Other issues with economic implications

In 2011, although Portugal avoided the economic collapse by receiving financial aid from the EU and IMF, it entered a strong recession. The lenders have imposed nevertheless *strict conditionality* to the Portuguese government: reducing the budgetary deficit to 5.9% of the GDP in 2011, as compared to 8.6% in 2010 and to 3% of the GDP by 2013 (Global

economy conjuncture, 2011, p. 88). Heavily indebted, Portugal is under Troika demands and the austerity measures imposed have affected *the purchasing power* of the Portuguese and have generated *the decrease of the domestic demand*.

*Foreign trade* is highly deficient, orientated in an overwhelming percentage towards the EU (72%), the main partners being: Germany, Spain and France. The trade in services is in excess, tourism holds 50% of export, and for import and communications services, computer science and trade 35%. *The budgetary deficit* reached in December 2009 a historic high of 10.2% of the GDP and in 2012 it was of 6.4%. The representatives of the Portuguese government asked the international creditors to revise the budgetary deficit target for 2014 from 4% of the GDP to 4.5%. For 2013 the target is 5.5%.

Portugal has recorded *a growing public debt* from 93.3% of the GDP in 2010 to 123.6% in 2012. In the period 2011 - 2012 Portugal was downgraded by Moody's, Fitch and Standard & Poor's, becoming the "junk" country (high risk investments), that is to say subject to speculative investments, due to the high levels of sovereign debt and increased risks for the austerity programme established by the government. The international loan of 78 billion Euros from 2011 further requires extreme austerity measures for Portugal. The increase in working hours for civil servants from 35 to 40 hours per week was highly contested and currently the decrease by almost 10% of the civil servants' pensions, larger than 600 Euros per month, affects 300,000 people and has generated great controversy. This last measure alongside with others will reduce by over 1 billion Euros the 4.4-billion Euro deficit that the Pension Fund of the Portuguese civil servants currently holds. By the end of 2014 Portugal has pledged to reduce the public spending by 4.7 billion Euros and the imposed austerity measures have given rise to an endless string of protests of the workers, retired people and the unemployed.

### 3.4. Conclusions

Portugal still remains severely affected by the crisis and by *reducing taxation* for foreigners it was turned into a true tax haven for the private retired people of the EU. The real estates are 30% cheaper as compared to 2011, while banks provide loans on favourable terms to foreigners. Virtually, Portugal's economic recovery with the help of foreigners seems to become a strategic objective of the government. *The austerity measures package* imposed by the government has lead to *the decrease of the purchasing power, of consumption and of investment*.

The business representatives and those of the trade unions still remain sceptical about the economic recovery of the country and they think it will take extra financial help or even a sovereign debt restructuring programme. Most Portuguese are for the renegotiation of the International financial aid, implemented in the past two years, considering that the economic situation continued to worsen. As a result, Portugal could become the second country after Greece, which comes into economic collapse, the analysts considering that the tensions in the political arena have worsened the country's economic problems. For the following years, Portugal remains under the pressure of the following **internal and external causes** that hinder the economic recovery:

- Inconsistency in the economic and administrative reforms;
- Economic policy errors;
- Reduced financial credibility;
- Vulnerability of the financial-banking system;
- Deterioration of the public finances starting with 2009;
- Poor productivity;
- Decreased purchasing power, of the domestic consumption and of investment;
- Increase of unemployment – a rigid labour market;
- High costs of the pension system;



- Increase of the sovereign debt as a result of contracting the economy;
- High cost of borrowings on the foreign markets;
- Reducing the demand on the foreign markets – reducing the exports;
- Increasing the oil price and the dependence on imports.

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# THE ECONOMY-ENVIRONMENT INTERACTION IN NICHOLAS GEORGESCU-ROEGEN'S THEORY

Adina, Moise-Titei<sup>1</sup>

## Abstract:

*This paper presents some points of view concerning the impact of economic activity on the environment, society's behaviour connected to resources and its correction, the preservation of life support systems, durable development policies in Nicholas Georgescu-Roegen's theory. The great economist had tried to convince us that the problems we face are complex and serious - and we can't address them in the same way we created them. But the question is "Who wants to solve them and how?"*

*A possible solution is the sustainable development model, which is an attempt to combine growing concerns about a range of environmental issues with socio-economic issues. In the present context we believe that the sustainable development model is one capable to improve things and, therefore, we are convinced that by applying the principle of sustainability we will be able to pass on to human society a new mobilising paradigm dedicated to those who are willing to continue in this spirit.*

**Keywords:** sustainable development, environment, economy, theory

**JEL Classification:** O10, O44, B31

## 1. Introduction

I have considered that it is necessary to treat *Nicholas Georgescu Roegen's* theory differently for at least two reasons: the first one is that, unlike other economists, he addresses energy and natural resources issues in an original way and advocates their introduction in economic policies, and the second one is that the proposed solutions meet the challenges of sustainable development, in line with the topic of our research.

The economist adopts a radical attitude towards neoclassical economy, an economy built, in his opinion, on the "realm of wealth" which ignores the fact that certain needs are vital, while others correspond to convenience or luxury, which reduces the economic process to a mechanical and self-sustaining model, without paying due attention to natural resources. The supporters of this economy treat the earth factor only in Ricardo's view, without considering the allocation of natural resources over generations, which raises doubts about the survival of the human species. Moreover, they are content with believing that the market mechanism can solve any environmental crisis. The same arguments are brought against Marxist economists who treat the economic process "as a complete circular and autonomous ensemble."

## 2. The return to nature

Relying on solid arguments, *Roegen* shows us that „the economic process and the material environment influence each other permanently, generating history” (Georgescu-Roegen, 2006) and reduces the relation between to five main categories: the influx of ambient energy, the influx of matter, dissipated energy, dissipated matter and residue. The latter category includes elements such as fallen rocks or nuclear waste, which, although not necessarily completely dissipated, can no longer be used in the economic circuit.

Man has always hoped to be able to "control" Nature, and throughout history he has believed on numerous occasions that he had succeeded. The unprecedented achievements of the industrial revolution made such a big impression that the general attention was focused on enterprises and the wave of scientific discoveries made many overestimate the powers of science which they believed capable of finding solutions to counter the effects of diminishing resources. The discovery of electricity led many to believe that we no longer

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depended on low entropy, that we had found a perpetual force, the wave of optimism growing with the widespread use of atomic energy. In the context of the belief that science can help us eliminate the limits of the environment, it should come as no surprise that "nobody has realized that we cannot produce «better and larger» refrigerators, cars or jets without producing «more and greater» waste" (Georgescu-Roegen, 2006).

The economic development of the last two centuries has forced man to increase the exploitation of natural resources at a staggering pace, has maintained the population growth, which required *the large-scale mechanization of agriculture*, eliminating the farmer's traditional partner, the draft animal. In this way, the solution found for producing more food must be considered in the long term as "anti-economic" since "the ox or the buffalo, whose mechanical power is generated by the solar radiation taken in by the photosynthesis of chlorophyll, is replaced by the tractor, which is produced and operates based on low Earth entropy" (Georgescu-Roegen, 2006), thereby producing a waste of Earth's entropy. To that effect, in line with the requirements of sustainable economy, the proposed solution is *organic agriculture*, which should be based on its own products and develop outside the use of chemical fertilizers, which *should be less and less intensive* to allow the natural regeneration of the soil.

One of the most important environmental problems of mankind, the economist believes, is the relationship between the quality of life of a generation and that of another one, that is *the distribution of human patrimony among all generations*, including the resources that each of them receive. The economy is not able to meet such challenges since it manages limited resources for one generation only. "Every generation can use an unlimited number of land resources and can pollute to any extent, because it is the only bidder. The future generations do not exist on the present market, thus creating "the dictatorship of the present over the future". Generally, when we refer to future generations we only consider our children or our grandchildren, at most, leaving out of the equation the generations of the next millennium or those further into the future. The only way to protect future generations is *to re-educate ourselves*, to refrain from "unnecessary" damage so long as market mechanisms cannot protect mankind from the ecological crises of the future, even if, mathematically, we could find *the fair price* of resources.

### **3. The minimal bio-economic program**

The minimal bio-economic program proposed de Roegen takes into account the management of limited resources in the context of the drastic shortage brought about by industrialization and comes up with solutions bearing the mark of the originality of his analyses. Some of the points that ought to be included in this program are detailed below.

*Firstly*, to ban the manufacture of any war equipment; "nations that are so developed nowadays as to produce weaponry should have no difficulty in reaching a consensus regarding this prohibition, if they are wise enough to lead the whole world" (Georgescu-Roegen, 2006).

*Secondly*, underdeveloped countries must be helped to lead a better life, and the productive forces freed from the manufacture of weapons of any kind could be channeled in this direction.

*Thirdly*, the population should shrink and reach a level where it can feed based only on organic agriculture.

*Fourthly*, energy waste of any kind should be avoided, until the use of solar energy is wide-spread, becoming a common fact. The economist sees the possibility for man *to turn his technology and economy towards the energy coming directly from the sun*, even if the solar radiation that reaches us is weaker and the high cost of solar installations is a symptom of the low efficiency of direct solar energy. We are waiting for a new Prometheus, the Third, to solve the present crisis, such as Prometheus II solved the one from the wood age. Roegen believes that the technology developed after Prometheus refers

to the wood age, because wood was the only source of heat energy for centuries, and Thomas Savery and Thomas Newcomen, the inventors of the steam engine, are generically called Prometheus II.

*Fifthly*, man will have to give up any extravagance, such as golf carts or enormous cars; as soon as we did that manufacturers would cease to produce such facilities.

*Sixthly*, we should get rid of fashion, "that disease of the human mind", stop throwing away clothes or furniture pieces as long as they can serve their specific function. If we all gave up on fashion, manufacturers would focus their efforts on product durability.

*Seventhly*, the life of goods ought to be extended by the possibility of repairing them, thus becoming more durable.

*Eighthly*, we should cure ourselves of the "razor syndrome", which means to make a razor which shaves faster to have time to work on a machine which shaves even faster and so on endlessly. Only by giving up such ambitions can we start to spend our leisure time more intelligently, enjoying more what life already offers us.

#### **4. The economic myths**

All of Roegen's research and analyses are under the sign of *the entropic nature of the economic process*. His permanent concern is whether mankind can follow a program involving a constraint of the dependency on the exosomatic system. To that effect, the economist reminds us that only the human species can use and produce exosomatic organs, namely detachable limbs such as bats, hammers, knives, cars, airplanes etc. He ironically wonders whether the destiny of mankind is to have a short, but fierce, exciting and extravagant life rather than a long, uneventful and vegetative life, leaving other species, such as the amoeba, that have no spiritual ambitions, inherit an earth bathed in abundant sunshine.

Showing that *the true result of the economic process* is not a material flow of waste but an immaterial flow: the *joie de vivre*, the economist discusses *the economic myths* that "betray man's great folly, his inner compulsion to believe that he is above all in his current universe and that his powers know no limit" (Georgescu-Roegen, 2006). The debunking of these myths is based on the belief that mankind is not eternal and on the other conceptions of his theory about matter and energy, the finiteness of resources or the fact that the economic process is an entropic one.

The *first myth*, that *of the price mechanism*, considered as most important by the researcher, starts from the idea, put forward by some economists, that no ecological crisis can be generated by the market, that the market mechanism will prevent the depletion of natural resources by rising prices to a level where the demand for them disappears. Moreover, some economists were of the opinion that as the price of resources increases their due to their increasing depletion other factors will replace them in production (Solow, 1974). Bringing a number of arguments related to the problem of resource allocation among generations, to the fact that future generations do not participate in bids that set the current price of resources, that the money price of resources is an 'invention' of man, not a condition imposed by nature and making reference to historical evidence, the economist shows that the price mechanism cannot defend the environmental interests of mankind. He also opposes the principle of the polluter pays, which he considers inadequate, because "a large part of pollution, such as the extraction of deposits [ ...], has no price, [ ...] it is much more important that, if we apply this principle to crime pollution, then it really makes crime payable!" (Georgescu-Roegen, 2006).

The *second myth* refers to the power of technology to solve any dispute between the human species and the environment. Even if in the last hundred years we notice that indicators measuring economic growth have been positive and mankind has enjoyed countless pleasures, it is not necessarily the case that history repeats itself, and that we

should "sleep tight" believing that an economic authority will ensure growth economic, which will be continuous and everlasting.

To the above he adds *the myth of the entropy piracy*, according to which "perhaps the most insidious way to nurture the impulsive hopes of a world is to believe that energy will be free (or almost free)" (Georgescu-Roegen, 2006), a misconception proved by those laws of thermodynamics governing energy conversion.

Roegen's complaints are also related to the fact that the public generally speaks only about the energy crisis, completely ignoring the issue of the matter, the dogma that "any metal object can be produced only by energy in a process that could be generated by a full consolidation of all production processes" (Georgescu-Roegen, 2006), which means a complete recycling, without environment matter input and waste output, generating a perpetual motion, impossible in his opinion, and not only his. Regarding the matter, he concludes that it matters too, that "transactions between the economic process and the environment must necessarily consist of an accessible matter also to compensate for the continuously and irrevocable dissipated matter" (Georgescu-Roegen, 2006).

Concerning *the myth of salvation through computers* the economist believes that it is not possible to program computers so as to find an answer to all our questions, to accept predictions about supply or demand values, to think that this "toy" can solve the environmental crisis. It is not sufficient to determine the change in attitude by rationalizing energy and matter consumption.

## 5. Conclusions

Mankind has become aware that the intensity of human activity increases the pressure on the environment, either by uncontrolled consumption of resources and space, or by generating waste that nature cannot absorb. Individual awareness, however, will appear only when the effects of the degradation of the relationship with the environment will have a direct impact on them, as in the case of floods, hurricanes and other natural disasters hard to predict. The gravity of the phenomena and their increase on longer periods of time and on increasingly larger geographical areas, will likely be the point of convergence between the interests of the individual, government policies and international bodies which should be more active in this respect.

As regards the *materialization of Roegen's proposals* we would like to be optimistic, but, filtering his analyzes through our own reason, we can't stop from borrowing at least a small part of his general pessimism. The reality around us makes us believe that only when natural resources have finished, will policymakers give up on their propagandistic attitude and will no longer merely raise alarm signals. Compared to the minor achievements so far, we will all embark on great things, but will it be too late?

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# IS A NEW EUROPEAN UNION ENERGY POLICY NEEDED?

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## **Abstract:**

*In January 2009, because of a different between Russia and Ukraine, a major natural gas pipeline was closed, this being the worst gas cut-off of the decade. Eighteen countries have been interrupted from gas supplies and countries which had limited reserves and a shortage of alternative supply met a serious energy deficit, in the middle of an especially cold winter. After 22 days, the gas flows to all European countries were back to the normal level. A result of this, and of another similar dispute from 2006, was that the EU has put into question the confidence on the Russian gas supplies. The insecurity has led to a renewal of the political interest in energy security on EU level. The Russian cut-offs have been like a wake-up call to policy makers at a time when the EU faces significant energy security challenges as a result of the emerging world order. More than half of its energy, the EU buys from non-EU sources, while the demand for energy is always higher. In the meantime, the EU production levels of hydrocarbons are decreasing, leading to higher dependency on non-EU sources. Thereby, the energy security became a globally important topic and will raise important challenges for the EU in the future.*

**Keywords:** energy policy, reserves, EU, security, challenges

**JEL Classification:** Z00

## **1. EU's External Energy Policy- Market Governance Approach**

In the beginning it is important to highlight the legal basis of the EU's Energy policy. Article 194(1) of the Lisbon Treaty sets out four main aims of the EU's energy policy:

- to ensure the functioning of the energy market;
- to ensure the security of supply in the Union;
- to promote energy efficiency and energy saving, and develop new and renewable forms of energy;
- to promote the interconnection of energy networks.

While the above are to be shared competences, Article 194(2) and (3) gives member states full competence over exploitation of energy resources, choices and structure of its energy supply and energy taxation. Therefore within energy policy the EU has a limited responsibility. In terms of responsibility for energy security, the EU has a legal basis to act on promoting the EU's Single Market in energy internally as well as externally, promoting internal and external interconnection of energy networks and working towards the security of supply in the Union. Therefore the EU has legitimacy to proceed within a market-governance approach to external energy policy, however cannot proceed more geopolitically. Within this policy exporting EU Single Market norms and promoting interconnectivity within the EU's sphere of influence are its core aims. These goals are to be achieved through solidarity as highlighted in Article 122 which states that "the Council, on a proposal from the Commission, may decide, in a spirit of solidarity among member-states, upon the measures appropriate [...] if severe difficulties arise in the supply of certain products, notably in the area of energy." Even if this presents the EU with an opportunity, solidarity in the field of energy is remaining weak.

The EU's external energy policy is multi-faceted and is comprised of bilateral, regional and international agreements and policies. The EU had begun to work extensively towards achieving its goals through this approach even before the increased legitimacy in the field post-Lisbon. The Commission argues that energy security can be achieved "by the EU extending its own energy market to include its neighbours within a common regulatory area with shared trade, transit and environmental rules". The EU needs "to convince non-

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EU consumer countries that world energy markets can work for them. If they were to conclude that the only route to security lay in bilateral deals, the risk of disruption of the energy system would grow”.

This is more than a simple market-based model, as it does not only propose to attain energy security through free market economics but rather it intends to transfer EU norms and aquis to third countries.

## **2. EU's Single Market for Energy**

The Internal Single Market for Energy has been a long-term project of the European Union, which started in the middle of the '90s. The first two Energy Packages implied opening and liberalising the electricity and gas market, forming mandatory independent national regulators, growing competition, and improving the transparency and the service quality. Considerable advances in the process of integration have been made and from the late 2000s the consumers had more options to choose between the energy providers, affordable prices despite higher oil prices and better services have been seen in the EU. An important obstacle for the liberalisation was the exclusive control of the transport networks by the big energy producers, which excluded the market access for the competitors. The Third Energy Package (TEP) solved the problem dividing supply and production activities from the transmission and distribution systems (so named Ownership Unbundling), which the member states have to implement until October 31<sup>st</sup>, 2014. The Commission (2012) has put forward the Single Market Act II, which proposes to “Improve the implementation and enforcement of the TEP” and improve integration of energy markets and diminution of physical barriers between the member countries. Thus, internally the EU is moving to increasingly integrated and liberalised markets, a model it intends to export to external partners.

Fundamental doubts however still exist over single market energy norms. If the internal market is supposed to settle the foundations for the rule-based, market-oriented external energy policy a comprehensive and united single market needs to be in place. In 2006, the Commission has criticised all the governments, with the exception of the Dutch one, for failing to meet market opening commitments they had signed up to. Further, member states had until March 1<sup>st</sup> 2011 to transpose the TEP, which Bulgaria, Estonia and the UK have yet to complete and have thus been referred to the European Court of Justice. Besides, high-profile cases, such as Spain's hindrance of EON's bid for Endesa, have made some analysts to argue about Europe going back to energy nationalism. Moreover basic infrastructure connections still are quite absent between the member states, this having direct implications in the external strategy; the absence of both pan-European market mechanisms and sufficient physical interconnection obstructs the EU from replying as a single entity to external energy shocks.

The most institutionalised and likely most complete tool at the EU's disposition is the European Energy Community, which pursues to create a “common regulatory space around Europe” (Commission, 2006a:16). The treaty defines the tasks of the Energy Community as the achievement of a stable regulatory and market framework, realizing a single regulatory space for trade in network energy, increasing the security of supply and providing the regulatory environment for connections to Caspian, North African and Middle East gas reserves, raising the environmental standards, and developing market completion.

From the beginning, it is not easy for the EU to export its energy norms to the third-countries, as the project is being a work in progress at home. The EU had limited success in the form of the European Energy Community, still was not so successful in the cases of North Africa (particularly Algeria) and of Russia.

The market governance approach though has been undermined by individual member state's geopolitical approaches to energy security. This conflict between a market and

geopolitical approach can also be seen in the relationship with Russia, where more and more members have confessed their concerns. Fissures between member states and between the Council and the Commission have appeared. Commissioner Ferrero-Waldner (2006) argues, “EU external energy policy [should] be based on a single approach and speaking with a single voice”. Opposite to this, Lithuanian President Valdas Adamkus, and other member states, have argued that while Russia has insisted on approaching energy in such an overtly geopolitical manner, the EU needed to respond in the same way. The politics of creating a single EU external energy policy can thus be described as a conflict between markets and geopolitics. It has been shown that at the European Union level exists a conflict between markets and geopolitics, that the EU is fragmented internally and in its treats with third countries. Therefore it is important to understand the member state level in order to understand why the EU is so fragmented.

### **3. Dependence on Russia and Geopolitics**

Within this group, some countries in particular the Baltics and CEEC have historically been dependent on Russia, and as the alternative infrastructure was difficult, it was difficult to diversify their energy sources, though the TEP has made efforts towards increased integration. Germany has considered Russia as a long-term partner and has used long-term contracts, joint long-term investments and good political relations in order to reach energy security through a geopolitical approach.

As for the Central Europe and Baltic Countries, more than forty cut-offs of energy supplies have occurred against the Baltic and CIS countries since 1991. Moreover, on at least three occasions serious threats have been issued but no action has been taken.

With the Baltic countries being under pressure from Russia, totally dependent on Russian Gas and Gazprom being the only Gas supplier, the Baltics face availability and affordability preoccupations. Looking at the REES index, we see that Lithuania (20.1), Latvia (21.0) and Estonia (10.3) have high REES indices, with Lithuania posing limited, but in comparison to Estonia and Latvia the highest risk to overall European supply risk at 4%. Still, although Russia has benefited historically from the liberalization and environmental policies of the EU in regard to the Baltics and CEEC, the TEP in particular has allowed member states to reduce the dominance of Gazprom in their energy sectors.

As for Poland, its EU membership is a significant factor, Poland having successfully solved bilateral disputes to the EU level. An example is that Poland was able to delay negotiations of a new EU-Russia Partnership and Cooperation Agreements with several months following a Polish-Russian dispute over Poland’s meat exports to Russia. Commission President José Manuel Barroso stated that “a Polish problem is a European problem”, as the EU was “based on principles of solidarity”. However as seen in the Baltics and in other examples, this solidarity has rarely been seen towards Russia. As long as a common and effective EU energy policy for diversification of gas in particular for the Eastern members, is not in place, these countries have little choice but to accept the Russian prices.

Russia has not aimed cut-off at Western states as is known, but issues of concern exist, especially as these countries are affected by Russia’s policy towards transit countries. Within the high and medium category, Germany is the most important country with a high REES (5,5) and CERE (11%) index because of its relative importance for the EU economy, politics and high gas imports. Hence it cannot be discussed EU energy policy without discussing German energy security. This section will concentrate on the relationship between Germany and Russia to emphasize that Russian policy is quite different towards Germany than towards the Baltic countries and CEEC or other Western European countries.

Germany receives a preferential treatment from Russia, but Germany has also blocked increased EU integration and liberalization, and has allowed firms to block efforts



to increasingly build cross-border infrastructure. In the meantime, Central and Eastern countries and in particular the Baltics have experienced a different relationship with Russia, one characterised by markets dominated by Gazprom, informal connections between business and government and Russian Gazprom and government. Russia understands the dynamics within the EU and has set about to benefit of the largest and most significant actor of the EU, while working against EU norms and competition law in, especially Eastern states. While Large, wealthier Western states such as Germany, Italy, France and Austria have well developed energy firms with enough technical and financial resources and indeed political support. To the East however, firms are not so well established and Russia has more leverage over them. Germany, has demonstrated that it can stand up to Russia and has shown a willingness to criticise Russian policies. Generally speaking, as long as the EU does not have a single voice regarding Russia, it will not be able to build on its mutual dependency on Russia.

### **Conclusions**

The primordial EU external energy policy differs between regions, thus overall the EU doesn't present a coherent policy towards energy security. It's policy, overall remains weak, insufficiently funded, fragmented and individual member states geopolitical actions have undermined its success. Examining the European Energy Community we can see that the EU has been able to transfer its own aqis to third countries; yet progress is slow and restricted to those countries which the EU can attract through accession conditionality. In the case of North Africa (especially Algeria) and Russia, the EU had the least success in exporting its norms. Most importantly however, the premise of having a coherent and well established single energy market has not yet been accomplished and consequently the project of exporting its norms is severely undermined. Before achieving a coherent Energy Policy, internally as well as externally, member states have to agree on a mixed approach to energy security; an approach that is based not only on the markets, as it is nowadays, but also on geopolitics.

The necessity for such a dual approach comes from the different energy security risks the EU's member states face in present. The EU is divided into CEEC, which are predominantly the medium to high energy security risk states as of their dependency on the Russian gas and weak negotiating power; Germany which has a preferential relationship with Russia and the countries in the low to medium category that receive most of their resources from indigenous supply, EU/Norway sources or through LNG (Liquefied Natural Gas). Having shown that the EU's indigenous supply is poor, countries in the latter category will increasingly need to derive their gas sources from different supplies, which will present a further challenge for the EU. By highlighting Spain's success in diversifying its imports through LNG, this is a possible solution to the EU, although issues with supply may be an issue in the future due to increased global demand.

Although we agree the EU and Russia are mutually dependent, the incoherence of EU policy towards Russia, the fragmentation of policies –particularly the conflict between German policies and Eastern European policies towards Russia – have weakened the mutual dependency and have let Russia achieve the position of the dominant partner, with the EU being uneasy to confront it.

There is a conflict between a market-based approach and geopolitics; the Eastern members, who have been under pressure from Russia and are seeking for a better EU involvement and Germany which has been thankful with its geopolitical approach; an EU market-governance approach and geopolitical relationships; the Commission and member states who do not wish to upload more sovereignty or to increasingly liberalise their markets; and between Russia's geopolitical approach and the EU's market-governance approach.

Before the European Union can become a coherent energy actor, it needs to have a consensus between all the member countries and in particular it has to act with a single voice towards Russia. In order for this to be achieved the EU has to be given more responsibility and thereby the treaty base has to be strengthened. As shown the EU now only has legitimacy to act through a market-governance approach, but to successfully convert its mutual dependency with Russia, it has to add a geopolitical component.

The first priority is to achieve a single voice vis-à-vis Russia. Especially the situation of the Eastern states would be strengthened by this, though all countries would benefit, especially in the future when EU supplies will be exhausted. The EU has a strong negotiating position towards Russia as a result of their mutual dependency and should take advantage of it. Second, the EU needs to fully implement the single market for the external element to work in a coherent manner.

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# POST-CRISIS ECONOMIC SPECIALISATION PATTERNS OF ARGES COUNTY IN ROMANIA AND THE EU. MOVING TOWARDS SMART SPECIALIZATION

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## Abstract:

*Under the new European regional policy framework for 2014 – 2020, smart specialization is a key issue meant to highlight the unique characteristics and assets of each country/ region and to rally regional stakeholders and resources around an excellence-driven vision for their future. To this end, this paper provides a statistical analysis of specialization patterns in Arges county on the basis of GVA and employed population, using traditional absolute and relative measures. At the same time, the paper highlights the shifts in the local economy due to the economic crisis (2008 - 2010) and offers a number of possible further actions for smart specialisation.*

**Keywords:** *specialisation indexes, Arges county, shift-share analysis, smart specialisation*

**JEL code:** R12

## Introduction: Arges county's socio-economic profile

Argeș county is located in the central – southern part of Romania and belongs to the South Muntenia region, as established by the Law no. 315/2004 on regional development in Romania<sup>3</sup>. The county ranks the 10<sup>th</sup> among Romania's 41 counties plus Bucharest for its surface (NUT3 units in the European classification) and includes three municipalities, four cities, 95 communes and 476 villages (Statistica teritorială, 2013).

On the 1<sup>st</sup> January 2012, Arges county had 636 643 inhabitants, representing 3% of the national population. When compared to the European level, both Romania and Arges county face a downward trend in the population change, on the short-term (2011-2012), as well as on the long-term (2002-2011). The causes are related, *inter alia*, to the negative rate in the natural change of population and, on the other hand, to a high internal and external migration (Table no. 1.1). According to the results of the last census conducted in 2011, only 46% of the resident population in Arges county lives in urban areas (Table 1.2), so that the county can be classified as an *intermediate region* in the European urban – rural classification (according to the European criteria, Arges county falls *de facto* into the category of *predominantly rural regions*, as the rural population is 50% or more of the total population; however, given the fact that the area includes a city of more than 200000 inhabitants, representing at least 25% of the regional population, the county falls under the *intermediate region* category (Eurostat, 2013: Urban - rural typology).

In what it regards Europe 2020 targets, both Romania and South Muntenia - the region Arges county belongs to — are still far from reaching their agreed targets for education and training. As can be seen from the Table 1., Romania aims to reduce early leaving from education and training (age group 18 - 24) to 11.3%, but the rate is currently of 17.4% at the national level and almost two times higher than proposed target in South Muntenia region (21.3%). Similarly, while the proposed target for tertiary education attainment (population aged 30-34) is of 26,7%, the national rate was of 21,8%, while the regional rate was of only 16,6% in 2011.

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<sup>3</sup> According to this Law, regions in Romania have no legal status, but an economic development function, meant to ensure a coherent framework for the implementation of regional development policies and strategies.

**Table no. 1: Socio-demographic indicators****1.1.**

<b>INDICATORS: EUROSTAT</b>	<b>EU27</b>	<b>RO</b>	<b>AG</b>
Population on 1 <sup>st</sup> Jan. 2012	503 297 336	20 095 996	636 643(p)
Total population change: 2011	1 336 029	-103 063	-2 299
Natural change of population: 2011	407 427	-55 197	-2 151
Net migration (2011)	928 602	-47 866	-148

Eurostat, 2013 – *Demographics***1.2.**

<b>INDICATORS: CENSUS</b>	<b>EU27</b>	<b>RO</b>	<b>AG</b>
Total population change: 2002 – 2011	-	- 1.559.300 (-7,20%)	-40200 (-6,50%)
Urban population: 2011	-	54%	46%

INS (2013) - *Census 2011***1.3.**

<b>EUROPE 2020</b>	<b>EU27</b>	<b>RO</b>	<b>South Muntenia</b>
Early leavers from education and training (pop. aged 18 – 24)	12,8% (10%)	17.4% (11,3%)	21,3%
Tertiary educational attainment (pop. aged 30 -34)	35.8% (40%)	21.8% (26,7%)	16.6%

Eurostat, 2013 – *EUROPE 2020 indicators*

Table no. 2 provides an overview of the main indicators for the European, national and regional income and employment. Thus, the GDP per capita in Arges county is much higher than the GDP/ capita at the national level, but it is still very low when compared to the European average, even when considering purchasing power parity. The figures for unemployment, however, are more optimistic when compared to the European and national level (Table 2.1), but the employment rates still remain below the national and regional targets by 2020 (70%), i.e. 63.8% for Romania and 61.3% for South Muntenia. Finally, the performance for one of the most important indicators of smart growth in Europe 2020 - gross domestic expenditure on research and development – places Romania and South Muntenia region at the bottom of European rankings, with minimum chance of achieving the proposed target by 2020 (Table 2.2.).

**Table no. 2 Socio-economic indicators****2.1.**

<b>EUROSTAT INDICATORS</b>	<b>EU27</b>	<b>RO</b>	<b>AG</b>
GDP/ capita (2010)/ % of the EU average	24,500 (100%)	5,800 (24%)	6,200 (25%)
GDP/ capita PPS (2010)/ % of the EU average	24,500 (100%)	11,400 (47%)	12,100 (50%)
<i>GDP/ capita (2012, CNP)</i>	-	4400	6594
Unemployment rate (2012)	10,2%	7%	6,10%

Eurostat (2013), CNP (2013), INS (2013)

**2.2.**

<b>EUROPE 2020</b>	<b>EU27</b>	<b>RO</b>	<b>Sud Muntenia</b>
Employment rate - age group 20-64 (2012)/ target	68,4 (75%)	63,8% (70%)	61,3%
Gross domestic expenditure on R&D (2012)/ target	2,3% (3%)	0,5% (2%)	0,36% (2010)

Eurostat 2013, *Europe 2020*

This paper aims to provide a comparative analysis of outcome and employment patterns in Arges county using traditional statistical measures - sector share analysis, Krugman specialization index, location quotient and shift-share analysis, the ultimate goal

being to identify those areas with potential for specialization in the national and European context. The second part of the paper introduces the research methods and the results of statistical calculations, while the final part draws a number of conclusions and policy implications meant to highlight the new paradigm of “smart specialization” - as described by the current European regional policy for 2014-2020.

## 2. Research method and results

The analysis of economic specialization is a recurrent theme particularly in the field of regional economics, the interest being fueled by several theories that underline the major advantages of specialization and concentration of economic activities, such as David Ricardo’s theory of comparative advantage and or the new factor endowment theories in international trade (Goschin et al., 2009). This way, the literature in the field has agreed a number of methods for calculating the economic specialization of regions, a special attention being paid to the sector-share analysis, Krugman specialization index, location quotients and shift-share analysis that are also emphasized and used in this paper.

### 2.1. Sector share analysis

The simplest method to assess regional specialization is the sector share analysis identifying the contribution of each economic sector to the regional output (measured by gross value added = GVA) or/ and employment. This way, *Figure no. 1* presents the shares of agriculture, industry, construction, trade and services in the total GVA and employment in the European, national and local economies.

**Figure no. 1. Sector – share analysis**



Source: authors' computation

Sectoral differences between the three economies are visible both on the dates for GVA and employment. The European economy is highly specialized in trade and services, sectors that generate about 70% of its total GVA and employment. It should be noted that the European sectoral shares for GVA are almost equal to those for employment, which is not the case Romania, nor for Arges county. The national economy has over 60% of GVA from industry and services, sectors that count for only 40% of total employment. Major imbalance occurs in agriculture, a sector that engages almost a third of the total employment nationwide, but whose share in the GVA is of only 6%. In Arges county, the industry is the dominant sector both in terms of output and employment, a major imbalance being also recorded for agriculture, where the share of employment is about 20%, but the GVA's share is of only 5%.

These sectoral differences can also be quantified by the two other indicators commonly used in the literature: Krugman specialization index and the location quotient.

## 2.2. Krugman specialization (dissimilarity) index

To measure specialization, **Krugman specialization (dissimilarity) index** takes into account the differences in absolute value between the shares of each sector in two different geographical units and gather these differences. Its values range from 0 (identical territorial/sectoral structures) to 2 (totally different structures) (Baldwin and Wyplosz, 2006).

**Table no. 3. Krugman specialization (dissimilarity) index**

ECONOMIC SECTOR	AG - EU		AG – RO	
	GVA	EMPL.	GVA	EMPL.
Agriculture, forestry and fishing	3	16	1	9
Industry	30	16	17	13
Construction	3	4	1	4
Trade, transport, accomodation and food, I&C	10	11	4	5
SERVICES	26	26	3	3
Financial, insurance, real estate activities; professional, scientific and technical activities; administrative and support service ( <b>services for enterprises</b> )	14	9	2	1
Public administration, defence, education, human health and social work; arts & entertainment ( <b>services for households</b> )	12	17	1	2
<b>ECONOMIC SPECIALISATION</b>	72%	73%	26%	34%

Source: Authors' computation

The results highlight a much higher specialization of the local economy in relation to the European economy (72-73%) than to the national economy (26-34%), the major differences being those in agriculture, industry and services. Local economy differs significantly from the national one only for the industry sector (*Table no. 3*).

## 2.3. Location quotient (LQ)

Unlike Krugman index that only shows how different are two economies without indicating in whose favor are the differences, the location quotient reveals those sectors with potential for specialization and industrial concentration. The location quotient (LQ) represents the ratio between the share of the output/ employment in a sector in the total output/ employment at the local level and the share of the output/ employment in that sector in the total output/ employment in the reference economy (i.e. in this paper – the European and national economy) (The Cities Alliance, 2007), as follows:

**BOX No. 1**

$$LQ = (X_{ir}/X_r) / (X_{in}/X_n)$$

LQ = location quotient;  $X_{ir}$  = output/ local employment in the sector  $i$ ;  $X_r$  = output/ total local employment;  $X_{in}$  = output/ employment in the reference economy in sector  $i$ ;  $X_n$  = output/ total employment in the reference economy

A location quotient greater than 1 indicates region's specialization in that sector. For a sector with a location quotient equal to 2 in a given region, it is estimated that half of the production is retained for domestic consumption and half is exported; moreover, it is assumed that exports are be zero in any sector where the location quotient is less than 1 (Constantin, 1998).

**Table no. 4. Local economy's location quotient in the European and national economy (2010)**

ECONOMIC SECTOR	AG –EU		AG – RO	
	GVA	EMPL.	GVA	EMPL.
Agriculture, forestry and fishing	3,1	4,0	0,8	0,7
Industry	2,6	1,9	1,6	1,6
Construction	1,4	1,6	0,8	1,6
Trade, transport, accomodation and food, I&C	0,6	0,6	0,7	0,8
SERVICES	0,4	0,4	0,7	0,8
Financial, insurance, real estate activities; professional, scientific and technical activities; administrative and support service ( <b>services for enterprises</b> )	0,4	0,3	0,7	0,8
Public administration, defence, education, human health and social work; arts & entertainment ( <b>services for households</b> )	0,5	0,5	0,8	0,9

Source: Authors' computation

As shown in *Table no. 4*, the sectors where the local economy has a high degree of specialization and export potential are agriculture and industry, the latter with a high degree of specialization in relation to the national economy, too. On the other hand, services are the most vulnerable sector of the local economy, so that Arges county must import services to meet the domestic demand.

#### 2.4. Shift-share analysis

As compared to the before-mentioned methods, the shift-share analysis allows the interpretation of variations (shifts) in time, while explaining which factors are the drivers of such variations. Specifically, the analysis explains the change of output / employment in terms of three categories of influence factors (effects): the national effect (national share = NS), represented by the average rate of change in the country, the effect of industry mix (IS) which captures the changes due to sectoral variations and the regional competitiveness effects (regional share = RS) that refers to the regional capacity to ensure favorable conditions for economic performance. When combined, the three components give the overall size of the change (Goschin et al., 2010).

Calculating the shift terms for a sector involves first calculating the growth rates for each sector ( $i$ ) in the local economy ( $g_{ir}$ ) and the reference economy ( $g_{in}$ ) and then computing the growth rate for each economy ( $g_r$ ;  $g_n$ ).

#### BOX No. 2. Growth rates by economic sectors

$$g_{ir} = (X_{ir}^{t+1} - X_{ir}^t) / X_{ir}^t;$$

$$g_{in} = (X_{in}^{t+1} - X_{in}^t) / X_{in}^t$$

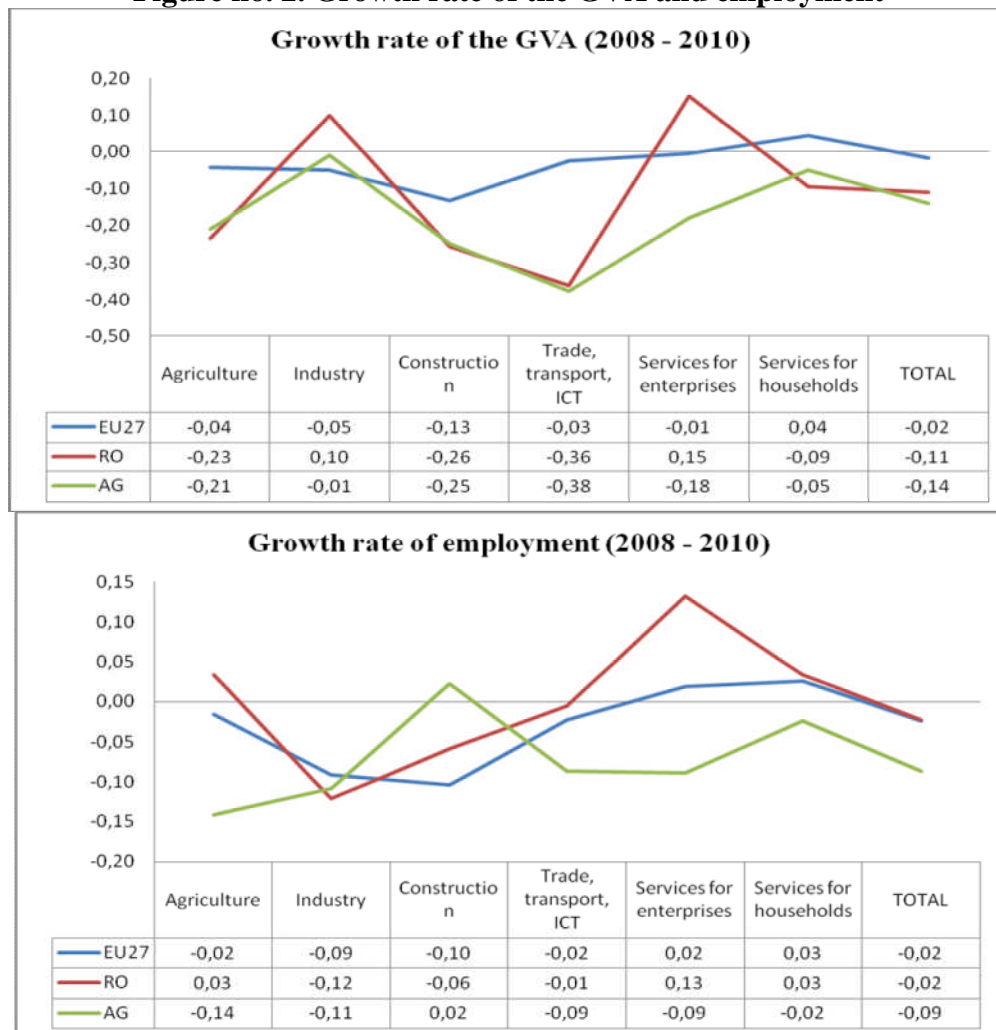
$X_i^t$  = output/ employment in the reference year ( $t$ );  $X_i^{t+1}$  = output/ emplyment in  $t+1$

$$g_r = \sum g_{ir}; \quad g_n = \sum g_{in};$$



Figure no. 2 shows the growth rates of GVA and employment for 2008-2010, a period that marks the beginning and the peak of the economic crisis. Of the three economies under analysis, the European economy had the lowest rate of decline of -0.02% both in output and in employment, the most affected sectors being construction and industry. On the other hand, both the local and national economy had significant losses in terms of GVA (RO: -11%; AG: -0.14), the most affected sectors being the trade, construction and agriculture. In terms of employment, the biggest losses at national level have been recorded in the industry, while the local economy experienced large declines in agriculture, too.

**Figure no. 2. Growth rate of the GVA and employment**



Source: Authors' computation

Once the growth rates have been determined, the three types of effects are calculated as follows:

**BOX No. 3 Types of effects**

$NS = X^{t_{ir}} * g_n$  (NS = national share);  $IS = X^{t_{ir}} * (g_{in} - g_n)$  (IS = industry mix);

$RS = X^{t_{ir}} * (g_{ir} - g_{in})$  (RS = regional share)

Table no. 5 presents the results of the shift-share analysis of the local economy compared to the European one. The results can be interpreted as follows: between 2008 and 2010, the local economy has recorded a total loss of output of 567.2 million euro (mainly in construction and trade) and a decrease in employment of 25000 people, of

which 11000 in industry and over 9000 in agriculture. By types of effects, losses can be mainly explained by local effects, namely by the losses in competitiveness at the county level. The effects of the European crisis are reflected in National Share (NS ) column, which shows that the European influences have produced a loss of 81 million € and a decrease in employment of about 6000 people. Finally, the positive values recorded for the Industry Share (IS) show that the local industrial mix was a relatively optimal one, since it brought gains in the GVA and minor losses in employment .

**Table no. 5. Shift – share analysis: AG – EU (2008-2010)**

SECTOR	GVA				EMPLOYMENT			
	NS	IS	RS	SS	NS	IS	RS	SS
Agriculture	-4,6	-5,5	-38,1	<b>-48,2</b>	-1,3	0,3	-8,1	<b>-9,1</b>
Industry	-35,0	-50,7	67,8	<b>-17,9</b>	-2,0	-7,2	-1,7	<b>-11,0</b>
Construction	-8,1	-44,8	-47,3	<b>-100,1</b>	-0,6	-2,6	3,9	<b>0,7</b>
Trade, transport, ICT	-15,5	-4,3	-271,1	<b>-290,9</b>	-0,9	-0,1	-2,9	<b>-3,9</b>
Services for enterprises	-10,0	7,0	-86,6	<b>-89,6</b>	-0,2	0,4	-1,2	<b>-1,0</b>
Services for households	-8,3	26,6	-38,8	<b>-20,5</b>	-0,8	1,7	-1,8	<b>-0,9</b>
<b>TOTAL</b>	<b>-81,5</b>	<b>9,3</b>	<b>-495,0</b>	<b>-567,2</b>	<b>-5,8</b>	<b>-1,0</b>	<b>-18,2</b>	<b>-25,0</b>

## Conclusions

The results of these analyses can be synthesized as follows:

**Table no. 6 Local opportunities for specialization**

	AGRICULTURE	INDUSTRY	TRADE & SERVICES
+	The highest location quotient – potential for specialization in the EU.	- The most competitive sector in the local economy – potential for specialization in the EU and Romania.	-
-	High imbalances between GVA and employment shares ; high seasonality (good vs. bad agricultural year).	- High vulnerability to economic crisis (about half of the losses in local employment during 2008-2010).	- sectors where the local economy does not satisfy the domestic demand.

These results have a number of implications for decision-making, especially when a key-question arises: "Which of the three sectors to be supported: *agriculture* - which has the greatest potential for differentiation, *the industry* - which is the most competitive sector of the local economy or *the services* sector - to reduce the dependence on imports?" In agreement with the European framework for 2014 - 2020, the recommendation is to focus all efforts on **smart specialization** that addresses the difficult problem of prioritizing investments in few areas offering strong competitive advantages.

Smart specialization is closely related to the local potential for research, development and innovation at and to the regional capabilities to create links and network between universities, research centers and the business environment, able to identify barriers to innovation and delimit areas of specialization: for example, while leading regions can invest in the development of advanced technologies and innovation in services, lagging areas can focus on applying innovative technologies in existing sectors (EC COM (2010) 553 final).

The arguments presented in this paper are not sufficient to advocate for specialization in a sector or another, especially since there are some limitations related to the availability of data until 2010 and only for the sector, not the division level. In addition, innovation-related

data in the local economy can only be identified through micro-studies at sectoral level - that are currently missing. Nevertheless, the paper brings in some key-points that any strategy for specialization - and especially for smart specialization - should consider:

1. Arges is a predominantly rural county and is part of a region with very low performances for Europe 2020 indicators for smart growth (gross expenditure on research and development, employment and education). No local specialization strategy can be expected to produce positive effects without a prior improvement on these dimensions.
2. Arges is a “poor” county when compared to the European economy, but a “rich” county when compared to the national figures, a county with a high potential for specialization on the European market, but not on the Romanian one. Therefore, the specialization strategy must define a priori the target market, because - for example, the decision to specialize in agriculture will be advantageous especially in relation to the European market and not to the national one.
3. Finally, given the fact that “smart specialization” refers to those areas with potential for research - development - innovation for which there are no available local data, any strategic approach should consider bringing together businesses, decision-makers and academics to “discover” and prioritize the areas with potential for innovation, knowledge transfer and economic progress.

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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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**ACCOUNT OPTIONS ON THE DISTRIBUTION CORRESPONDING  
RESULT COMMERCIAL BUILDING CONTRACTS FROM PUBLIC  
INSTITUTIONS IN ROMANIA**

**Cristina Otilia, Țenovici<sup>1</sup>**

**Abstract:**

*Primary issue in accounting for construction contracts is the recognition of revenue and contract costs of those reporting periods in which the work was performed, hence the outcome of the contract for construction. Date, or where completion of a construction contract can be found in different reporting periods. The question concerns the date on which the recognized result. Option appears to recognize the result as a sum of partial results for each of the years covered by the contract duration or it will recognize the completion of the construction contract.*

**Key words:** *construction contracts, work method or percentage completion method of advancement*

**JEL classification:** M41

**1. Introduction**

This paper is intended as an analysis of the accounting options on the recognition and accounting operations relating to construction contracts, without forgetting the study elements of convergence and harmonization of Romanian national accounting standards with international accounting standards for the public sector IPSAS 11 "construction contracts".

Accounting treatment of revenue and costs of construction contracts subject to international accounting standard IPSAS 11 "Construction contracts". Standard, IPSAS 11 "Construction contracts" defined in section 4 construction contract as "a contract or other irrevocable commitment specifically negotiated for the construction of an asset or a combination of assets that are closely interconnection or interdependent in terms of their design, technology and function or their ultimate purpose or use".

Construction contracts shall be considered as contracts for services that are directly related to the construction of assets, contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

**2. Options in the distribution of earnings per period of the commercial construction industry contracts**

Allocating a construction contract outcome may take place by using two methods: the percentage of advancement involves method and the stage of completion method

Method percentage of advancement involves:

1. Progress determining the closure of each exercise;
2. Distribution revenue and contract costs to the percentage calculated to advance the work during each exercise.

This method provides useful information on the extent of contract activity and performance during a period.

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A public institution as an entrepreneur ends with the main credit authorization, a commercial contract with fixed price of 900,000 lei order to achieve a kindergarten the following conditions:

- The initial value of the contractually agreed income is 900,000 lei, and the estimated initial costs are 800,000 lei;
- Duration of the contract for completion of construction is three years;
- At the end of the first year estimated costs grew by 5,000 lei, contract costs to date being 241,500 lei;
- For the second year, the recipient accepts the contract revenue increased by 20,000 lei and an increase in related costs 15,000 lei, contract costs to date being 656,000 lei.

**Table 1. Calculation of contract elements for the commercial contract concluded by public entity "X" – the percentage of completion method**

Calculation elements \ Year	Year I	Year II	Year III
Initial amount of revenue agreed in contract	900,000	900,000	900,000
Variation of contract revenue	-	20,000	20,000
Total contract revenue	900,000	920,000	920,000
Contract costs incurred to date	241,500	656,000	820,000
Contract costs to complete	805,000- 241,500=563,500	820,000- 656,000=164,000	-
Total estimated contract costs	805,000	805,000+15,000=820,000	805,000 +15,000=820,000
Estimated surplus	95,000	100,000	100,000
Stage of completion	240,000 / 805,000=30%	656,000 / 820,000=80%	820,000 / 820,000=100%

**Table 2. Recognized revenue and costs in the statement of financial performance in terms of the commercial contract – the percentage of completion method for the Year I**

Calculation elements	Revenue	Year I Expenses	Surplus
Revenue / Costs recognized To date	30% x 900,000 = 270,000	30% x 805,000 = 241,500	28,500
Revenue / Costs recognized in prior years	-	-	-
Revenue / Costs recognized in current year	270,000	241,500	28,500

**Table 3. Recognized revenue and costs in the statement of financial performance in terms of the commercial contract – the percentage of completion method for the Year II**

Calculation elements	Revenue	Year II Expenses	Surplus
Revenue / Costs recognized To date	80% x 920,000 = 736,000	80% x 820,000 = 656,000	80,000
Revenue / Costs recognized in prior years	270,000	241,500	28,500
Revenue / Costs recognized in current year	466,000	414,500	51,500

**Table 4. Recognized revenue and costs in the statement of financial performance in terms of the commercial contract – the percentage of completion method for the Year III**

Calculation elements	Year III		
	Revenue	Expenses	Surplus
Revenue / Costs recognized To date	100% x 920,000 = 920,000	100% x 820,000 = 820,000	100,000
Revenue / Costs recognized in prior years	736,000	656,000	80,000
Revenue / Costs recognized in current year	184,000	164,000	20,000

In the accounting records of the institution in year I are:

a. accounting disclosure of expenses due to completion of works according to their nature (generic formula):

$$\begin{array}{rcl} \text{Class 6 – "Expense Accounts"} & = & \% \\ & & \text{Class 3 – "Inventories"} \\ & & \text{Class 4 – "Third Party Accounts"} \\ & & \text{Class 5 – "Pecuniary Resources Accounts"} \end{array} \quad \underline{241,500}$$

b. in the end of the tax year, the work performed is entered:

$$\begin{array}{rcl} 332 & = & 709 \\ \text{"Work and Services in Progress"} & & \text{"Inventory Variation"} \end{array} \quad 270,000$$

Incidence of accounting disclosure upon the statement of financial performance in Year I:

revenue from work performed:	270,000
contract costs incurred to date:	241,500
surplus:	28,500

In the accounting records of the institution in year II are:

a. accounting disclosure of expenses due to completion of works according to their nature (generic formula):

$$\begin{array}{rcl} \text{Class 6 – "Expense Accounts"} & = & \% \\ & & \text{Class 3 – "Inventories"} \\ & & \text{Class 4 – "Third Party Accounts"} \\ & & \text{Class 5 – "Pecuniary Resources Accounts"} \end{array} \quad 414,500$$

b. in the end of the tax year, the work performed is entered:

$$\begin{array}{rcl} 332 & = & 709 \\ \text{"Work and Services in Progress"} & & \text{"Inventory Variation"} \end{array} \quad 466,000$$

Incidence of accounting disclosure upon the statement of financial performance in Year II:

revenue from work performed:	466,000
contract costs incurred to date:	414,500
surplus:	51,500

In the accounting records of the institution in year III are:

a. accounting disclosure of expenses due to completion of works according to their nature (generic formula):

$$\begin{array}{rcl} \text{Class 6 – "Expense Accounts"} & = & \% \\ & & \text{Class 3 – "Inventories"} \\ & & \text{Class 4 – "Third Party Accounts"} \\ & & \text{Class 5 – "Pecuniary Resources Accounts"} \end{array} \quad 164,000$$

b. in the end of the tax year, the work performed is entered:

$$\begin{array}{rcl} 332 & = & 709 \\ \text{"Work and Services in Progress"} & & \text{"Inventory Variation"} \end{array} \quad 184,000$$

c. contract billing for the recipient:

$$\begin{array}{rcl} 4111 & = & \% \\ \text{"Customers with less than one year maturity"} & & \\ & & 704 \\ & & \text{"Revenue from services rendered and work performed"} \\ & & 4427 \\ & & \text{"Output VAT"} \end{array} \quad \underline{1,140,800}$$

d. accounting disclosure:

709	=	332	920,000
"Inventory Variation"		"Work and Services in Progress"	
Incidence of accounting disclosure upon the statement of financial performance in Year III:			
sales revenue			920,000
revenue from work performed (b and d):		184,000 -920,000=	736,000
total contract revenue:			184,000
contract costs incurred to date:			164,000
surplus:			20,000

**The stage of completion method** is used by an entity to determine the contract outcome but only when the contract has completed. Revenue shall be recognized only to the extent of contract costs incurred that are probable to be recoverable from the recipient. During the stages of the contract, there is no surplus recognized which shall however be recognized during the tax year when construction works come to an end. The application of the method shall be done for the same type of commercial contract as shown above.

**Table 5. Calculation of contract elements for the commercial contract concluded by public entity "X" – the stage of completion method**

Year	Year I	Year II	Year III
Calculation elements			
Initial amount of revenue agreed in contract	900,000	900,000	900,000
Variation of contract revenue	0	20,000	20,000
Total contract revenue	900,000	920,000	920,000
Contract costs incurred to date and likely to be recovered from recipient	241,500	656,000	820,000
Revenue to be recognized in accounting as the stage of completion method	241,500	656,000	820,000
Estimated surplus	0	0	100,000

**Table 6. Recognized revenue and costs in the statement of financial performance in terms of the commercial contract – the stage of completion method for the Year I**

Calculation elements	Year I		
	Revenue	Expenses	Surplus
Revenue / Costs recognized To date	241,500	241,500	0
Revenue / Costs recognized in prior years	0	0	0
Revenue / Costs recognized in current year	241,500	241,500	0

**Table 7. Recognized revenue and costs in the statement of financial performance in terms of the commercial contract – the stage of completion method for the Year II**

Calculation elements	Year II		
	Revenue	Expenses	Surplus
Revenue / Costs recognized To date	656,000	656,000	0
Revenue / Costs recognized in prior years	241,500	241,500	0
Revenue / Costs recognized in current year	414,500	414,500	0

**Table 8. Recognized revenue and costs in the statement of financial performance in terms of the commercial contract – the stage of completion method for the Year III**

Calculation elements	Year III		
	Revenue	Expenses	Surplus
Revenue / Costs recognized To date	920,000	820,000	100,000
Revenue / Costs recognized in prior years	656,000	656,000	0
Revenue / Costs recognized in current year	264,000	164,000	100,000
In the accounting records of the institution in year I are:			
a. accounting disclosure of expenses due to completion of works according to their nature (generic formula):			
Class 6 – "Expense Accounts"	=	%	<u>241,500</u>
		Class 3 – "Inventories"	
		Class 4 – "Third Party Accounts"	
		Class 5 – "Pecuniary Resources Accounts"	
b. in the end of the tax year, the work performed is entered:			
332	=	709	241,500
"Work and Services in Progress"		"Inventory Variation"	
Incidence of accounting disclosure upon the statement of financial performance in Year I:			
revenue from work performed		241,500	
contract costs incurred to date:		241,500	
surplus:			0
In the accounting records of the institution in year II are:			
a. accounting disclosure of expenses due to completion of works according to their nature (generic formula):			
Class 6 – "Expense Accounts"	=	%	<u>414,500</u>
		Class 3 – "Inventories"	
		Class 4 – "Third Party Accounts"	
		Class 5 – "Pecuniary Resources Accounts"	
b. in the end of the tax year, the work performed is entered:			
332	=	709	414,500
"Work and Services in Progress"		"Inventory Variation"	
Incidence of accounting disclosure upon the statement of financial performance in Year II:			
revenue from work performed:		414,500	
contract costs incurred to date:		414,500	
surplus:			0
In the accounting records of the institution in year III are:			
a. accounting disclosure of expenses due to completion of works according to their nature (generic formula):			
Class 6 – "Expense Accounts"	=	%	<u>164,000</u>
		Class 3 – "Inventories"	
		Class 4 – "Third Party Accounts"	
		Class 5 – "Pecuniary Resources Accounts"	
b. in the end of the tax year, the work performed is entered:			
332	=	709	164,000
"Work and Services in Progress"		"Inventory Variation"	
c. contract billing for the recipient:			
4111	=	%	<u>1,140,800</u>
"Customers with less than one year maturity"			
		704	920,000
		"Revenue from services rendered and work performed"	
		4427	220,800
		"Output VAT"	



d. year-end inventory:

709 = 332 164,000

"Inventory Variation"

"Work and Services in Progress"

Incidence of accounting disclosure upon the statement of financial performance in Year III:

sales revenue	920,000
revenue from work performed (b and d):	164,000 – 820,000=656,000
total contract revenue:	264,000
contract costs incurred to date:	164,000
surplus:	100,000

### 3. Conclusions

Although both methods lead to an identical contract outcome, the essential difference between them is the time of outcome recognition.

**Table 9. Comparison of outcomes reached while using the percentage of completion method and the stage of completion method**

	Method	Percentage of completion method	Stage of completion method
Calculation elements			
Surplus	Year I	28,500	0
	Year II	51,500	0
	Year III	20,000	100,000
Contract outcome		100,000	100,000

Therefore, public entities should choose the outcome allocation method that best allows them to estimate outcomes reliably, taking into account both the advantages and the disadvantages that ensue from the use of either methods.

Thus public sector entities need to opt for the method of distribution of the result which allows to estimate reliably the best result, taking into account both strengths and weaknesses arising from the use of a method or another. These can be summarized as follows:

#### Strengths

#### Weaknesses

#### The stage of completion method

- Easy to implement because the surplus determination construction contract is at its completion;
- The method does not truly reflect economic reality since a contract is performed during several tax years and their surplus is recognized only upon contract completion;
- Delaying the surplus recognition is not a proof of accounting prudence as it generates high fluctuation when recognizing contract surplus from one tax year to another with surplus being recognized during the tax year when construction work is completed;
- The significant increase of surplus during the tax year with construction work being performed provides an optimistic view upon financial performance although during its progress the surplus is null which can be regarded as a risk to the users of financial statement information.

#### The percentage of completion method

- It allows the good connection of expenses to contract revenue, and outcomes are recognized during each tax year in proportion with the percentage of contract completion;
- Public entities should have their own estimation and financial reporting system;
- Outcome recognition is reduced
- The review of contract revenue and costs should be done for each reporting period and the effects of financial performance changes must be specified;

Strengths	Weaknesses
from one tax year to another; - It truly reflects economic reality as a contract takes place during several tax years and surplus is recognized during each tax year all throughout contract performance.	The stage of completion method - The unrealistic determination of the completion percentage (artificial underestimation or overestimation) leads to the distortion of construction contract outcomes.
Thus, either of the two methods should be chosen carefully in order to avoid the tendency to manipulate information on the financial statements of public entities.	

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# LEASE FINANCING: A NEW DUAL APPROACH

Cristina-Aurora, Bunea-Bontas<sup>1</sup>

## Abstract:

*Leasing is an important additional financing technique used by many companies, enabling them to use property, plant and equipment without making large initial cash outlays. It also provides flexibility, allowing entities to address obsolescence risks. Under current accounting rules, when referring to the operating leasing in particular, there is a lack of comparability between the financial position and operating results of companies that buy assets and the financial position and operating results of those that lease similar assets. This has led critics to assert that the current accounting does not portray the economics of lease arrangements. In response to this criticism, the IASB and FASB have developed a new approach to lease accounting that would require a lessee to recognise assets and liabilities for the rights and obligations created by leases, this providing greater transparency and comparability for financial statements users. On the other hand, the proposals will affect almost every company and the impact of the proposed changes may be significant, as recognising additional assets and liabilities and finance expense will affect key performance ratios and, consequently, the ability to satisfy debt covenants.*

*This article reviews the basics of the dual-model approach, emphasising the key concepts that would be used by both lessees and lessors to identify, classify, recognise and measure lease contracts.*

**Key words:** *lease accounting, identifying a lease, lease classification, recognition and measurement of Type A leases, recognition and measurement of Type B leases*

**JEL classification:** M41

## 1. Introduction

Leasing is a widely used financing solution, enabling companies to use property, plant and equipment without incurring large cash outflows at the start. It also enables lessees to address the risks related to obsolescence and residual value (PWC, 2013c, pp. 3). Leasing arrangements satisfy a wide variety of business needs, from short-term asset use to long-term asset financing. In many cases, leasing is the only option available to obtain the use of a physical asset when it is not available for purchase because of the lack of financing resources (PWC, 2013a, pp. 1). Additionally, leasing offers many benefits like as: taxes, because companies can deduct the leasing expenses; management, through careful planning money accessibility and speed compared with bank financing (Ciorasteanu et al., 2011).

Being amounted to almost \$800 billion in 2011, according to “The 2013 World Leasing Yearbook”, the conclusion is that leasing is an important activity for many entities worldwide (IASB, 2013d, pp. 2). This means that it is important that users of financial statements have a complete and understandable picture of an entity’s leasing activities. The existing accounting models for leases require entities to classify their leases as either finance leases or operating leases and account for those leases differently. The International Accounting Standards Board (IASB) argues that those models have been criticised for failing to meet the needs of users of financial statements (ED/2013/6, pp. 5) because they do not always provide a faithful representation of leasing transactions [1].

Currently, IAS 17 *Leases* is focused on identifying when a lease is economically similar to purchasing the asset being leased (that is the ‘underlying asset’). When a lease is determined to be economically similar to purchasing this asset, the lease is classified as a finance lease and reported on the lessee’s statement of financial position. All other leases are classified as operating leases. Although commitments arise from operating leases as they do from finance leases, there is no obligation to be reported on the lessee’s statement of financial position. Consequently, the lessee’s financial statements provide a misleading picture about leverage and the assets that the lessee uses in its operations (IASB, 2013d, pp. 2).

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In order to address the concerns about the lack of transparency of information about lease obligations, in 2006 the IASB and the US Financial Accounting Standards Board (FASB) initiated a joint project to improve the financial reporting of leasing activities.

The project has developed a new approach to lease accounting, whose result would be that most assets and liabilities arising from lease contracts will be recognised in an entity's statement of financial position. An exposure draft was issued in August 2010 [2] setting out an accounting approach based on the premise that, in a lease contract, the lessee obtains the right to use an asset for a specified period, this resulting in a right-of-use (ROU) asset.

In May 2013, the IASB and FASB issued the revised joint exposure draft on proposed changes to the accounting for leases [3] that, if finalized as proposed, would change in a significant manner how entities account for and report leasing arrangements in their financial statements. The *core principle* of this draft is that an entity should recognise assets and liabilities arising from a lease (ED/2013/6, par. 1) and its *objective* is to establish the principles that lessees and lessors should apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease (ED/2013/6, par. 3). These principles should be applied in order to identify, classify, recognise and measure lease contracts.

## **2. Identifying a lease**

According to the 2013 ED, a lease is defined as a contract (i.e., an agreement between two or more parties that creates enforceable rights and obligations) that conveys the right to use an asset (i.e., the underlying asset) for a period of time in exchange for consideration. The 'right-of-use' concept is intended to align with the control concept in the IASB revenue recognition project [4] (Holt, 2013).

For identifying a lease, entities need to determine whether:

- fulfilment of the contract, or an element of the contract, depends on the use of an identified asset or assets; and
- the contract conveys to the lessee the right to control the use of the identified asset(s) for a period of time in exchange for consideration (KPMG, 2013a, pp. 2).

The requirement for the arrangement to cover a specified asset is an important distinction (BDO, 2013, pp. 6), as it means that it would be necessary to be able specifically to identify the asset (for example, an item of plant and machinery or a building or a physically distinct portion of a larger asset).

A right to control the use of an asset is conveyed if the lessee has the ability to direct the use, and receive the benefit from that use throughout the lease term. The lessee's ability to direct the use of an identified asset would be demonstrated by its ability to make the decisions about the use of the asset that most significantly affect the economic benefits to be derived from the asset's use over the term of the contract. Such decisions may include how and for what purpose the asset will be employed during the contract term, how it is operated or who operates it.

We point out that, under current IFRS (IFRIC 4 *Determining whether an arrangement constitutes a lease*), the criteria used for identifying a leasing is not identical, referring to the *right to use*, not to the *right to control the use* of the specific asset. The change in emphasis envisaged may require a greater degree of judgement to be exercised when determining whether an arrangement is a lease (Deloitte, 2013, pp. 2).

## **3. Classification of Leases**

The underlying economics of leases vary and these differences are best reflected by two types of leases.

The principle for differentiating between the two lease types would be based on the portion of the economic benefits of the underlying asset expected to be consumed by the

lessee over the lease term. To reduce complexity in the application of this principle, entities would be required to classify leases primarily based on the nature of the underlying asset.

Under the proposal, leases would be classified at the lease commencement date as follows:

- leases of assets that are not property (e.g., plant, equipment, vehicles) would be classified as **Type A leases**, unless one of the following two criteria is met:

- (a) the lease term is for an insignificant part of the total economic life of the underlying asset, and
- (b) the present value of the lease payments is insignificant relative to the fair value of the underlying asset at the commencement date;

- leases of property (e.g., land and/or building or part of a building) would be classified as **Type B leases**, unless one of the following two criteria is met:

- (a) the lease term is for the major part of the remaining economic life of the underlying asset, and
- (b) the present value of the lease payments accounts for substantially all of the fair value of the underlying asset at the commencement date.

If a lessee has a significant economic incentive to exercise an option to purchase the underlying asset, the lease would be classified as Type A.

In the Basis for Conclusions on 2013 ED, the IASB notes that most leases of property would be classified as Type B leases and most leases of assets other than property would be classified as Type A leases. That is, the exception criteria noted above would be met for a relatively small population of leases (BC51-BC52).

As it can be seen, the distinction between the two types of lease under the 2013 ED is different from the current finance vs. operating lease distinction.

Still, the ED does not provide quantitative thresholds on what constitutes an ‘insignificant part’ of the total economic life or an ‘insignificant’ amount of the fair value of the underlying asset when performing the classification test for assets other than property, nor quantitative thresholds on what constitutes a ‘major part’ of the remaining economic life or ‘substantially all’ of the fair value of the underlying asset when performing the classification test for property assets (KPMG, 2013b, pp. 12-13).

Comparing the lease term of leases of non-property assets to the ‘total’ economic life of the underlying asset (as opposed to the ‘remaining’ economic life) may result in leases of certain older non-property assets being classified as Type B leases (Ernst & Young, 2013a, pp. 15). For example, many existing aircraft leases are expected to be classified as Type A under the proposals. But a three-year lease of an aircraft would likely be insignificant to the total economic life of the asset; therefore, regardless of the age of the aircraft at the commencement date of the lease arrangement, such a lease would be classified as Type B.

We conclude that evaluating whether a non-property lease meets either of the criteria for the exception would likely be subjective and require careful judgement.

Performing the lease classification tests may be very complex, as the lessees and lessors would need to determine the following items:

- *lease term* - the non-cancellable period of the lease, together with the period(s) covered by an option to extend or not to terminate the lease (referred to as the ‘lease term option’) if the lessee has a significant economic incentive to exercise that option;

- *lease payments* - payments during the lease term;

- *discount rate* - reflects the nature of the transaction and the terms and conditions of the lease (e.g., the lease term, the security attached to the lease, the nature of the underlying asset and the economic environment);

- *economic life of the underlying asset* - either the period over which the asset is expected to be economically usable or the number of production or similar units expected to be obtained from the asset; and

- *fair value of the underlying asset* using the fair value measurement guidance in current IFRSs.

Having determined the above items, lessees and lessors would determine whether the lease includes a purchase option that the lessee has a significant economic incentive to exercise. If so, the lease would be classified as a Type A lease. If not, lessees and lessors would apply the lease classification tests based on the nature of the underlying asset (that is property or not property).

#### **4. Lessee accounting**

The core principle of the proposed project of lease accounting has been that lease contracts give rise to assets and liabilities that must be recognized in the statement of financial position of both lessees and lessors.

Lessees would be required to recognise all leases, except short-term leases, in the statement of financial position. At the commencement date of the lease, lessees would recognise a liability to make lease payments (the lease liability) and an asset representing the right to use the underlying asset during the lease period (the ROU asset). The initial recognition of the ROU asset and the lease liability would be the same for Type A and Type B leases, as would the subsequent measurement of the lease liability; subsequent measurement of the ROU asset for Type A and Type B leases would differ.

##### **4.1. Initial recognition and measurement**

The lease liability would initially be measured based on the present value of the lease payments to be made over the lease term. The present value of the lease payments are discounted using the rate the lessor charges the lessee. If that rate could not be readily determined, the lessee would use its own incremental borrowing rate. The rate that a lessor charges the lessee is a rate that takes into account the nature of the transaction as well as the terms and conditions of the lease. Generally, this is the implicit rate in the lease.

The ROU asset would initially be measured at cost, based on the measurement of the lease liability. The ROU equals the amount of the liability to make lease payments, plus lease prepayments (less any lease incentives received from the lessor) and the lessee's initial direct costs.

The ED does not specifically state if the ROU asset is a tangible or intangible asset. Although the ROU asset seems to meet the definition of an intangible asset, the ED proposes that a lessee be permitted to apply a revaluation model if it meets the conditions to apply the revaluation model to property, plant and equipment (KPMG, 2013b, pp. 28).

##### **4.2. Subsequent measurement**

The subsequent measurement would depend on the nature of the underlying asset; therefore there are differences between the two types of leases. For both Type A and Type B leases, the lessee would subsequently measure the liability to make lease payments at *amortised cost* using *the effective interest method*. Lease payments would reduce the lease liability when paid.

The subsequently measurement of the ROU asset should be in accordance with one of three below methods:

- amortised cost (subject to impairment);
- in accordance with the fair value model in IAS 40 *Investment Property* if the underlying asset meets the definition of investment property and the lessee applies the fair value model as an accounting policy; or
- the revaluation model in IAS 16 *Property, Plant and Equipment* if all assets within the class of the leased asset are revalue.

The difference between the Type A and Type B leases is the way in which the right-of-use asset would be measured after initial recognition, and the associated effect on the income statement (BDO, 2013, pp. 14). Type A and Type B leases would achieve different expense recognition patterns through the subsequent measurement of the right-of-use asset.

\* **For Type A leases**, the ROU asset would be amortised on the same basis that the lessee would apply to the underlying asset, which is the way that reflects the pattern of consumption of the expected future economic benefits of the right-of-use asset.

The lease liability would be accounted for using the effective interest method (that is, in the same way as a conventional loan). Interest and amortisation expenses would be recognised separately in the income statement.

The total periodic expense (i.e., the sum of interest and amortisation expense) of a Type A lease would generally be higher in the early periods and lower in the later periods. Because a consistent interest rate would be applied to the lease liability, which decreases as cash payments are made during the lease term, more interest expense would be incurred in the early periods and less would be incurred in the later periods. This trend in the interest expense, combined with the straight-line amortisation of the ROU asset, would result in the recognition of more total periodic expense in the early periods of a Type A lease than a Type B lease (Ernst & Young, 2013a, pp. 19). This ‘front loading’ would be increased if the ROU asset is amortised on a reducing balance basis.

In addition, the amortisation expense will be included within operating results and the interest expense will be included within finance expenses. Consequently, the finance element will be eliminated from operating results. Entities will need to take into consideration the effect on their reported results, and the associated effect on key metrics that they report to the markets and other users of their financial statements (BDO, 2013, pp. 14).

\* **For Type B leases**, the lessee would calculate a periodic lease expense amount in a manner that is in some ways similar to today’s accounting for operating leases. Throughout the lease term, the lessee would recognise periodic lease expense as the greater of:

- the remaining cost of the lease (calculated at the beginning of each period) allocated over the remaining lease term on a straight-line basis, or
- the periodic interest expense taken on the lease liability (using the effective interest method).

The amortisation of the ROU asset would be measured each period as a balancing figure such that the total lease expense would be recognised on a straight-line basis, regardless of the timing of lease. In contrast to the Type A lease, the two components of the lease expense would be recognised as one single amount to be charged to operating results in the income statement.

#### **Example 1 – Lessee accounting for Type A and Type B leases with equal lease payments in each period**

A lease contains the following key terms: lease term is 6 years and the annual payments of CU1,000 are made at the end of each year. Lessee incremental borrowing rate (assuming the rate the lessor charges cannot be readily determined) is 5%.

Table no. 1 presents the effects on the lessee’s statements of financial position and comprehensive income.

**Table no. 1. Type A and Type B leases: effects on the lessee's statements of financial position and comprehensive income** - CU -

Periods	Years							Total expenses
	0	1	2	3	4	5	6	
TYPE A LEASE								
Statement of financial position								
ROU asset	5,076	4,230 <sup>(5)</sup>	3,384	2,538	1,692	846	-	
Lease liability	5,076 <sup>(1)</sup>	4,330 <sup>(4)</sup>	3,546	2,723	1,859	952	-	
Income statement								
Interest expense <sup>(2)</sup>		254	216	177	136	93	48	
Amortisation expense <sup>(3)</sup>		846	846	846	846	846	846	5,076
Total lease expenses		1,100	1,062	1,023	982	939	894	6,000
TYPE B LEASE								
Statement of financial position								
ROU asset	5,076	4,330	3,546	2,723	1,859	952	-	
Lease liability	5,076 <sup>(1)</sup>	4,330 <sup>(4)</sup>	3,546	2,723	1,859	952	-	
Income statement								
Total lease expenses		1,000 <sup>(6)</sup>	1,000	1,000	1,000	1,000	1,000	6,000

<sup>(1)</sup> Present value of the lease payments of CU1,000 discounted by the incremental borrowing rate of 5%.

<sup>(2)</sup> Present value of the lease liability at the beginning of each year multiplied by the incremental interest rate of 5%; e.g., for Year 1: CU5,076 × 5% = CU254.

<sup>(3)</sup> For Type A leases, the ROU asset's amortisation expense is calculated by dividing the ROU asset carrying amount on commencement of the lease CU5,076 by the lease term of 6 years, that is CU846.

<sup>(4)</sup> Present value of the lease liability at the beginning of the period less the 'principal' part of each lease payment; e.g., for Year 1: CU5,076 - (CU1,000 - CU254) = CU4,330.

<sup>(5)</sup> CU5,076 - CU846 = CU4,230.

<sup>(6)</sup> Accretion of interest on the liability of CU254 plus amortisation of the ROU asset at a 'balancing figure' amount of CU746 (which is also used as the 'principal' part of the lease payment) to give a total charge of CU1,000.

**Table no. 2. Type A and Type B leases: journal entries recorded by the lessee**

Journal Entries	
Type A leases:	Type B leases:
<i>(a) At lease commencement Entity A recognises the lease-related asset and liability:</i>	
Right-of-use asset CU5,076	Right-of-use asset CU5,076
Lease liability CU5,076	Lease liability CU5,076
<i>To initially recognise the lease-related asset and liability</i>	
<i>(b) The following journal entries would be recorded in Year 1:</i>	
Interest expense CU254	Lease expense CU1,000
Lease liability CU254	Lease liability CU254
<i>To record interest expense and accrete the lease liability using the effective interest method</i>	Right-of-use asset CU746
Amortisation expense CU846	<i>To record lease expense, accrete the lease liability and adjust the right-of-use asset (change in right-of-use asset = CU1,000 annual straight-line lease expense less CU254 accretion of liability using effective interest method)</i>
Right-of-use asset CU846	
<i>To record amortisation expense on the right-of-use asset</i>	
Lease liability CU1,000	Lease liability CU1,000
Cash CU1,000	Cash CU1,000
<i>To record lease payment</i>	

## 5. Lessor accounting

Lessors would account for Type A leases using a complex new accounting model. Type B leases would be accounted for using a method similar to current operating lease accounting.



### 5.1. Type A leases

#### \* Initial recognition and measurement

Upon commencement of a Type A lease, lessors would derecognise the carrying amount of the underlying asset and allocate that amount between the portion related to the right to use granted to the lessee and the portion that is retained (i.e., the residual asset). A lease receivable for the right to receive lease payments during the lease term would also be recognised. The profit related to the right of use granted to the lessee would be recognised in profit or loss at lease commencement.

The lease receivable would be measured as the present value of the lease payments to be received during the lease term. Additionally, residual value guarantees would generally be excluded from the lease receivable.

The carrying amount of the derecognised underlying asset would be allocated between the portion leased and the newly recognised residual asset. The ED describes the initial measurement of the residual asset as:

$$A + B - C \quad (1),$$

where:

- A is the present value of the amount the lessor expects to derive from the underlying asset following the end of the lease term, discounted using the rate the lessor charges the lessee (gross residual asset);
- B is the present value of variable lease payments, which the lessor expects to receive and which have been reflected in the rate the lessor charges the lessee, but which are not included in the lease receivable (e.g., variable lease payments linked to performance);
- C is any unearned profit.

The portion leased would be calculated as the ratio of the present value of the lease payments to the fair value of the underlying asset, multiplied by the carrying amount of the underlying asset immediately before lease commencement. Consequently, the initially recognised residual asset also could be initially calculated as follows:

$$\text{Carrying amount of underlying asset} - \frac{\text{Carrying amount of underlying asset}}{\text{Fair value of underlying asset}} \times \text{Present value of lease payments} \quad (2)$$

The present value of the amount the lessor expects to derive from the underlying asset following the end of the lease term would be referred to as the gross residual asset. The gross residual asset would not be recognised in the statement of financial position. The difference between the gross residual asset and the recognised residual asset would be the aggregate of the unearned profit and the present value of any variable payments included in the initial measurement of the residual asset. The recognised residual asset would be subsequently accreted.

A lessor would have a profit if the fair value of the underlying asset is greater than its carrying amount immediately before commencement of the lease. Of this total profit, the amount recognised at lease commencement is as follows:

$$\text{Profit recognised at lease commencement} = \text{Total profit} \times \frac{\text{Present value of lease payments}}{\text{Fair value of underlying asset}} \quad (3)$$

#### \* Subsequent measurement

After lease commencement, lessors would:

- recognise interest income on the accretion of the lease receivable using the effective interest method at the interest rate that would produce a constant periodic discount rate on the remaining balance of the receivable;
- reduce the lease receivable for lease payments received;
- recognise interest income on the accretion of the gross residual asset using the rate the lessor charges the lessee;
- recognise income from variable lease payments that are not included in the lease receivable in the period in which that income is earned and derecognise the portion of the residual asset associated with the variable lease payments.

### **Example 2 – Lessor accounting for Type A leases**

Lessor A enters into a non-cancellable lease contract with a lessee under which leases an equipment for 6 years. The total economic life of the equipment is estimated to be 10 years. The annual lease payments, which are due at the end of each year, are CU1,000 and lessor's discount rate is 5%. The present value of the right to receive lease payments is CU5,076 (as in Example 1).

The estimated future value of the asset at the end of Year 6 is CU1,500, which is discounted at the rate that the lessor charges the lessee (5%) to give a gross residual asset of CU1,119.

The fair value of the equipment is CU6,195 and at the commencement of the lease the equipment has a carrying amount of CU5,500. Consequently, the total profit is of CU695, allocated between the amount recognised on lease commencement and the unearned portion that reduces the carrying amount of the net residual asset.

As this is a Type A lease, the lessor would record the following journal entry at lease commencement:

Lease receivable CU5,076

Gross residual asset CU1,119

Equipment CU5,500

Gain on lease of equipment CU569

[ $695 \times (5,076 / 6,195)$ ]

Unearned profit (695 - 569) CU126

*To recognise lease asset, derecognise portion of underlying asset, and recognise gain on lease agreement.*

Lessor A would recognise the following entries at the end of Year 1:

Cash CU1,000

Interest income ( $5,076 \times 5\%$ ) CU254

Lease receivable ( $1,000 - 254$ ) CU746

*To recognise receipt of the first annual lease payment.*

Net residual asset CU56

Interest on residual accretion ( $1,119 \times 5\%$ ) CU56

*To recognise accretion of residual asset in Year 1*

### **5.2. Type B leases**

Lessors would account for Type B leases in a manner similar to today's operating leases. That is, they would continue to recognise the underlying asset and, at lease commencement, would not recognise a lease receivable (or residual asset) in the statement of financial position or profit in the statement of profit or loss. The underlying asset would continue to be accounted for in accordance with applicable accounting standards.

## **6. Conclusions**

The revised ED would result in fundamental challenges that go beyond just accounting. Some of these are the following:

- *careful judgements and estimates*: the revised ED would require entities to create an inventory of and evaluate their present arrangements; these would be necessary to determine how the proposal would affect the statement of financial position as well as the amount, timing and classification of lease-related revenue and expense to be recognised;

- *data collection and periodic reassessments*: the judgements and estimates required to account for leases under the revised ED would demand knowledge about treasury, corporate real estate, business operations, legal, IT and tax. Therefore, additional personnel may be required to gather the data needed to identify and initially record the lease, to

perform the required periodic reassessments of lease payments and discount rate and assess the impact of lease modifications (Ernst & Young, 2013b, pp. 3);

- *IT systems, processes and controls*: companies will need flexible software applications, and adaptable to changes (Lăzărică and Dediu, 2013, pp. 83); they will need to estimate their software costs;

- *Tax considerations*, especially in the current context in which tax has become a key issue of discussions (Culiță, 2013, pp. 93) [5].

In terms of financial reporting, key financial metrics would be affected by recognising new asset and liabilities. This could impact debt covenants, tax balances and payment of dividends. The proposed requirements would affect any entity that enters into a lease.

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# VALUATION TECHNIQUES USED IN FAIR VALUE MEASUREMENT

Cristina-Aurora, Bunea-Bontas<sup>1</sup>

## Abstract:

*Valuation of assets and liabilities involves significant judgements and estimates, especially when fair value measurement is required. Currently, IFRS 13 Fair Value Measurement offers a single and more comprehensive source of guidance that is applied to almost all fair value estimates.*

*When measuring fair value of fixed assets, intangible assets, specified financial assets or liabilities, different valuation techniques may be used: the market approach, the cost approach and the income approach. This article reviews these techniques and points out that different valuation practices may provide different results depending on the item being fair valued and on the inputs used. Also it emphasizes that, in particular circumstances, there is the possibility that a certain technique may be more appropriate than other.*

**Key words:** *fair value, valuation technique, market approach, cost approach, income approach*

**JEL classification:** M41

## 1. Introduction

Fair value measurement is an important area of accounting and the global financial crisis emphasised the need for clarifying how to measure fair value and also highlighted the need for improving the transparency of fair value measurements through disclosures about measurement uncertainty. International Accounting Standards Board (IASB) added the project of fair value measurement to its agenda on September 2005, as a part of its joint efforts with the Financial Accounting Standards Board (FASB), the US national standard-setter, to create a common set of high quality global accounting standards.

The goals of the fair value measurement project were:

- to reduce complexity and improve consistency in the application of fair value measurement principles by having a single set of requirements for all fair value measurements;
- to communicate the measurement objective more clearly by clarifying the definition of fair value;
- to improve transparency by enhancing disclosures about fair value measurements; and
- to increase the convergence of IFRSs and US GAAP (IASB, 2011, pp. 4; PKF International, 2012, pp.1).

Committed to achieving these goals, IASB issued IFRS 13 *Fair Value Measurement* in May 2011 (applied for annual periods beginning after 1 January 2013), establishing a single source of guidance for all fair value measurements used for financial reporting. As it is noted in the Introduction of IFRS 13, this Standard defines fair value, sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value and it does not change what is measured at fair value in IFRSs.

As we have pointed out in the prior paragraph, one of the main features that the Standard addresses is the definition of the fair value. Fair value was previously defined by IAS 39 *Financial Instruments: Recognition and Measurement*, being “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction” [IAS 39.9]. IFRS 13 has changed the definition, this being based now on the ‘exit-price’ notion.

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The Standard defines fair value as: “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” [IFRS 13.9]. We point out that this definition focuses on the price that would be received to sell the asset or paid to transfer the liability (that is the ‘exit price’), not on the price that would be paid to acquire the asset or received to assume the liability (that is the ‘entry price’). The definition is moving towards an exit value-based approach, emphasising on market participants and excluding factors that are specific to the entity (Watchman, 2011, pp. 2).

This change is important from the perspective of incorporation of credit risk (Blaik and Jacqui, 2012, pp. 3). The credit risk takes into consideration the following three types of risk: default risk, exposure risk and recovery risk (Vechiu, Tudose and Chifane, 2011, pp. 2279). The default risk resides in the probability of non-payment of an outstanding debt and the exposure risk quantifies the degree of uncertainty regarding the borrowed amounts. The recovery risk depends on the type of non-payment and other factors (e.g., the debtor’s guarantees and the type of these guarantees). Hence, the valuation technique used to estimate fair values need to be reviewed, in order to include the appropriate risk adjustments that take into account all the components of the credit risk and, additionally, the liquidity risk. According to Yong, a fair value estimate that does not take into account all factors that market participants would consider in pricing the asset or liability does not represent a fair estimate of a current transaction price on the measurement date (Yong, pp. 4).

## 2. Valuation Techniques

According to IFRS 13, the *objective* of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions [IFRS 13.62]. Some *general principles* need to be applied when selecting the appropriate valuation technique. The valuation technique should be:

- appropriate, depending on the circumstances;
  - a technique for which sufficient data is available;
  - maximise the use of relevant observable inputs and minimise the use of unobservable inputs;
  - consistent with the objective of using a valuation technique, according to the Standard.
- A valuation technique has the following principal *characteristics*:
- it is commonly used by market participants and uses inputs that market participants would usually consider;
  - it is consistent with accepted economic methodologies and techniques;
  - it relies as little as possible on entity-specific factors;
  - it is applied consistently; and
  - it has to be validated against actual market transactions (KPMG, 2012, pp. 14-15).

The Standard notes that there are three widely used valuation techniques: the market approach, the cost approach and the income approach (table no. 1). These techniques are consistent with the going-concern assumption and they may be used for fair value measurement of entities or specialized assets and liabilities.

**Table no. 1. Valuation techniques used in fair value measurement**

<b>The market approach</b>	Is based on market transactions involving identical or similar assets or liabilities
<b>The cost approach</b>	Is based on the amount required to replace the service capacity of an asset (frequently referred to as current replacement cost)
<b>The income approach</b>	Is based on future amounts that are converted (discounted) to a single present amount

Source: IFRS 13 par. B5, B8, B10-11

## **2.1. Market approach**

IFRS 13 defines the market approach as “a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities, or a group of assets and liabilities, such as a business” [IFRS 13.B5]. Under the market approach, the value is determined based on comparable transactions.

The valuation techniques based on market approach are: (a) valuation techniques using market multiples derived from a set of comparables [IFRS 13.B6]; and (b) matrix pricing [IFRS 13.B7].

(a) *Market multiples*. A market multiple expresses the value of a business or other asset in terms of its ratio to a financial, operating or physical metric. Multiples might be in ranges with a different multiple for each comparable asset or liability. When multiples are derived from a number of comparable entities, there will typically be a range of multiples calculated and the selection within the range should be based on markets’ expectations (KPMG, 2011, pp. 23). The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement (Ernst & Young, 2012, pp. 108).

In the educational material on fair value measurement issued in December 2012 (updated in February 2013), IASB provides specific guidance for using valuation techniques within the market approach (IFRS Foundation, 2012, par. 42, pp. 18). Valuation multiples can be calculated either for the equity holders (i.e. equity value) or for both debt and equity holders (i.e. enterprise value). The numerator in calculating a valuation multiple is either equity value or enterprise value (EV), and the denominator is a performance measure that has to be consistent with the valuation bases in the numerator.

For example, Earnings before interest and taxes (EBIT), Earnings before interest, taxes and amortisation (EBITA), Earnings before interest, taxes, depreciation and amortisation (EBITDA) and revenue performance measures provide returns to all capital providers, whether debt or equity holders. Consequently, investors would apply enterprise value to such measures, because enterprise value reflects the value to all capital providers. Similarly, a net income (profit or loss) performance measure is a measure of earnings (E) after providing the return to debt capital providers (i.e. interest payments). Therefore, it is a measure of earnings available to equity capital providers and, for this reason, investors would apply the equity value (i.e. an entity’s market capitalisation, based on its quoted share price (P)) to the net income measure in a price/earnings (P/E) multiple. The same logic applies to price/book value (P/B) multiples, in which book value (B) represents the book value of an entity’s shareholders’ equity. Table no. 2 summarizes the advantages and disadvantages of different market multiples.

The results of estimating the fair value using the market approach may be affected by common errors, inappropriate selection of companies or inappropriate adjustments, relying on third-party data without validating, or mismatch of multiples and financial data.

(b) *Matrix pricing*. This is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities’ relationship to other benchmark quoted securities. The method derives an estimated price of an instrument using transaction prices and other relevant market information for benchmark instruments with similar features (e.g., coupon, maturity or credit rating) (Ernst & Young, 2012, pp. 115).

**Table no. 2. Advantages and disadvantages of different market multiples**

Multiple	Resulting Value	Advantages	Disadvantages
EV / EBIT	Enterprise Value	Ignores capital structure and tax situation	Asset base differences can distort results
EV / EBITDA	Enterprise Value	Ignores capital structure and tax situation; considers asset base differences	
EV / Revenue	Enterprise Value	Easily calculated	Ignores operating differences
P/B	Equity Value	Most useful with financial institutions or 'spread' businesses	Unreliable in many industries due to different accounting practices
P/E	Equity Value	Common usage; easily computed	Influenced by capital structure and different accounting practices

Source: Adapted from Deloitte (2013b), "IFRS 13 and Valuation Techniques", 27 May, pp. 24, available at: [http://www.icapksachapter.org/wp-content/uploads/presentation/IFRSPTT\\_2013.pdf](http://www.icapksachapter.org/wp-content/uploads/presentation/IFRSPTT_2013.pdf)

## 2.2. Cost Approach

IFRS 13 defines the cost approach as "a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)" [IFRS 13.B9]. Based on the cost approach, the fair value is the cost to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence, including physical deterioration, functional (technological) obsolescence and economic (external) obsolescence (PricewaterhouseCoopers, 2011, pp. 15).

The cost approach estimates fair value using the economic principle that a buyer will pay for an asset no more than the cost to obtain an asset of equal utility. It is based on the principle of substitution, i.e. unless undue time, inconvenience, risk or other factors are involved, the price that a buyer in the market would pay for the asset being valued would not be more than the cost to assemble or construct an equivalent asset (AASB, 2011, pp. 8).

When the cost approach is applied some important issues need to be taken into consideration: availability of comprehensive cost data; replication to current depreciated state; functional and economic obsolescence; inflation; and loss of profits during reproduction.

An example of valuation technique based on the cost approach is the Depreciated Replacement Cost (DRC) method. In assessing what it might be prepared to pay for the subject asset, a potential purchaser may consider as an alternative to acquire that asset, the cost to construct a similar asset having the same functionality. This represents the maximum that a potential purchaser would be prepared to pay for the subject asset if it were new at the date of valuation (AASB, 2011, pp. 8). Sometimes, the asset being valued may be less attractive than the alternative that could be purchased, because of age or obsolescence. In this case, adjustments for depreciation need to be made to the cost of the alternative asset.

Example: Entity X has a purpose-built industrial property with an estimated life of 50 years with 15 years remaining. The property has a floor area of 3000 mp and a site area of 2 ha. The fair value of this property needs to be estimated using the DRC method.

The market value of the site area is estimated at CU50,000 per ha, by referring to evidence of comparable transactions on the land market. Construction costs are estimated at CU400/mp, on a basis of a modern equivalent building instead of an identical replacement, because it would be more cost-effective. Estimates of the construction costs were obtained from a professional cost estimator. The land and the building are fair valued at the same time.

The building cost has to be adjusted with an allowance due to age and obsolescence. This allowance is calculated on a straight line percentage deduction based on the proportion of estimated remaining economic life.



DRC method for estimating the fair value of the property is applied as follows:

• Land:	2 ha × CU50,000 per ha	CU100,000	
• Building:	modern replacement cost CU400/mp		CU1,200,000
(-) Less:	depreciation 35/50 years = 70%		<u>CU -840,000</u>
		<u>CU360,000</u>	
	Estimated DRC =	CU460,000	

### 2.3. Income approach

IFRS 13 defines the income approach as “the valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts” [IFRS 13.B10].

The valuation techniques related to income approach are based on estimated future income and profits or cash flows. The Standard provides examples of valuation methods that are consistent with the income approach: (a) present value techniques; (b) option pricing models; and (c) the multi-period excess earnings method [IFRS 13.B11]. Most commonly used are: the income capitalisation method and the discounted cash flow method.

Under the income capitalisation method, an income stream that is likely to remain constant is capitalised using a single multiplier. This method has the advantage that it is quick and simple, but cannot be reliably used in case that the income is expected to change in future periods to an extent greater than that generally expected in the market or when a more sophisticated analysis of risk is required.

The discounted cash flow method has various forms that can be used in practice. The basic characteristic is that the net income for a defined future period is adjusted to a present day value using a discount rate (Ernst & Young, 2013, pp. 9).

The inputs into a valuation technique are determined based on the following general principles:

- the assumptions used for the cash flows and discount rates should reflect market participants' views;
  - the assumptions should consider only the factors attributable to the asset or the liability being fair valued;
  - discount rates should reflect assumptions that are consistent with those inherent in the cash flows to avoid double counting or omitting the effects of certain risk factors; and
  - assumptions about cash flows and discount rates should be internally consistent.
- For example, if the cash flows include the effect of expected inflation, then the discount rate also includes the effects of inflation (KPMG, 2011, pp. 24).

Some IFRSs that deal with discount rates, such as IAS 36 *Impairment of assets*, refer to an entity's weighted average cost of capital (WACC) as the starting point in determining a possible appropriate discount rate [IAS 36.A17].

Example: Entity X has a one-year interest-bearing debt of CU10,000 at the valuation date. The interest rate of the debt is 6 percent and the market yield to maturity is 5 percent. The general approach for estimating the fair value of the short-term debt is to discount to present value, at the market rate of return, the actual or interest-based cash flow, consisting of principal and interest:

1.	Principal	CU10,000
2.	Interest rate	6%
3.	Market yield to maturity	5%
4.	Interest payment (1×2)	CU600
5.	Principal payment	CU10,000
6.	Debt service (4+5)	CU10,600
7.	Present value discount rate	0.95238
8.	Fair value (6×7)	CU10,095

It should be noted that, at the valuation date, the fair value of the short-term debt is CU10,095 that is the cash flow for a defined future period adjusted to the present day value using the discount rate.

### **3. Selecting the appropriate valuation techniques**

IFRS 13 *Fair Value Measurement* requires that an entity use valuation techniques that are consistent with one or more of the above valuation approaches. Not all of the approaches are applicable to all types of assets or liabilities. When measuring the fair value of an asset or liability, IFRS 13 requires the entity to use valuation techniques that are appropriate in the circumstances and for which sufficient data is available. As a result, the use of multiple valuation techniques may be required more frequently than in current practice.

The determination of the appropriate technique or techniques to be applied requires significant judgement, sufficient knowledge of the asset or liability and an adequate level of expertise regarding the valuation techniques.

Example 1 (adapted from Deloitte, 2013a, pp. 74-75): Entity A has a 5% equity interest in Entity B, whose shares are not traded in an active market. Entity B is considered comparable to a number of entities whose shares are traded in an active market. For estimating the fair value of the equity interest in Entity B, Entity A should use a valuation technique based on market approach or income approach, depending on the specific facts and circumstances. These techniques are common in estimating the fair values of investments in equity securities that are not publicly traded. Cost approach is generally not appropriate in estimating the fair value of investments in equity securities.

In case that no significant adjustments are required, Entity A should use the market approach. In case that direct comparables entities are not available, income approach would be more appropriate.

Example 2: Entity A acquires Entity B, whose trade name represents substantial value in business transaction, being recognized as a marketing-related intangible asset. All products and services of entity B are sold under this trade name. Upon acquiring the Entity B's assets, Entity A gained and paid for the right to use this trade name.

There is no principal market for this asset. The most advantageous market consists of the potential buyers of the acquiree, as the asset has no market on a stand-alone basis. The highest and best use of the trade name is in-use. However, there are observable inputs on comparable trade names.

In order to estimate the fair value of the trade name, the most appropriate valuation technique has to be determined. Under the cost approach, all the cost related to recreate the trade name has to be identified, operation that may be difficult to put into practice.

Considering the market approach valuation, trade names are rarely sold separately in the marketplace; thus, information required to perform this valuation method is rarely available. The conclusion is that the most appropriate valuation technique should be based on the income approach, i.e. the relief-from-royalty method. This is a commonly used method for intangible assets that could be licensed. Fair value is the present value of licence fees avoided by owning an asset. The premises of this valuation methodology is the assumption that Entity A would be compelled to pay the rightful owner of the trade name if the owner did not have the legal right to utilize the subject intellectual property (Hitchner, 2011, pp. 939-940). The two types of inputs are the royalty rate and the revenue forecast. Regarding the royalty rates, there are several data sources concerning various royalty rates used for valuation of intellectual property (e.g. Intellectual Property Research Associates Database, Royalty Source Intellectual Property Database).

The characteristics of the asset or liability being measured and the availability of observable market prices may contribute to the number of valuation techniques used in a

fair value analysis. For example, the fair value of a business is often estimated by giving consideration to multiple valuation approaches; such as an income approach that derives value from the present value of the expected future cash flows specific to the business and a market approach that derives value from market data based on observed transactions for comparable assets (Ernst & Young, 2012, pp. 108-109).

#### 4. Conclusions

IFRS 13 *Fair Value Measurement* details the framework for measuring fair value for entities reporting their financial statements based on IFRSs. Currently, the Standard provides a consistent definition of fair value, outlines several types of valuation techniques that can be used to measure fair value, and requires entities to disclose their valuation inputs, in order to increase consistency and comparability in fair value measurements.

Valuation involves significant judgement and it is based on several valuation techniques. Different valuation techniques may provide different results, because of the inputs used and the adjustments to those inputs. The existence of the different results is not due to the fact that any of these techniques is incorrect. This means that one valuation technique may be more appropriate than others, in specific circumstances.

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# RISK MANAGEMENT FROM THE PERSPECTIVE OF INTERNAL AUDIT

Florin-Constantin, Dima<sup>1</sup>

## Abstract:

*The existence of a wide range of risks with actual or potential impact on business entities is a certainty, as well as their influence on company results. In this context, the increase of the economic performance and the implementation of effective activities is strictly related to implementing a risk management system, allowing to define the principal risks of the entity, to identify and assess the risks it faces, and the creation of effective strategies to reduce them.*

**Key words:** entity, risks, risk management, internal audit, performance.

**JEL code:** M42

## 1. Introduction

The current economic environment, in which uncertainty and instability are risks that have the tendency to become generalised, causes entities to adapt to these conditions by implementing efficient and effective methods and techniques to ensure the management of threats at an increasingly higher level.

Risk identification is not always the easiest action undertaken by the entity because the changes occurring at all levels of aggregation of the economy cannot be entirely anticipated (Țenovici C. O., Ducu C. M., 2012).

Implementing internal audit is probably the most important way in which the management of the entity can ensure an effective risk management process since internal audit can provide the objective assurance of the fact that there is both an effective risk management method and an effective internal control system.

The counselling achieved through internal audit in the field of risk management can also occur through offering support in the risk analysis processes or in their control processes, as well as in identifying the methods of diminishing the risk production effects.

“Risk management is increasingly being considered a general function of the entity’s management whose objective is to identify, analyse and control the causes and effects of uncertainty and risks within an entity. The main purpose of risk management is to support the entity in making progress towards achieving its goals and objectives in the most direct, efficient and effective manner”( Williams A. C., 1995).

The faster the management’s reaction is when faced with the risks identified, the more likely is the reduction of the risks, respectively the correction of violations.

To carry out the two activities represents a contribution to optimising the entity’s performance, through the specific methods, techniques and strategies developed and implemented to reduce the threats an entity faces.

## 2. Research methodology

The research approach aims to describe risk management, both in terms of the entity, presenting the action of the process in reducing the threats that the entity is faced with and in terms of internal audit, presenting the importance and influence of the function within the process.

The study has a predominantly theoretical character and the scientific research methodology focused on an analysis of the national and international regulations in accounting, auditing, of the various articles published in the literature and the reports made by the regulatory bodies.

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In order to achieve the objective set we used the basic research by expanding the theory related to the risk management process and the internal audit function.

Although the study is theoretical, it is a source of ideas applicable in the practice of entities interested in reducing the risks arising from the activities carried out.

### 3. Enterprise Risk Management

ERM - Enterprise Risk Management is considered a continuous process that enables managing the threats that affect the achievement of the set objectives.

The Committee of Sponsoring Organisations (COSO) defines ERM as “a process carried out by the members of the Board of Directors, of senior management, as well as by the persons who are involved in establishing the enterprise’s strategy, designed to identify the potential events that could affect the enterprise and to manage risk in order to provide reasonable assurance for the management”.

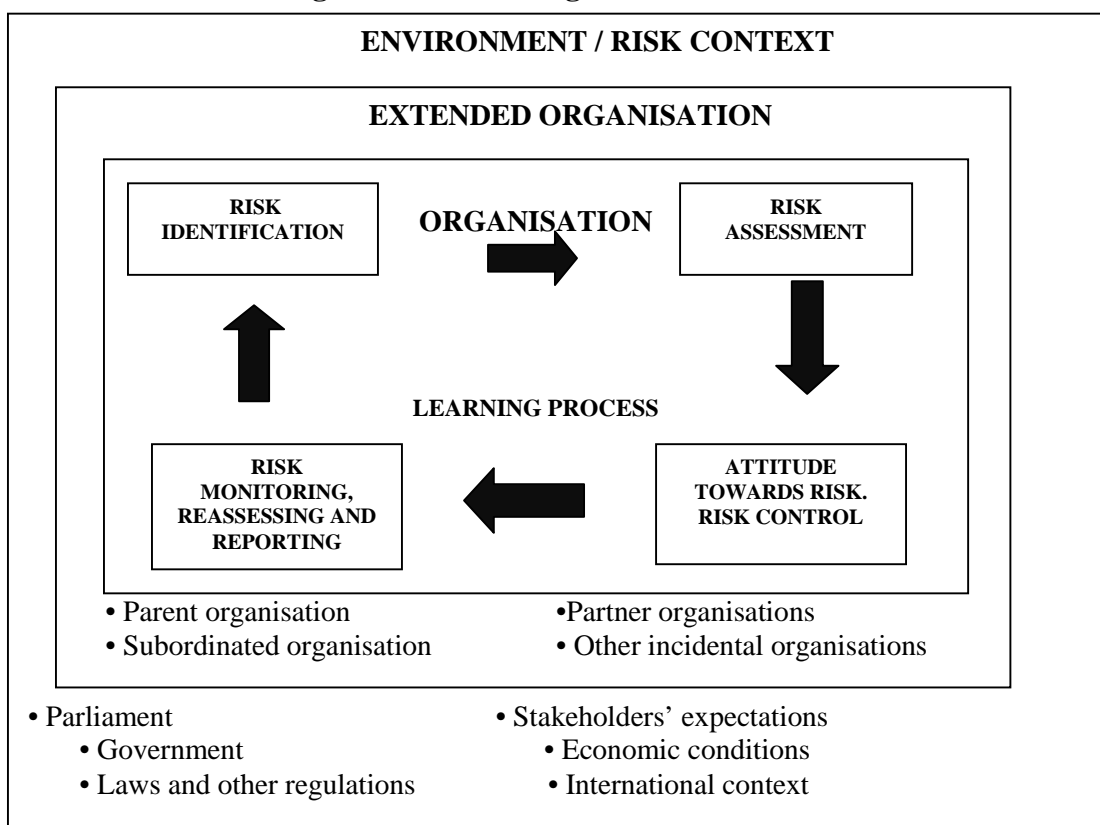
Risk administration or management refers to all the processes defined and implemented by an enterprise whose primary purpose is to reduce the existing or potential risks.

As any management activity, risk management is also based on key management processes such as:

- definition;
- identification;
- analysis and assessment;
- establishing management procedures;
- monitoring and reassessment;
- communication and counselling;
- reporting.

A general risk management model is presented in Figure 1.

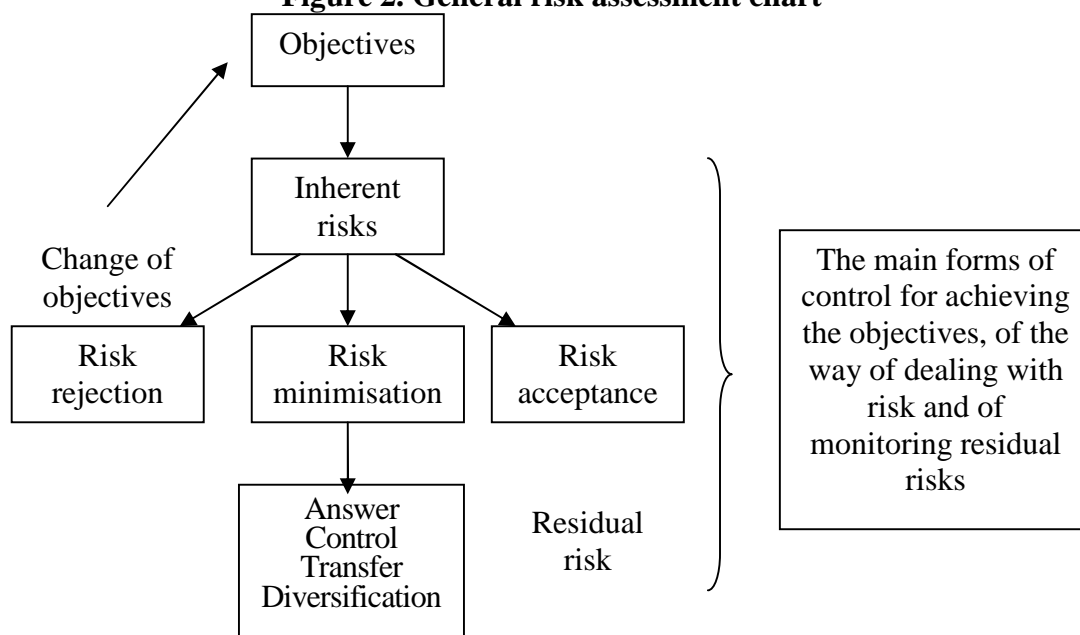
**Figure 1. Risk Management Model**



Source: Ministry of Finance (2007), Implementation methodology of the Risk Management internal control standard, p. 16

Identifying the risks relating both to the risks involved in the management process and also to the other risks that may have a significant influence on them. The focus at this stage should be directed mainly towards the distinction between risk, whose nature is potential and the problems that already exist within the enterprise, as well as on the quantification of the effects of the risks identified. At this point it is also important to identify the residual risks (risk exposure after implementing the reduction measures), which in addition to the inherent risks (risk exposure before establishing certain reduction measures) can have a major impact on the enterprise's activity. It is also now that the controlled or uncontrolled nature of the risks identified must be analysed.

**Figure 2. General risk assessment chart**



Source: Hubbard L. (2009), Skip the Numbers: Assessing Risk is not a Math Game!, p.1, available at <http://www.lhubbard.com/pubs/Making-It-Work-Risk-Assessment-is-not-a-Math-Game.pdf>, accessed on 06 January 2013

The next step is to analyse and assess the previously identified risks, which must aim at quantifying both the extent to which they can occur and the consequences of their occurrence. Within this process a comparison must be carried out between the level of risk exposure and the level of tolerance.

In order to minimise the potential effects of risks or of changing their effects into benefits the risk control process must be exercised by managing them. Thus, the risks can be accepted, avoided, partly or entirely transferred or their production probability can be diminished. Also within the process of risk management a series of control tools can delimited, namely (Vasile E., Coritoru I., Mitran D., 2012):

- preventive control instruments;
- corrective control instruments;
- directive control instruments;
- detective control instruments.

The range of risk management tools will thus be differentiated according to the stage where they are used (Ducu C., 2013).

Risk management also involves continuous monitoring as well as reviewing risk management strategies. The regular review of risk management strategies is imposed by the fact that in time the level of risk may undergo changes, the previously identified risks may disappear and new risks may arise, the enterprise's priorities may change and the effects of these changes have significant influences on the effectiveness of the risk management strategies.

It takes communication to conduct an efficient and effective risk management process as well as consultation with the stakeholders to disseminate information to all levels. Furthermore, ensuring effective risk management requires the existence of written procedures.

The main opportunities offered by the practice of risk management within the enterprise brings benefits related to (IIA, 2004):

- a greater likelihood of achieving the enterprise's objectives;
- improvement in understanding the key risks and their implications;
- a management that pays more attention to important issues;
- fewer surprises or crises;
- more information about risks and making decisions about the risks.

#### **4. The role of internal audit in risk management**

One of the important tools of risk management is internal audit which can have a significant contribution to supporting the enterprise in its approach to overcome the difficulties it has to face, arising from risks, or to support it in order to achieve and overcome the objectives or to increase performance.

Thus, the importance of internal audit within entities becomes increasingly higher and risk management is becoming increasingly necessary. Internal audit through risk management not only prevents the risks but it also makes an entity operate effectively as a result of a structured and organised approach.

Establishing the importance of internal audit in risk management must start from the definition of internal audit "which is an independent process, which provides an objective assurance, as well as consulting activity aimed at adding value to an organisation and improving its operations" (IIA, 1999).

The role of internal auditing is to provide support to the enterprise to achieve its objectives through a systematic approach in order to assess and improve the effectiveness of risk management, control and governance process.

The International Standards for the Professional Practice of Internal Auditing state that internal auditing activities should assess effectiveness and contribute to the improvement of the risk management process.

According to Standard 2120, the internal auditing activity must assess the risk exposure in relation to:

- "reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- asset protection;
- compliance with laws, regulations and contracts.

As shown above, internal audit plays an important role in managing risks, but nevertheless, in Table 1. we present the main roles that internal audit should or should not take, in terms of overall risk management.

It is obvious that between internal auditing and risk management there is a complementary relationship and the structure of the two activities can be done in several ways (Dickinson A.(2010):

- risk management and internal auditing can be considered two separate functions reporting to different parts;
- considering risk management and internal auditing as separate functions but which report to the same party;
- integration of risk management and internal auditing under the responsibility of a single person;
- combining the functions of risk management and internal auditing in a single department and reporting to the entity's management.



**Table 1. Internal auditing roles in relation to risk management**

Basic roles of internal audit	Legitimate internal audit roles	Roles that internal audit should not undertake
<ul style="list-style-type: none"><li>- providing assurances regarding the risk management process;</li><li>- providing assurances regarding the correct risk assessment;</li><li>- assessment of the risk management process;</li><li>- assessment of how the key risks are reported.</li></ul>	<ul style="list-style-type: none"><li>- facilitating risk identification and assessment;</li><li>- involvement of management in terms of how it responds to risks;</li><li>- coordination of risk management activities;</li><li>- preparation of consolidated reports on risks;</li><li>- maintaining and developing a general risk management framework;</li><li>- development of a risk management strategy.</li></ul>	<ul style="list-style-type: none"><li>- setting the appetite for risk;</li><li>- enforcement of risk management processes;</li><li>- managing risks insurances;</li><li>- preparation of decisions on how to respond to risks;</li><li>- implementation of risk response measures on behalf of the management;</li><li>- taking responsibility for risk management.</li></ul>

Source: IIA - Risk Management and Internal Audit: Forging a Collaborative Alliance, p.4

Moreover, the interdependency between the two activities occurs as follows:

- related to internal auditing, if the responsibility of risk identification and management rests with the management, the key role of internal auditing is to ensure the management that these risks were managed properly. Therefore, the fulfilment of the internal auditing mission occurs when the stability of the entity's functioning is ensured in the context in which its shares position it in the area of risk management;

- regarding the link between risk management and internal auditing, the latter should not encourage risk-taking, but facilitate taking decisions on the actions to be taken in order to diminish risks.

The existence of functional interdependencies between internal auditing and risk management leads to alleviating the economic difficulties faced by entities and even to the increase of the financial performance.

Therefore, achieving the goal of enterprise risk management aims both at the implementation of the risk management process and of the internal auditing function and their interaction as a result of their common goals.

## **5. Conclusions**

The current financial and economic turbulence that we are in has given special connotations to the risks generated by the activities performed within an entity, suggesting the importance of implementing measures to reduce them.

From this point of view we consider important a pro-active approach to the risk based on identifying the ways to prevent and diminish their negative effects.

The presentation of the risk management process has revealed the methods underlying the threats management, threats emerging within an entity as a result of the activities carried out. The effectiveness of these methods is provided by their continuous assessment and the suggestion of measures to improve them through the internal auditing function.

The implementation of internal auditing linked to the risk management considers the interdependencies between the two activities and contributes to a correct approach to the risks by the enterprise's management, realising the need to decrease them to an acceptable level.

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# IMPORTANCE OF INTERNAL AUDIT WITHIN AN ENTITY

Corina-Maria, Ducu<sup>1</sup>

## **Abstract:**

*The efficient operation of the entity in the current economic conditions involves the practical existence of an internal audit department which aims to plan and conduct various audit missions. The implementation of this function increases the efficiency to attract and use resources, as well as the effectiveness of the processes effectuated in order to improve performance. Moreover, today, the internal audit is a powerful tool to assist management in managing the operations within the entity.*

**Key words:** *entity, control, risks, governance, performance.*

**JEL Code:** M42

## **1. Introduction**

The activity related to the evaluation of risks and of the internal control, respectively the internal audit, is a relatively new component in the entities which begins to appear more and more often due to the intensification of risks.

Risks tend to be generalized to all entities as a result of globalization. Entities, aware of the importance to maintain an acceptable level of threats, invest human and material resources in the development of the internal audit departments. They usually issue manuals with internal control procedures that are regularly updated, and the assessment of the internal control and risk management evaluation is carried out regularly according to the importance of the audited activities and the risks they are subject to.

Internationally, the internal audit has become an essential component in the structure of a modern entity. This provides high efficiency through appropriate use of human, material and financial resources, and better coordination between the various departments.

Compliance with the standards of corporate governance, directing the audit department towards risk management, implementing a system of internal control based on the existing risks, management guidance provided by auditors is a few aspects that contribute to building a reputation of integrity and leads to the proper functioning of the entity. Also, the internal audit provides the necessary prerequisites so that the entity could play a positive role in the community, ensuring a public image and strengthening its image of reliability.

## **2. Methodology of research**

The objective of the research approach aims to present the importance of the implementation of internal audit within an entity.

The study has a predominantly theoretical character, and the scientific methodology is focused on: the analysis of the national and international regulations in the field of audit, the various articles in the literature and the reports elaborated by the regulatory bodies.

In order to achieve the objective we resorted to fundamental research by extending the theory on the aspects of risk, internal control, risk management, corporate governance, as well as quantitative research, through an analysis of the specialized studies in the field of internal audit.

Although the study is theoretical, it is a source generating practical ideas applicable in the practice of the entities interested in identifying accounting risks in order to evaluate them and elaborate some measures to counteract the negative effects.

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### **3. References related to internal auditing**

The Institute of Internal Auditors - IIA, in 1999, presents internal auditing as: “an independent and objective activity that gives an entity the assurance regarding the degree of control over operations, guides to improve its operations and contribute to adding a value. Internal auditing helps the organization to achieve its objectives by evaluating, through a systematic and methodical approach of its risk management processes, control, and governance of the organization, making proposals to enhance their effectiveness.”

IIA confers internal audit a rather complex definition that highlights the positive aspects of the function, such as:

- independence and objectivity;
- the role to perform thorough checks and controls to improve operations and achieve added value in the entity;
- expand the internal auditor's role, emphasizing his position as an advisor;
- specific activities are represented by internal control, governance and risk management processes.

Internal audit is considered to be an “internal device within the entity” which aims to ensure the necessary completion of operations, providing information with maximum accuracy and ensure the integrity of patrimony.

The French Institute of Internal Auditors considers that the internal audit represents an entity within “an independent activity of appreciating operations control”.

In Sawyer's Internal Auditing (Sawyer L.B., Dittenhofer M.A. and Scheiner J.H., 2003), internal auditing is considered as “a systematic and objective evaluation of the internal auditors on various operations and controls within the organization”.

In the International Standard on Auditing 610, “Usage of the internal auditors' activity”, it is stated that “the objectives of the internal audit function widely vary and depend on the size and structure of the entity and the requirements of management and, where applicable, of the requirements of those responsible with governance”.

From the references presented following objectives of internal audit can be drawn:

- the entity's risks are identified and minimized;
- compliance with external regulations, internal policies and procedures;
- satisfactory operational criteria are met;
- resources are used efficiently and rationally;
- the organization's objectives are effectively achieved.

### **4. Coordinates and approaches to internal audit practice**

The practical coordinates of internal audit highlighted the already established characteristics, such as:

#### **► Universality of the internal audit function**

Internal audit functions in all entities, irrespective of their field of activity and monitor most activities. Internal control is considered to be its main activity. Due to the fact that internal audit aims to improve the system of internal control through the recommendations made to the managers, and as internal control is universal, hence, this function can take the universality feature.

As a result, internal audit is a function of management support through which auditors help managers on the basis of the monitored activities to increase the entity's performance. Considering that managers are everywhere and the internal audit assistance is extended in all areas we can talk again about the universality of this feature.

#### **► Independence of the internal audit function**

To understand this feature it is essential to start from the existence of the internal audit department in the entity. This department operates independently from the other

departments and aims at supervising all activities in order to increase performance and achieve objectives.

This is done by:

- risk assessment activities;
- establishing internal controls based on the identified risks;
- reporting the findings to management;
- advice given to management meant to improve the activities undertaken in the entity;
- supervising the implementation of the recommendations made.

According to these functions, internal audit provides an independent and objective opinion on risk management, internal control and governance of the entity.

#### ► **Periodicity of the internal audit function**

Audit can have a permanent and regular character. The audit departments can operate all the time in an entity but there may be situations in which the conduct of audits is related to risk assessment activities. Auditors may audit the entity for 8-12 weeks and then return after a period of 2-3 years depending on the risks that the activities within the entity are subject. Thus, the internal audit activity is regularly scheduled, carried out based on standards, on schedule menus and all entries, ideas and recommendations are presented in a report assessing the overall activity within an entity.

In light of the known evolutions, internal audit has acquired various forms of life of involvement in the audited entity with functions such as:

##### **a) Advice given to management**

Internal audit is a function of advice given to the manager in order to carry out activities in the best conditions through: finding shortcomings in the processes carried out in the entity, information management and proposed solutions to correct them. The internal auditor assists, recommends and advises, but he does not make decisions, the latter remaining in the entity's management attitude.

Acting from the position of an advisor, consultant, specialist who has a number of qualities, meaning that:

- applies a series of professional standards;
- uses techniques and instruments which confer efficiency and effectiveness in the activities;
- enjoys independence and authority;
- the activity is not subject to daily pressures of work obligations.

##### **b) Aid offered to the employees without judging them**

The recommendations resulted from the entity's auditing helps employees to optimize the operations they develop. Because of this, internal auditing does not audit individuals but it focuses on the processes involved in the entity. The report issued by the auditor is very clear that there must be names of persons but that does not mean that the auditors' recommendations could have an effect on employees.

Therefore internal audit contributes to the improvement of the activities and does not judge the actions taken by the individuals in the entity.

##### **c) The auditors' independence and objectivity**

The internal audit is a function aimed at: monitoring, detecting and reporting major irregularities in an entity, and developing recommendations that will contribute to the smooth running of activities.

Throughout the course of the mission, auditors must show both independence and objectivity. The auditors' efficiency consists in the organizational independence to the management system, which allows them an objective assessment of the activities to be audited.

The auditor's objectivity consists in an impartial attitude, independence of mind and judgment, lack of compromise and removes any constraints that impede the conduct of the

activities they carry out. In other words, the auditor should see things as they are and form his own opinion which clearly reflects the situation.

## 5. Importance of internal audit within the entity

The field of internal audit is in continuous development and the interests for the efficiency of this function are mainly issues related to (IFAC-CAFR, 2009):

- **Monitoring internal control.** Establishing the adequate internal control is the managerial responsibility and requires continuous and appropriate attention, a reason for which internal audit is assigned by management specific current responsibilities related to the revision of controls, monitoring operations and recommending improvements;

- **Examination of financial and operational information.** These elements include reviewing the procedures used to identify, measure, classify and report such information as the investigation of specific problems, including detailed tests of transactions, balances and procedures;

- **Review of operational activities.** It involves examining the efficiency and the effectiveness of operational activities, including non-financial activities of the entity;

- **Review of compliance with laws and regulations.** This implies the possibility of examining compliance with laws, regulations and other external requirements and management policies, directives and other internal requirements;

- **Risk management.** It regards the possibility to assist the organization by the internal audit function to identify and evaluate significant exposures to risk and contribute to improved risk management and control systems;

- **Governance.** It implies the possibility of the internal audit function to evaluate the governance process regarding its objectives related to ethics and values, performance and accountability, communicating risk and control information to appropriate areas of the organization and efficiency of communication between people charged with governance, internal and external auditors and management.

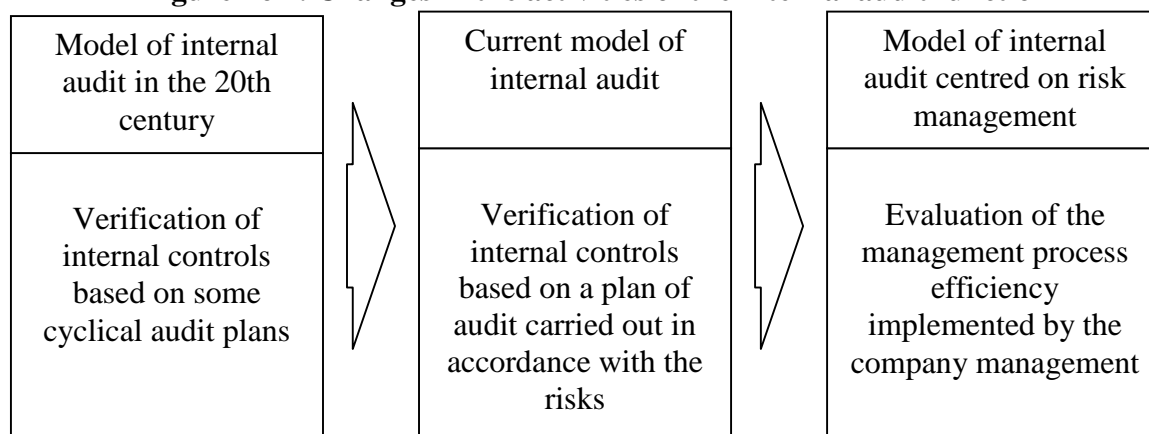
The research conducted in the field of audit presented the trends of the function for the next period, generating a transformation of internal audit. Thus, the trends cover issues related to:

- internal audit departments will focus more attention on the risks and the overall aid given to management regarding their administration;

- increase the value of internal audit in an organization is influenced by the transition from the basic audit, an activity centered on internal control of risk management.

The transformation of internal audit is presented in Figure no. 1 as it follows:

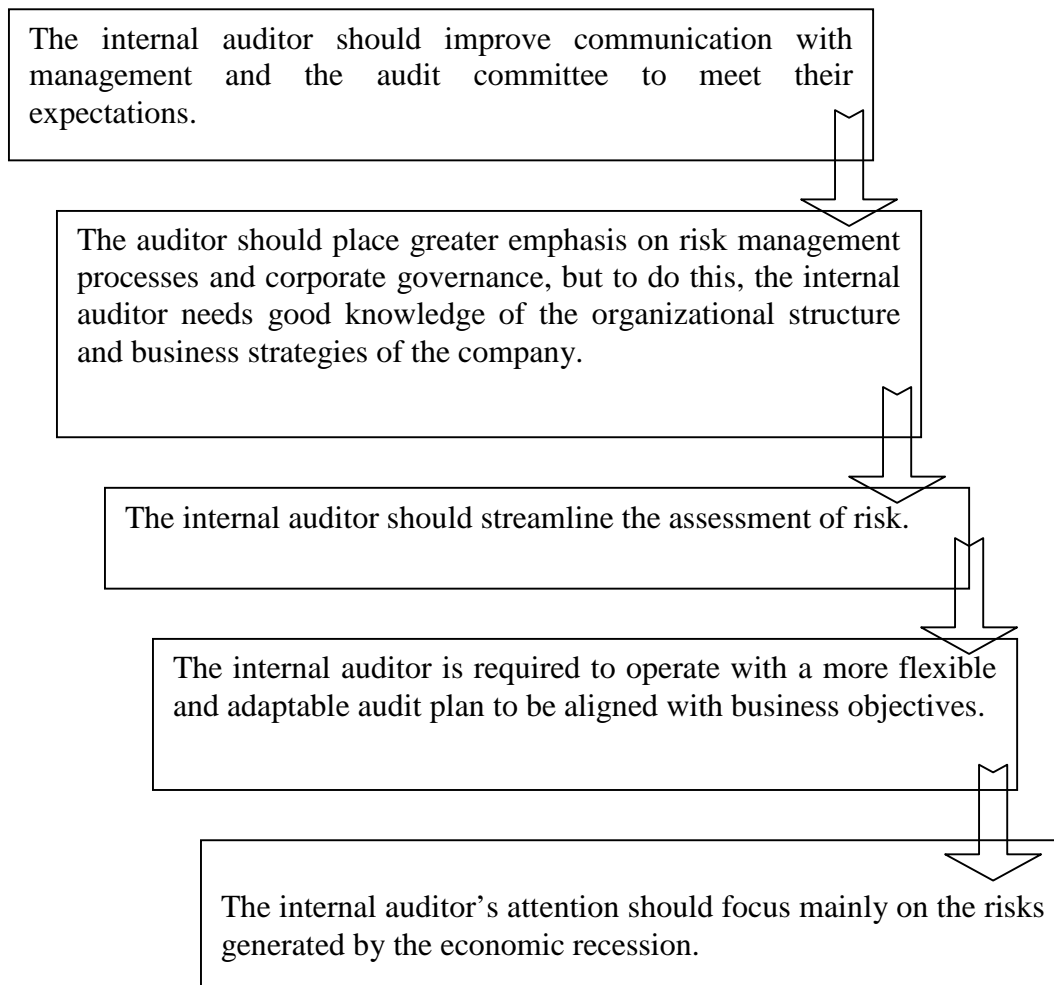
**Figure no 1. Changes in the activities of the internal audit function**



Source: Mihăileanu L. - Perspectives of changes in the activity of internal audit, article published in Financial Audit, no. 4/2009, p.27

The analysis made by IIA Global Audit Information Network (IIA GAIN, 2009) aimed to identify those areas where internal audit will need to focus attention in the near future. According to the survey, the areas of interest are: risk management, corporate governance, effective communication between management and the audit committee; managing risks generated by the economic crisis in an entity. But a primary position is occupied by the way in which internal audit will analyze the effectiveness of risk management and internal audit will also play an important role in identifying risks, risks that will affect the entity's business strategies.

**Figure no. 2. Future strategies of the internal audit**



Source: Taken from IIA, GAIN, 2009

Consequently, today, internal audit should not be considered as an internal control, but as a complex function facing aspects that regard risk management.

Efficiency is given by risk reduction activities and current exposure to risk. Conventional internal audit seeks proper risk management through internal mechanisms applied within an entity. However, today the effectiveness of the internal control system is no longer tested, but they will go on testing the ways in which management properly manages risks. Consequently, risk-based audit receives increasingly more value as a tool generating performance within the entity.

## 6. Conclusions

The business environment of the present period has undergone rapid changes with consequences that affect the business organizations worldwide. Due to globalization, the market economy has become increasingly complex and globalized; consequently, the improvement of the activities carried out within the entities acquires a major importance in achieving fair and efficient economic flows by the participants at the economic life.

The efficient functioning of the entity consists of: observing specific processes, the results representing the support to reach the established objectives, on the one hand, and on the other hand, it provides reasonable assurance that the planned activities are controlled.

In this approach, the audit has demonstrated its active role in supporting management processes of the entity, so internal audit is rightly considered a guide to performance when the responsible persons in the entity confers its proper place and role.

The internal auditors, through the labor they perform, are considered “the key to the success of an organization”. Their goal is to solve the toughest problems facing the entity. They are constantly struggling to find the best ways to achieve the goals established by the entity through continuous improvement of their skills.

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# THE ANALYSIS OF EUROPEAN INVESTMENT BANK'S ACTIVITIES IN ROMANIA

Lorena, Duduială-Popescu<sup>1</sup>

## Abstract:

*The European Investment Bank is the European Union's long-term lending institution established in 1958 under the Treaty of Rome. A policy-driven bank, the EIB supports the EU's priority objectives, especially European integration and the development of economically weak regions.*

*Its shareholders are the 27 Member States of the Union, which have jointly subscribed its capital. The EIB's Board of Governors is composed of the Finance Ministers of these States.*

*Outside the EU, the EIB is active in over 150 countries (the pre-accession countries of South-East Europe, the Mediterranean partner countries, the African, Caribbean and Pacific countries, Asia and Latin America, and Russia and other neighbours to the East), working to implement the financial pillar of EU external cooperation and development policies (private sector development, infrastructure development, security of energy supply, and environmental sustainability).*

**Keywords:** European Investment Bank, cohesion, convergence, development, benefits

**JEL Classification:** G24, F02, E61

## 1. Introduction

The EIB Group consists of the European Investment Bank and the European Investment Fund (EIF). The EIB is owned by the EU Member States. The EIF has several shareholders, the EIB being the majority shareholder:

- EIB: 66%
- European Commission: 25%
- Other European Financing Institutions: 9%

The principal area of cooperation between the EIB and the EIF is in support of small and medium-sized enterprises (SMEs). Their relationship encourages a productive sharing of expertise in support of SMEs.

The EIB provides long term loans to large capital investment projects. In addition, the Bank promotes SMEs through:

- Medium and long-term credit lines to intermediaries in the banking sector
- Venture capital activities in FEMIP and ACP
- The EIF concentrates on:
  - Investment in innovative SMEs in the EU and Enlargement area through venture capital funds
  - SME guarantee operations involving own resources or those of the EU budget

## 2. Objectives of EIB

Within the EU the EIB has 6 priority objectives for its lending activity which are set out in the Bank's business plan, the Operational Strategy (OS).

- Cohesion and Convergence
- Support for small and medium-sized enterprises (SMEs)
- Environmental sustainability
- Implementation of the Innovation 2010 Initiative (i2i)
- Development of Trans-European Networks of transport and energy (TENs)
- Sustainable, competitive and secure energy

The OS is approved by the Board of Directors and defines medium-term policy and operational priorities for objectives given to the Bank by its Governors. It is also an

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instrument evaluating the EIB's activities. This rolling plan spans three years, with the strategic projections adapted annually to take account of new mandates and changes in the economic climate.

### **3. Organization of EIB**

The EIB is governed by the:

- Board of Governors - usually the Finance Ministers of the Member States
- Board of Directors - 28 members representing each Member State and the European Commission. There are 16 Alternates, meaning that some of these positions will be shared by groupings of States. The Board also has the right to co-opt a maximum of 6 experts (3 Directors and 3 Alternates), who will participate in the Board meetings in an advisory capacity, without voting rights.
- Management Committee - the President of the EIB and 8 Vice Presidents
- Audit Committee - 3 members and 3 observers appointed by the Board of Governors

*The Board of Governors* comprises Ministers designated by each of the 27 Member States, usually Finance Ministers. It lays down credit policy guidelines, approves the annual accounts and balance sheet, and decides on the Bank's participation in financing operations outside the European Union as well as on capital increases. It also appoints the members of the Board of Directors, the Management Committee and the Audit Committee.

*The Board of Directors* has sole power to take decisions in respect of loans, guarantees and borrowings. As well as seeing that the Bank is properly run, it ensures that the Bank is managed in keeping with the provisions of the Treaty and the Statute and with the general directives laid down by the Governors. Its members are appointed by the Governors for a renewable period of five years following nomination by the Member States and are responsible solely to the Bank.

The Board of Directors consists of 28 Directors, with one Director nominated by each Member State and one by the European Commission. There are 18 Alternates, meaning that some of these positions will be shared by groupings of States.

Furthermore, in order to broaden the Board of Directors' professional expertise in certain fields, the Board is able to co-opt a maximum of six experts (three Directors and three Alternates), who participate in the Board meetings in an advisory capacity, without voting rights.

Decisions are taken by a majority consisting of at least one third of members entitled to vote and representing at least 50% of the subscribed capital.

The President of *the Management Committee* or, in his absence, one of the Vice-Presidents, shall preside over meetings of the Board of Directors but shall not vote.

As the Board of the Directors is non-resident, members do not receive a remuneration from the Bank. For each meeting day of the Board (normally ten per year) in which they participate Members and Alternates of the Board of Directors receive an indemnity of EUR 600. In addition the Bank pays a per diem of EUR 200 as a lump-sum reimbursement for hotel and related expenses to be covered by individual Board Members and reimburses travel expenses.

The Management Committee is the Bank's permanent collegiate executive body. It has nine members. Under the authority of the President and the supervision of the Board of Directors, it oversees the day-to-day running of the EIB, prepares decisions for Directors and ensures that these are implemented. The President chairs the meetings of the Management Committee. The members of the Management Committee are responsible solely to the Bank; they are appointed by the Board of Governors, on a proposal from the Board of Directors, for a renewable period of six years.

According to the Bank's Statute, the President is also Chairman of the Board of Directors.

Since the beginning of the Bank's activities, the emoluments of the members of the Management Committee (President and Vice-Presidents of the EIB) have been modelled on those of the President and Vice-Presidents of the European Commission respectively. As decided by the Board of Governors, social benefits for members of the Management Committee follow the same principles of analogy as applied to Commissioners; as a result, certain benefits are the same as for the Staff of the Bank, especially as regards medical insurance.

**The Audit Committee** is an independent body answerable directly to the Board of Governors and responsible for verifying that the operations of the Bank have been conducted and its books kept in a proper manner. At the time of approval of the financial statements by the Board of Directors, the Audit Committee issues its statements thereon. The reports of the Audit Committee on the results of its work during the preceding year are sent to the Board of Governors together with the annual report of the Board of Directors. The Audit Committee is composed of six Members, appointed by the Board of Governors for a non-renewable term of office of six consecutive financial years.

As the Audit Committee is non-resident, members do not receive a remuneration from the Bank. For each meeting day of the Committee (normally ten per year) in which they participate Members and Observers of the Audit Committee receive an indemnity of EUR 1050. In addition the Bank pays a per diem of EUR 200 as a lump-sum reimbursement for hotel and related expenses to be covered by individual Committee Members and reimburses travel expenses.

The EIB, the largest international non-sovereign lender and borrower, raises the resources it needs to finance its lending activities by borrowing on the capital markets, mainly through public bond issues. Its AAA credit rating enables it to obtain the best terms on the market. As a not-for-profit institution, the EIB passes on this advantage in the terms it offers to the beneficiaries of its loans in both the public and private sectors.

#### **4. Activities of EIB**

##### ***How does the EIB differ from commercial banks?***

The EIB is a non-profit, policy-driven public bank.

The EIB does not:

- take deposits
- manage savings accounts to fund its assets
- have private customers
- manage personal bank accounts
- conduct over-the-counter transactions
- provide private investment advice
- manage stock portfolios
- provide overdraft or short term lending facilities.

The EIB operates like a development bank, raising its resources on the financial and capital markets, mainly through bond issues or other specialised capital market operations.

The EIB makes long-term loans for capital investment projects (mainly fixed assets) but does not provide grants. At a European level grants are managed by the European Commission.

##### ***What are the benefits of an EIB loan?***

The EIB is able to raise funds at advantageous rates due to:

- An excellent AAA credit reputation
- The Bank's position as a major international borrower on the financial markets.

Being a non-profit-motivated institution, the Bank passes on the benefits to its clients in the form of loans at fine rates.

Interest rates are based on EIB's borrowing cost with a small margin to cover administrative expenses and other costs.

The EIB can offer large loan amounts over long maturities in practically all major currencies.

The EIB never finances more than 50% of the total project cost, but the involvement of the EIB can act as a catalyst, encouraging other banks, financial institutions and the private sector to participate in an investment.

As a rule, the Bank lends up to 50% of the investment costs of a project.

The EIB has two main financing facilities:

- Individual loans: provided to viable and sound projects and programmes costing more than EUR 25 million which are in line with EIB lending objectives.
- Intermediated loans: credit lines to banks and financial institutions to help them to provide finance to small and medium-sized enterprises with eligible investment programmes or projects costing less than EUR 25 million. Microfinance has also been provided by the EIB in some countries.

#### ***Individual Loans***

Individual loans (direct loans) are granted to projects where the total investment cost exceeds EUR 25 million (EUR 10 million in the case of ACP).

The EIB may finance a maximum of 50% of the total cost of any project.

Individual loans are available to promoters in both the public and private sectors, including banks.

Conditions:

The conditions of financing are adapted to the investment type. Adequate security is needed, such as that provided by a bank or banking syndicate, a financial institution, or a large diversified parent company with a good credit rating.

Interest Rates:

The Bank can offer:

- fixed rates
- revisable fixed rates
- convertible rates (allowing for the change of interest rate formula during the life of the loan at predetermined dates or periods.)

Fees:

The EIB does not normally charge commitment fees or non-utilisation fees. Fees for a project's appraisal and required legal services may be applicable in certain cases.

Currencies:

The EIB Group's financial accounts are in Euro (EUR). In addition, the Bank can lend in:

- UK Sterling (GBP)
- US Dollar (USD)
- Japanese Yen (JPY)
- Swedish and Danish Crowns (SEK and DKK)
- Swiss Franc (CHF)
- Currencies of Candidate Countries and other EIB partner countries

Repayment:

Repayment is normally on a semi-annual or annual basis. Grace periods for capital repayment may be granted for the construction phase of the project.

#### ***Intermediated Loans***

EIB Intermediated loans are lines of credit or indirect loans designed to permit the financing of projects with a total investment cost of less than EUR 25 million (EUR 10 million in the case of ACP).

An EIB credit line may finance up to 50% of the total cost of any project or, in certain case, the 100% of the loan granted by the intermediary bank.

Credit lines are granted to intermediary banks and financing institutions in the country in which the project is based. These institutions pass on the EIB funds to the promoters, generally SMEs and local authorities.

To qualify as an SME, a company must normally have fewer than 250 employees.

Conditions:

The conditions of financing (interest rate, grace period, loan period etc) are determined by the respective EIB partner bank. Maturities typically range between 5 and 12 years.

Lending decisions under these schemes remain with the financial intermediaries.

Promoters are requested to apply directly to one of the intermediary banks and financing institutions, which operate on a national, regional or local level.

### **Microfinance**

The EIB Group has a longstanding record in microfinance. Since 2000, it has supported Microfinance Institutions (MFIs), fund providers and other industry stakeholders in addressing specific market failures and promoting financing solutions for Micro, Small and Medium Enterprises (MSMEs) and low income self-employed.

As of end 2009, the EIB group has committed EUR 654 million to around 30 microfinance projects or intermediaries, including EUR 26 million in grants for technical assistance. Operations are financed from the EIB's own resources or under the European Union's mandates and uses a combination of financial and non-financial instruments.

The EIB Group is to date active in microfinance in three regions: in Sub-Saharan African, Caribbean and Pacific countries (ACP region); the Mediterranean partner countries and in Europe.

Created in 2008, the Microfinance Centre of Expertise (MCE) acts as the knowledge-sharing platform for EIB professionals from a variety of backgrounds for exchanging and capitalising on experiences, best practices and industry developments. Through this joint resource, the EIB participates in various initiatives of the microfinance sector.

Some of the first EIB microfinance operations took place in the African, Caribbean and Pacific countries. They have gradually been extended to the Mediterranean Countries and Europe (including the European Union but also Eastern Europe and the Candidate Countries). Each region is characterised by the type of intervention (instruments) and the origin of the financial resources used (own resources, EC, etc.). Some 75% of the amounts committed to microfinance is for operations in Europe while 75% of the number of microfinance operations relates to counterparties outside the European Union.

#### **• In Africa, the Caribbean and the Pacific (ACP)**

The ACP region accounts for the lion's share of the EIB's microfinance portfolio with a total of approximately EUR 129 million committed in debt and equity in both microfinance investment vehicles (MIVs) and microfinance institutions. Since 2005, the geographical focus of ACP microfinance operations has shifted from the Caribbean to Africa, where EIB's portfolio stands at about EUR 102 million in twelve microfinance operations. Almost 75% of the ACP portfolio (EUR 96 million) consists of investments in ten MIVs, with either a regional or global scope, and only a small proportion is earmarked for MFIs in ACP countries.

#### **• In the Mediterranean Region (FEMIP)**

With the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) Trust Fund, the EIB is the third largest microfinance lender in the Mediterranean region and has provided EUR 29 million in direct local currency funding to microfinance institutions in Egypt, Lebanon, Morocco, Syria and Tunisia since 2003. Technical assistance affords further support for the establishment of new well-governed microfinance institutions or for helping existing ones to fully integrate into their local financial sector by obtaining financing from local banks. *FEMIP's microfinance resources have one very important advantage: the fact that loans can be provided in the local currency.* The EIB bears, in exchange for a premium, the foreign exchange risk against the euro.

### • *Inside Europe*

In the European Union, the European Investment Fund (EIF) conducts most of the microfinance operations, as it is the main source of risk capital and guarantee products for small and medium businesses. EIF's operations range from investing in microfinance funds/vehicles to participating in risk sharing arrangements, and guarantee and securitisation operations. The European Commission has commissioned the EIF to implement a series of initiatives promoting the development of microfinance activities: the Joint Action to Support Microfinance Institutions in Europe (JASMINE, which is designed to develop microcredit in the European Union) and the Joint European Resources for Micro to Medium Enterprises initiative (JEREMIE), which is intended to enhance access to finance for small and medium-sized enterprises.

More recently, the European Commission and the EIB Group launched the European Progress Microfinance Facility, a EUR 100 million facility aimed at refinancing and guaranteeing financial intermediaries that target individuals who want to start or further develop their own micro-enterprise, including for self-employment. Intermediaries may include commercial banks, microfinance institutions, guarantee institutions and community development finance institutions. Financing instruments will take the form of guarantee products and funded instruments.

At a wider level, the EIB Group funds microfinance activities under EC-financed mandates or from its own resources, in EU Member States, as well as in EU Candidate and Potential Candidate Countries (the Western Balkans and Turkey). The EIB is one of the early investors in the European Fund for South East-Europe (EFSE), which is intended to foster economic development mainly in the Western Balkans as well as in Bulgaria, Romania and Moldova through the provision of loans to micro and small enterprises and low-income households.

### **5. The projects of EIB**

The EIB finances projects across most sectors. These projects must contribute to the following EU economic policy objectives:

- Cohesion and convergence promotes developing regions within the EU and is key to the integration objectives of the Union.
- Support for small and medium sized enterprises (SMEs) is central to the EU's economy and employment.
- Environmental projects play an important role for the EIB, protecting and improving the natural environment, and promote social well-being in the interest of sustainable development.
- Innovation supports the goal of establishing a competitive, innovative and knowledge-based European economy.
- Trans-European Networks (TENs) are large infrastructure networks of transport, energy and telecommunications underpinning the developmental and integration goals of the European Union.
- Promoting sustainable, competitive and secure energy sources.
- Support for human capital, notably health and education.

### **6. The European Investment Bank's activity in Romania**

Although most of the European Investment Bank's loans are given to the government in order to improve the infrastructure of the country, there are other sectors which benefit from funding. We will take all of them one by one in order to see what Romania improved with this money.

#### • **Infrastructure**

The Municipality of Bucharest has initiated the project "Bucharest urban infrastructure", consisting of a number of civil works and urban rehabilitation investments to enhance the environmental situation and improve the infrastructure in Bucharest. This project was co-financed by the EIB with a sum amounting to 110 mil euro.

The Bank provided also a total of 550 mil euro to implement short term reconstruction measures as well as medium-term prevention projects to reduce the impacts of natural disasters and to reconstruct damages caused by the recent devastating floods.. EIB granted Romania a loan with a total value of 397 mil euro for five urban and national transport projects, for a 15-year period with a five-year grace period. This project's aim was to improve the efficiency of the activity, safety and comfort of passengers and drivers on national roads, of those who make use of the harbor infrastructure and of those who use common transport means in Bucharest.

- **Telecommunications**

Two loans were given for upgrading the national telecommunications network, amounting 120 mil euro in order to finance the company's investment program ( new switching and transmission equipment and optical fiber cables) for achieving a higher telephone density and introducing new telecommunications services.

- **Heating system**

Radet R.A., received a loan of 35 mil euro as to finance the rehabilitation of the heat distribution grid of Bucharest.

- **Environmental protection**

Substantial investment is needed in environmental protection and improvement in Romania, notably to help the country achieve EU environmental standards in terms of air quality, drinking and wastewater management, and solid urban and industrial waste processing. The EIB plays an important role in this area.

In 2013 the Bank supported the construction of the Bucharest Glina Wastewater Treatment Plant ( 25 mil euro). In addition, in 2013, the EIB provided 41mil euro for the rehabilitation and expansion of sewerage systems in six Romanian municipalities.

- **Health system**

The public healthcare is financed from the state budget, local budgets, social health insurance and other sources. The state and local budgets are mainly sustaining health programs and investments in buildings, appliances, endowment etc., while the health insurance covers mainly the healthcare services, the drugs reimbursement and the „per capita” wages of the general practitioners.

For investments, external loans were obtained, from the World Bank and the European Investment Bank.

Two phases of a Health Management Information System project was realized, with a World Bank loan and from the state budget. The main beneficiaries were the Ministry of Health, the County Health Authorities and a small number of pilot healthcare units.

- **Banks**

The European Investment Bank has provided a first 10 mil euro tranche under a 30 mil global loan for ABN AMRO Bank S.A. The bank will use the funds for financing small and medium-scale projects undertaken by Romanian companies and utilities. Investments in energy, telecommunications, industry and tourism schemes are expected to absorb the largest share of this credit line.

In 2012, the EIB provided intermediated loans to Banca Comerciala Romana (50 mil euro) and Bancpost (20 mil euro).

Other banks that received loans are Citibank Romania (20 mil euro), HVB Bank Romania (20 mil euro) and the Romanian Bank for Development (50 mil euro).

## **7. Conclusion**

The shortage of money from the budget can be counteracted by accessing structural funds, in which the grant ranges from 70 percent to 85 percent, and the EIB is one of the institutions to have products meant to cover co-financing. The EIB is not interested to

know whether the project comes from the Government, from the local administration or from the corporate area, it is concerned with the quality of the project.

The involvement of the EIB in combating the effects of the global crisis is reflected by the increase in the value of the loans given to Romania, from 1.1 billion euro in 2012 to 1.5 billion euro in 2013, everybody knowing that it is difficult to get funds during a crisis.

Projects in the field of the knowledge based society (research and design in computers and some testing technologies) got 15 mil euro as funding and 25.3 mil euro were allocated for environment protection. The EIB signed a 200 mil euro contract on designing and making equipment, building and exploiting some energy producing units near Ploiesti (southern Romania).

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# THE "PARENT" COMPANY, PART OF THE ACCOUNTING ENTITY GROUP, IN THE CURRENT NATIONAL AND INTERNATIONAL LEGISLATIVE CONTEXT

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## Abstract:

*Study's objectives include:*

1. Knowledge of the economic context of classification of the parent company in the group of accounting entities, in order to establish the development needs, resources and the activity conduct of private economic group versus State-held economic group.

2. Systematic analysis of the economic potential at the legislative level, in order to identify differences in corporate governance as an instrument to increase the performance of private economic interest group versus State-held group and integration into a general descriptive context to facilitate the use of available information in their field of interest, the exchange of experiences and best practices.

The premise of this paper is intended to be a starting point in an active approach and encouragement of economic entities to meet economic groups in order to have easier access to sources of funding and to provide economic stability and credibility in the industry where they activate.

The research is experimental, both qualitative and quantitative, by explaining the current national and international legal context of the studied phenomenon.

The information are based on the bibliographical and direct documentation on reality, direct contact of primary documents, as well as on decision-making persons in such group companies.

Information about the status of the studied phenomenon anchored in the national economic reality is estimated to be obtained.

**Keywords:** group of companies, corporate governance, group of economic interest, budgetary, parent company.

**JEL classification:** G02, H30, H32

## Foreword

Distinct entities for economic values managements, whether natural persons or legal entities having the bookkeeping as their scope of business activity, stand out as accounting entities, by virtue of the Accountancy Law no. 82 / 1991, as republished (2008) and updated by virtue of Government Emergency Ordinance no. 37/2011 for the amendment and adjustment of the Accountancy Law no. 82/1991 as well as for the amendment of other incidental normative deeds (Official Gazette no. 285 from April the 22<sup>nd</sup> 2011).

Subject to the form of property over the capital, the accounting entities are:

- state property(national enterprises / companies, self administrations (SA), national research development institutes - NRDI) and

- private property(social property enterprise - private company, personal enterprise - one single person shall contribute to the entire share capital, shall be the direct leader and shall be liable with the latter's estate for the obligations having been undertaken).

In order to classify the parent company within the current internal and international legislative system, one has considered the following:

1. The national framework for the regulation and enforcement of group companies;
2. The impact of group companies on the Romanian accounting system;
3. Corporate governance – an instrument for the enhancement of the performance of a private group of economic interest against a budgetary one.

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## **1. National framework for the regulation and enforcement of the group companies**

From a legal perspective, one private company may organize its usual exterior structures – namely branches and subsidiaries, as well as its interior structures – agents (commercial representative offices).

An incidence to this fact may be found in the Norm of the National Bank of Romania no. 12 /2003 on the surveillance of solvency and high exposures of credit institutions, with the latter's subsequent amendments and adjustments, as well as in Law no. 161/2003 on certain measures for the ensuring of the transparency in terms of exercising public dignities, public functions and in the business environment, the prevention and sanctioning of corruption, with the latter's subsequent amendments and adjustments, Law no. 571 /2003 regarding the tax code, as republished, with the latter's subsequent amendments and adjustments.

Norm of the National Bank of Romania no. 12/2003 on the surveillance of solvency and high exposures of credit institutions, with the latter's subsequent amendments and adjustments, shall address the credit institutions, Romanian legal entities and shall regulate the surveillance of solvency and high exposures, on both an individual and consolidated basis. Within this norm of the National Bank of Romania, under art.2 one defines the terms, therefore: point 11 of the same Norm of the National Bank of Romania defines the *parent company* both within the meaning stipulated by the Law no. 58/1998 regarding the bank activity in Romania, with the latter's subsequent amendments and adjustments, as well as within the meaning of any entity which, in the opinion of the National Bank of Romania, is actually exercising a dominant influence (control) over any other such entity; point 16 defines the group – several such entities (members), as reunited subject to a certain criterion.

Law no. 161/2003 on certain measures for the ensuring of the transparency in terms of exercising public dignities, public functions and in the business environment, the prevention and sanctioning of corruption, with the latter's subsequent amendments and adjustments, shall define and regulate the notion of *GEI – group of economic interest* \_within Title V, chapter I, section 1, art.118, paragraph (1)- *Group of Economic Interest - GEI* shall stand for an association between two or several natural persons or legal entities, as established for a limited period of time, in view of facilitating or developing the economic activity of its members, as well as improving the outcomes of the said business activity.

Paragraph (2) of the same title defines the *Group of Economic Interest* as being the profitable legal entity, which may have the capacity of a trader or non - trader.

Law no. 571/2003 regarding the Tax code, as republished, with the latter's subsequent amendments and adjustments, within chapter III, art. 7, point 21, shall define and regulate the affiliated persons – one person shall be affiliated with another person if any such relation between the latter shall be defined by at least one of the following cases:

a) one natural person shall be affiliated with another natural person, if the same are husband / wife or relatives up to the third degree, as included. Between the affiliated persons, the price as per which one shall transfer the tangible or intangible assets or any services are provided shall stand for the transfer price.

b) one natural person shall be affiliated with a legal entity, if the natural person shall hold, either directly or indirectly, including the holdings of the affiliated persons, a minimum of 25 % of the value / number of the equity interests or rights of vote, as held at the legal entity, or if it shall actually control the said legal entity.

c) one legal entity shall be affiliated with another legal entity, if at least:

(i) the first legal entity shall hold, either directly or indirectly, including the holdings of the affiliated persons, a minimum of 25 % of the value / number of the equity interests or the rights of vote at the other legal entity, or if it actually controls the said legal entity;

(ii) the second legal entity shall hold, either directly or indirectly, including the holdings of the affiliated persons, a minimum of 25 % of the value / number of the equity interests or the rights of vote at the first legal entity;

(iii) one third party legal entity shall hold, either directly or indirectly, including the holdings of the affiliated persons, a minimum of 25 % of the value / number of the equity interests or the rights of vote both at the first legal entity, and at the second such legal entity.

Also, art.19 point 5 of the Tax Code stipulates that transactions between affiliated persons shall be carried out as per the principle of the free market price, according to which the transactions between affiliated persons shall be accomplished under the conditions established or imposed which shall not be different from the commercial or financial relations agreed upon between independent companies. Upon establishing the profits of the affiliated persons, one shall consider the principles regarding the transfer prices.

Technically, there shall always exist one such *group of companies* when, for instance, one company, hereinafter referred to as the *parent company*: shall hold the majority of the rights of vote of the shareholders or associates within another company, hereinafter referred to as a branch, or the parent company shall be a shareholder or associate and the majority of the members of the administration, management and supervisory bodies of the said branch have been appointed only as a consequence of exercising its rights of vote.

In other words, the existence of one such *group of companies* shall be rendered by the form of control, as exercised by one such company over another one.

Such groups of companies include independent enterprises from the legal perspective however which are closely connected between them by contributions and contractual relations.

The obligation as to accomplishing the consolidation shall fall under the duty of a private company, regardless of the form of property, as of the time the latter exercises, either directly or indirectly: - one exclusive control (over 50% of the rights of vote within the general meeting of the shareholders), or, one joint control ( the power over one joint venture shall be exercised by virtue of the unanimous agreement of the participants sharing the control), or one significant influence over one or several companies (one company shall hold a significant number of votes, somewhere between 20 % - 50 % within the meeting of another company, having however only the power to participate, and not control as well).

## **2. Impact of group companies on the Romanian accounting system:**

The thought and practice in terms of the Romanian accountancy has followed several stages in its formation: the years 1837-1900 have meant the appearance of the Romanian accounting literature; the years 1900-1947 have stood for the period of the appearance of the first accounting books in Romanian – translations of foreign authors; the ripening of the accounting thinking.

1908 has been a turning point, since it was then when it appeared the first issue of the General Magazine of Trade and Accountancy, followed by:

- the stage of socialist realism (1947-1990) which develops in the economic environment, as planned in a centralized manner and

- the current stage after 1990, when one aims, by several legislative measures, at the compatibilization of Romanian accounting practices with the international ones (particularly with the European ones).

In the market economies, the accounting dualism plays a dominant role, dividing the information users in: external and internal users of information in terms of the said enterprise, so that the financial accountancy is designed for third parties, and the management accountancy is designed for the management.

At a national level, the process of accounting normalization is of a public type, the accounting norms are drawn up by a state body, the institutional reform has also be present in the future as well, so as to be able to lead towards a mixed accounting normalization, as accomplished by an independent body.

From a tax and accounting perspective, Law no. 571/2003 regarding the Tax Code, as republished, with the latter's subsequent amendments and adjustments, Law no. 82 /1991 on accountancy, as republished, with the latter's subsequent amendments and adjustments, Order no. 3055/2009 on the accounting regulations for the approval of the accounting regulations, as compliant with the European directives, as amended by virtue of Order no. 2239/2011 for the approval of the simplified accounting system, shall hereby define and regulate the parent company, the affiliated persons.

The impact of such group companies on the Romanian accounting system comes in terms of the alignment of the Romanian accounting regulations with the European directives, out of the need for a certain convergence and uniformity in accountancy.

For instance, the 7<sup>th</sup> Directive of the European Economic Community (EEC) refers to consolidated financial standings, the consolidation of accounts being required in the case of the groups of companies and standing for an overall of techniques that enable the elaboration of unique documents of synthesis for one single group, treated as a sole entity.

Basically, the consolidation of accounts consists in replacing the equity interests that are present in the balance sheet of the consolidated company, with the share of the own equity of the issuing company, as held by the consolidated company, including the share of the result corresponding to any such equity interests.

One group of companies is tempted to optimize its tax regime, by localizing its maximum profit, by the commercial operations between the group companies, where the tax, as owed, is lower. Under such circumstances, the business ethics dictates that transactions and non – financial operations between group companies shall be made at the usual market price. British call it “business ethics”, Romanian call it ...improvising.

### **3. Corporate governance – an instrument for the enhancement of the performance of the private group of economic interest versus the budgetary one**

The corporate governance principles relate, in particular, to the shareholders' rights, the fair treatment of shareholders, the role played by stakeholders in terms of the private company's business activity, the information, transparency, administration of the said company and the administrators' liability.

In Romania, the implementation within the private companies legislation, of the principles of corporate governance referred to joint stock companies (SC) that act on the capital market (Law no. 297/2004 on Capital Market, Government Emergency Ordinance no. 28/2008 for the amendment and adjustment of Law no. 273/2006 on local public finance).

For the accomplishment of the common requirements, as deriving out of the status of a member state of the European Union (acquis comunitare) and the establishment within the private companies' legislation of the corporate governance principles, one has passed the Law no. 441/2006 for the amendment and adjustment of Law no. 31/1990 on private entities. This latter law has been followed by the Government Emergency Ordinance no. 82/2007 and by Government Emergency Ordinance no. 52/2008, by which one has brought new amendments and adjustments to the law on private companies.<sup>1</sup>

The big economic operators – public enterprises – autonomous administrations and private companies, where the state holds some full or major contributions – stand for a significant segment of the national economy.

For the state companies efficiency (namely those public enterprises), the improvement of the latter's corporate governance shall stand for one objective undertaken by the Romanian Government, by the Letter of Intent addressed to the International Monetary Fund, as approved by the Government by the memorandum on the 7<sup>th</sup> of June 2011, as reviewed.

Thus, one has passed the Government Emergency Ordinance no. 109/2011 on public enterprises' corporate governance.

The state companies are private companies, subject to the privatization process, with the mentioning of the fact that in case of those autonomous administrations, which belong to strategic branches of the national economy (energetic, mining, oil and gas, post office, telecommunications, railway transport), the Government may decide on the companies, as resulted out of the transformation of the said autonomous administrations, in terms of whether to keep the normative share of control, or to sell the majority pack to portfolio investors, - art. 34, paragraph(1) of Government Emergency Ordinance no. 88/1997 on privatization.

A *group of economic interest (GEI)* is a relatively new entity and very little practiced in the Romanian law, as acknowledged by virtue of the 5<sup>th</sup> Title of the Law no. 161/2003 on certain measures for the ensuring of transparency while exercising the public dignities, the public functions and in the business environment, the prevention and sanctioning of corruption, with the latter's subsequent amendments and adjustments.

The model according to which one has built this particular regulation is that of the similar institution from the French law. The purpose of establishing one *GEI* is that of facilitating, developing or improving the economic activity of the group members, there being forbidden any distribution of dividends among the group members.

The group (*GEI*) may gather together either private companies, in an exclusive manner, or companies and other forms of enterprise organization (including persons exercising liberal professions).

*GEI* may be established with or without a share capital. The organization and operation of one *GEI* are similar to the ones established under the law for general partnerships (GP), and subject to their object of activity, they may hold the capacity of a trader or not.

*GEI* is a profitable legal entity, a special form of a private company, which combines the characteristics of general partnerships(GP) with the ones of the civil society (is profit – based, it has a joint fund of financial assets or resources, association to risks). In particular, *GEI* may not distribute the profit to its members, the group being established in view of improving the economic performances of the latter's members and not for getting profit. The risk that is shared by the members refers only to losses and not to profit.

### **Conclusions**

1. At present, in Romania, from a legal perspective, the *group companies* are not regulated, which means that, legally, each such private company shall be individually viewed as one entity. The *group of companies* has no legal personality of its own, consists of two or several companies that are theoretically autonomous, however subject in fact to one single economic and financial management. The group characteristic is rendered by the control, which may either sole or joint.

Such control may be exercised by the same administration (directorial control), or by the same majority shareholders (shareholding control).

In practice, there are two possibilities:

a) the company called head of the group or the parent company shall preserve an industrial or commercial activity, sometimes in connection with the business activities of other such companies, where it holds shares, as acknowledged under the name of branches;

b) the *parent company* is a holding company, whose assets consist only of securities and whose objective is represented by the management of this portfolio.

From an economic, financial – accounting perspective, although the groups of companies often include big companies, the group structure is also adopted by small and medium – size enterprises.

The economic reality in the recent years has rushed the re – grouping of priorities, the re – thinking of business, has led to alliances between companies so as to focus on the latter's maintenance on the market, has had as a consequence the increased preoccupation for the provision of liquidities in an attempt to consolidate the financial stability of one such economic entity.

Within this policy of growth and concentration, private companies have purchased equity interests, and in order to become as less as possible vulnerable and more and more efficient, companies have approached the concentration policy: - vertically: the integration of all stages of the production and distribution cycle, as related to one category of products; - and / or horizontally: the integration of distinct, complementary or similar activities.

As long as in Romania group companies shall not be legally regulated, the latter shall adjust to the legislation in force.

As long as state monopolistic structures make a selection on the market and the access of private companies shall be restricted by norms, regulations, minimum reserves, productivity shall remain low, it may not be managed, and taxation shall restrict consumption, the economic market shall become neither stronger, nor competitive.

2. From a fiscal perspective, in Romania one acknowledges the group of companies as being a sole group of taxable persons only in terms of the Value Added Tax (VAT), under certain circumstances, as regulated by the Tax Code corroborated with the norms. This latter group of taxable persons are independent from a legal point of view, however they are in some close relations one with the other one from an organizational perspective. One such taxable person may not be part but of one single group, and the option relating to the appurtenance to the tax group shall refer to a period of at least 2 years, in which period of time all taxable persons within the group shall apply the same fiscal principles.

From a financial – accounting perspective, the valid Romanian norms, as regulated by virtue of the Order no. 3055/2009, on accounting regulations, with the latter's subsequent amendments and adjustments, as compliant with the 7<sup>th</sup> Directive of the European Economic Community, shall sketch the form and substance of the consolidated annual financial standings, the drawing up rules, as well as rules for the approval, auditing and publishing of the latter.

If fiscally, the taxable persons within one group are under the obligation to apply the same tax principles, namely the economic entity is checked at an individual level, the financial accountancy treats the economic entity both individually as well as within the group, if it meets certain conditions in terms of form and substance. In other words, there is a general obligation to apply the consolidated financial standings, as applicable for the entity (*parent – company*), however there are also some exceptions from this obligation, which are stipulated within the norms 3055/2009.

The prevalence of the tax over the accounting interest makes the consolidated application of the annual financial standings be difficult for the group of small and medium – size companies, which are not under the obligation to apply the international accounting standards.

In the Romanian economic environment, one has created no such real conjectures for the latter's application at a large scale, since they require some complex information requirements, the training of professionals for the purpose of understanding and enforcing these standards.

3. In Romania, *corporate governance* applies to public enterprises and joint stock companies that act on the capital market.

For those public entities, *corporate governance* should act as an instrument of economic re – launch, for the economic operator's efficiency and for the increase of the latter's contribution to the improvement of the economy parameters and the balancing of the state budget, there being no appurtenances of any *group of any economic interest* whatsoever.

For those joint stock companies that are listed on the stock exchange, the *corporate governance* should act particularly for a fair treatment of shareholders.

The establishment of the *group of economic interest* aims to the development and economic improvement of the group members, so as to deal with the competition needs, not for getting profit; however the *budgetary* and quasi – fiscal deficits coerce the government to get finance from the banks, to the detriment of private economic entities.

*Budgetary* expenses make it impossible for the lowering of taxes, and when the latter however do drop, the lowering is compensated by the increase of duties and fees.

In the case of private economic entities that are part of one given group, the benefits of applying the *corporate governance* may be found in the application and compliance with the accounting policies versus the tax policies adjusted to the economic context where the group of entities carries out the latter's business activity, thus in this group of private entities the financial – accounting rules are well delimited from the tax rules which serve distinct purposes, have distinct objectives and rely on distinct principles.

The differences between the accounting results and the tax ones or between the methods, as applied within the process of getting these results, are essential elements of analysis within these private entities. These companies develop their own mechanisms of tax management for the purpose of minimizing the tax cost, by starting from this *corporate governance* principle.

The group benefits, as paid through inflation and deficits, in general, by an excessive politicization of fiscality shall be replaced by the dynamism of small businessmen, of the group of small and medium – size enterprises, since the market allots the resources and activates the human resource.

The difference of an economic level between the distinct regions in Romania is given by the degree of prosperity of small entrepreneurs, investors being attracted by big markets, where they may easily place their merchandise or where they may choose the labor force.

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# ALTERNATIVE MODELS OF FINANCING REGIONAL DEVELOPMENT

Cristina, Gradea<sup>1</sup>

## Abstract:

*Public financing of infrastructure proved underperforming at uneconomic prices, and because of political interference in the management of funds, understanding the problem leading to the adoption of private funding variant, an effective way of private funding being **the financing of the project**.*

*Project financing is a concept that assessed by means of financing a specific technique. In this context, those granting funds usually through loans typically are only interested in cash flows and project profit, which are a source of funds for repayment of loans; they are less interested in the creditworthiness of those employed in the project (organizations, governments, communities and so on). This approach has led to the emergence of new ways of financing projects, new types of projects, such as regional and rural development.*

**Key words:** *alternative models, finance, regional, development, project.*

**JEL Classification:** G17

1. Because a project is a distinct entity separate from *the project promoters*, participants in performance, having substantial impact on specific balance sheets of companies, institutions or organizations, project is known as *financing without recourse or with limited recourse*, relations between various parties involved in the financing of a project being established through a variety of contractual arrangements. In this respect, project financing can be defined, in the first sense, as the financing of making a coherent set of activities aimed at achieving a goal of regional development, particularly rural, circumscribed to a limited area, those who provide financial resources considering the loan guarantee cash flow and earnings through the project, they are the sources for obtaining funds to repay loans.

It results that every project is supported by its *own financial assembly*, guaranteed solely by the value of the project or product " resulted of the project, the projects being considered, as I said, as distinct organizational entities. In this respect, it is built the **concentric funding model** being developed *project management entities, EMP*, donors giving EMP-sized money in terms of financing without recourse or limited right of recourse, which means that the loans are entirely dependent of cash flows generated by EMP and EMP assets used as collateral on the loan.

The following figure presents a schematic form of the concentric model of financing, funding flows being drawn by different lines, depending on the nature of funding (capital formation, loans, investments, commercial loans, guarantees, etc.).

## 2. Characteristics of project financing

The term of project finance covers a wide range of *financing structures*; these structures have, however, a common feature: funding does not depend crucially on creditors or sponsors support (donors) or on the value of physical assets covered by the project, those who provide funds being sensitive to the *project performance itself*. Based on the above definitions, we can identify the following *general characteristics of project financing*:

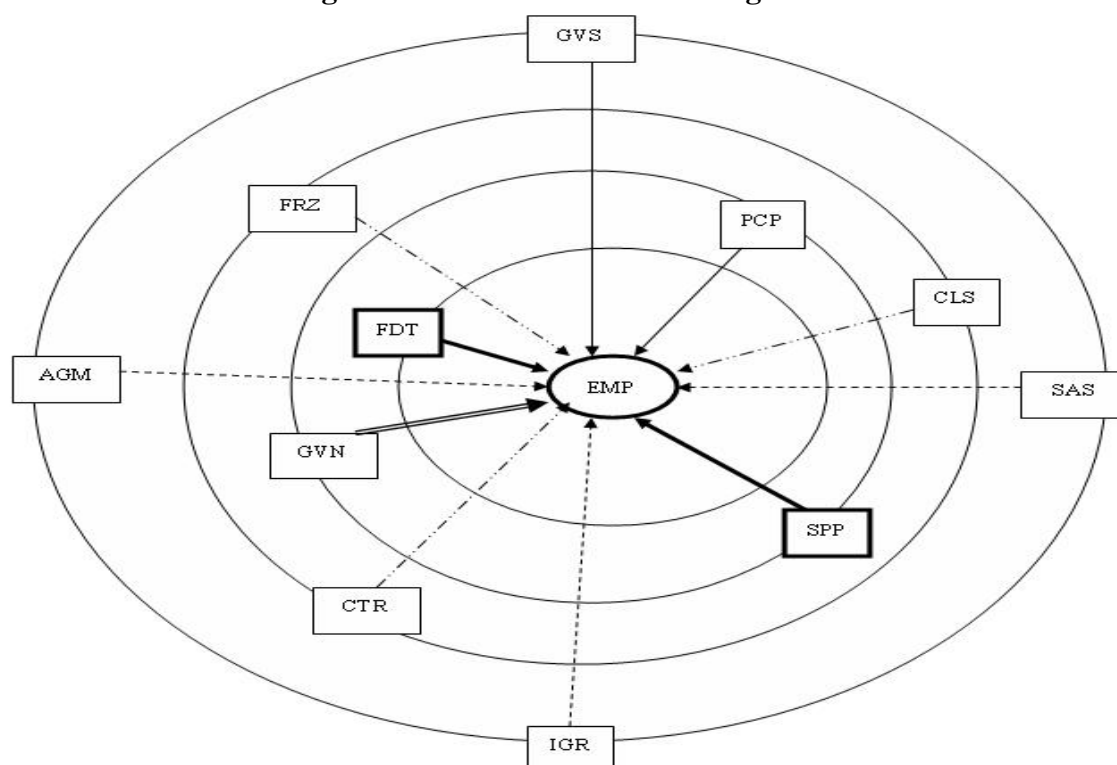
- setting project management entity (EMP);
- financing without recourse or limited right of recourse;
- balance-sheet transactions;
- sure-flow of income generated by the project, as the main guarantee for funding;
- finance-differentiated instruments;
- finance-participants;
- risk of funding.

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**Figure no. 1. Concentric financing model**



EMP = entity project management;

FDT = founders;

SPP = major sponsors;

NSG = national governments;

GVS = foreign governments;

CFP = capital markets;

CTR = contractors;

FRZ = equipment suppliers;

CLC = consumer purchaser (communities);

SAS = insurance companies;

IGR = guarantee institutions;

AGM = multilateral agencies.

Project funding starts with *EMP formation*, as a separate legal entity, independent of those promoting the project and operating under a license, usually granted by regional or national government.

In case of the *financing without recourse*, lenders, both through debt instruments and the equity investment instruments, do not enforceable access to heritage funds or sponsors, of the project founders. In case of the limited right of recourse, it is granted enforcement access to the heritage and general funds of sponsors, if it issues a guarantee reimbursement but only for certain risks. In the event of poor performance of the project, the creditors have the right to intervene under a clause, to change management team managing the project

Without recourse project financing offers sponsors a specific instrument by which to secure *project financing funds in its balance sheet*, which allows funding a variety of projects that otherwise could not obtain the necessary funds. *Future flow of benefits* that the project will bring to them is the most important element of any financial project assembly, all depending on their project a cash flow provided directly or indirectly by the project.

Finance organization of a project may propose to *use a variety of financial instruments*:

- *Debt-instruments*, often provide capital primarily to cover project financing, giving the lender a specified gain over a period of time. There are a variety of debt instruments, of which we can mention: *bank loans, bonds and non-convertible debt securities*.

- *Shares and equivalent instruments* generate seed capital, start-up of the EMP, provided by project sponsors. Shares issued by the entity represent *venture capital* project, or secondary liability, which comes after the debt that comes as order of priority in execution of entity assets.

- *Aid and donations*. These are financial resources, funds, often embodied in equipment, assistance, materials and so on, provided for the entity of the project by international financial institutions, regional, governmental, nonprofit and private donors and so on, with or without direct interest in the project, grants, upon the use of funds protocols or contracts, funds not otherwise released to the entity, sometimes attracting non-compliance penalties.

- *Midterm financing* is done through instruments that are essentially in the form of debt, but has some characteristics of capital stock, the name which refers to these instruments being almost secondary share capital or debt, such as *bonds title convertible into shares, preference shares and other instruments that have features of both debt and investment*. To derive the debt, the secondary debt is treated sometimes as an equity component of the project entity.

- *Contractors, suppliers and customers-buyers*. In financing of many projects contractors provide financing as capital contribution to the project entity or by obtaining credit in their own name. Similarly, equipment suppliers can participate in financing the project by contracting *provider loans*, often supported by specialized organizations in securing loans. Most projects funded through financial arrangement with customers, buyers, users, and the construction of pollution equipment, can sell its product to polluting firms, purchasing companies participating in the financing of the project by paying an *advance customer's* future purchase of equipment and can also contribute to the capital in shares of the project entity.

- *Guarantees of payment of the debt*. These are funds allocated by those guaranteeing the loans, credits and advances of client provider, to protect the interests of borrowers and investors in the event of financial loss.

- *Insurance*. These are resources allocated to insurance companies to compensate losses of the project, in case of accidents such as fires and other events that may be provided.

Organization of funding a project involves a *variety of participants*, which can be: private, sometimes having their preponderance, public, state, providing part of the funds and any incentives, financial and non-financial institutions and donor organizations, local and international investors and lenders (multilateral, bilateral trade).

If conventional methods of financing, lenders take into account not only the prospect of success of the project but also the general creditworthiness of the project sponsors. Risks associated with a particular project are not crucial because lenders have access to heritage of project sponsors. The key approach of funding through loans and investments is to get informed prudently to know the risks associated with a project and to analyze how these risks are allocated to each participant in the project, it is easy to fund a project, but if it was not well designed, that money could only be recovered with great loss and difficulty. Risks associated with a project are the following:

- *Risk of project*. Risk of assessments and mitigation of future cash flow interruption is the main issue of concern to investors and lenders.

- *Credit-risk of borrowers*. In addition to risks associated with the project design itself, there are risks associated with EMP's creditworthiness created for the project.

- *Credit-risk of sponsors*. In assemblies of project funding sponsors material risk is limited to the resources invested in the project by them.

- *Country-risk*. In many cases of project financing, the host government issue guarantees or counter-guarantees of the state capital borrowed by the EMP. Rating of solvency of a national government is called *grade (rating) of the country*, on the loans

taken by the state, any change in the rating of the country can influence project viability. Project financing approach starts from its three main phases:-define and assess of the project-implementation / execution of the project;-operation of the project.

Exact profile of *the cash flow curve* for a project depends on *various factors* the fact that cash flow remains negative until reaching breakeven project, highlighting that a project needs funding type from outside sources until reaching the threshold. The profile of this curve shows that the initial phase requires fewer financial resources, but as the project nears implementation phase financing needs increase, reaching maximum execution phase completion, the slope of the curve expressing the rate of spending. After the project is put into operation, when it begins to generate revenue, borrowing outside the project becomes smaller and smaller, finally providing sufficient resources for project operation and maintenance, as well as some surplus, but even after overcoming breakeven project funding may need short periods to cope with negative differences between receipts and payments.

In project financing, this *future cash flow* is what justifies obtaining resources invested in the project, the task of dealing with the financing of this project is to organize cash flow so that, on the one hand, to meet the needs of their project and on the other hand, be of interest to agencies, lenders and investors willing to commit funds to the project. Since the *financing needs of a project* depend on future cash flow, which in turn depends on time, a classification of financial instruments is of the temporal nature, that is clustering of financial instruments into long-term instruments and short-term instruments: Long-term financing: debt, equity and interim financing, which have a maturity of over 1 year payment; short-term financing: financial instruments usually have a maturity of under 1 year of repayment.

A project will require *long-term financing* primarily for long-profitable investment, long-term funding is necessary because the assets created by the project have a *gestation period* before they generate revenues.

The main types of long-term financial instruments are presented in the following table.

**Table no. 1**

Type of instrument	Instrument
Of debt	Collective loans, loans in euro debt securities; Export credit, loan provider, loan buyer.
Shares	Common shares, preferred shares.
Of negotiations	Normal rate bonds less risky, and risky high-interest bonds, floating rate bonds, bonds with large discount, profit conditional obligation; Eurobond; Fund bond underwriting, insurance fund bills, warrants, convertible bonds.
other instruments	Deposits in custody, financing leasing (operational, financial, with initial sales) Venture capital, Help refundable

Projects need *short-term debt* in two forms:

- *necessary capital or stock*, these funds became necessary when the project is put into operation;
- *bond-financing* or interim borrowing to cover temporary cash deficits.

Short-term funding options, which may involve regional development project capital requirements in the operational phase other than internal resources can be grouped into *three categories*, unsecured bank loans;- guaranteed bank loans;-other sources such as bank acceptances and trade effects.

Specialists in *financial arrangement* appeal to specific financial tools and techniques to improve the financial performance of an assembly. Term *financial planning can be defined* as the design and implementation, creatively, of the financial technology to solve financial problems and exploit opportunities to use financial instruments to restructure an

existing financial model in the form of another model with more advantageous qualities and characteristics (cost, performance, risk, maturity, conversions, etc..).

*Financial engineering techniques* are widely used in modeling and forecasting financial markets in developing *financial derivatives* to hedge the currency risk and the management of financial, investment management and asset allocation, as well as solvency management.

Tools used by financial planners are created in the last two or three decades, namely term sales contracts securities (forwards), advance sales contracts (futures) exchange securities transactions (swaps) contracts of options (options). These basic tools are combined in different ways by financial planners to create more complex systems, able to meet the specific needs of their clients.

### 3. Modeling regional financial interdependence

The core of regional and multiregional models represents external, exogenous links of the regions because interdependencies clarity decreases with increasing size of the region or multiregional space. Traditionally, attention has been paid to modeling regional trade, but particular importance has been given to the *funding streams and programs of development*.

Two main approaches are outlined in *shaping exogenous regional ties*:

1. shaping of national-regional linkages;
2. shaping of interregional links.

The choice between the two approaches depends on the theoretical perspective, national-regional approach is more suitable for financial actors and multiregional economic and financial factors acting at national level and for reduced financial costs and interregional approach is most appropriate modeling financial flows from financing where financial costs are considerable and the effects of development projects differ by region.

In *specification of models* used, theory is not very important, more important is the *availability of data*, the number of external interactions taken into account when tackling interregional being the R2-R (R being the number of regions), while in the national-regional approach the number of interactions is 2R.

#### 3.1. National-regional links

The financial flows between national and regional can be specified in two ways:

- *from national to regional, top-down*, national and regional relationships between variables can be specified in various ways. Let  $x(r)$  and  $y(r)$  be the financial variables relating to region  $r$ , and let  $x$  and  $y$  corresponding national financial variables, and the relations can be written:

$$y(r) = f_r(y, x(r)) \quad (1)$$

$$y(r)/y = c(r), \sum_r c(r) = 1 \quad (2)$$

$$y(r)/y = a(r) + b \times x(r)/x, \sum_r a(r) = 0, b = 1 \quad (3)$$

$$y(r)/y = f_r(x(r)/x) / \sum_r f_r(x(r)/x) \quad (4)$$

In 1,  $y(r)$  depends on variables corresponding national and regional variation in a model with a complete region sum of  $y(r)$  is equal to  $y$ , in such models of proportional adjustment  $y(r)$  ensuring achievement of consistency between national and regional values.

A property of this type of models is the possibility of attachment to the extended economic models, the disadvantage consisting of ignoring feedback from the regional to the national level.

- *from regional to national, from bottom to top*, the values of domestic variables are obtained by aggregating the corresponding regional variables, if any pure form of the model is not invariant regional variable in the model, their occurrence in practice meaning that bottom-up models are rare. These models may include feedback allowing greater detail to the regional sites at national, sector and regional.

The applications of bottom-up models give little attention to the nationally generated variables, making it difficult to use these models in policy, but the inclusion of feedback from regional to national sites are suitable for studying conflicts between *interregional equity and national efficiency*.

In this model of regional financing investments in certain sectors are obtained, in a top-down manner, from national funding of investments, taking into account local advantages of the regions. In turn, regional funding of investments is determined by regional financial capacity of regional profits, such profits may be aggregated, resulting in national profit, which is determined by domestic investment. This generates *a model of interdependence* in which the national and regional variables are obtained simultaneously.

### 3.2. *Interregional connections*

Particular economic models of each region are interrelated if there are discussed linkages between individual or grouped regions and sub-regions. Modeling financial flows between individual sub regions is treated by different methods of modeling the movement of factors because the factors are mobile only long term, while financial flows can vary and may balance even in the short term.

Interregional financial flows can be treated in different ways in interregional economic models, such as linear programming, general equilibrium, interregional input-output analysis, and gravity and entropy methods and so on; the most common method is that of *input-output coefficients*. Often, capital formation is considered an exogenous variable in interregional models as finance investments aimed at regional development is seen as a policy instrument.

### 3.3. *Modeling*

Regional interdependence models can be used for diverse impact analysis, projections or forecasts, simulation, and policy analysis, utility models depending on their regional and sector detail, their purpose and specification database.

On the specification, two aspects stand out: regional-national interaction and confrontation of supply and demand orientation of funding, in addition it is important to model the temporal dimension.

Effectiveness of a financing instrument,  $I$ , for objective  $j$ , denoted by  $E(i, j)$  can be defined as the relative change (edge) derived from the relative change of the objective of the instrument  $i$ .

Given the tools and  $= 1, \dots, I$  and objectives  $j = 1, \dots, J$ , complete set of indicators  $E(i, j)$  can be represented by a *matrix of impact*,  $M$ , of size  $I * J$ . From the point of view of national-regional relations, both objectives and instruments can be distinguished at regional and national level leading to partitioning of impact matrix as in the following table.

**Table no. 2**

	<b>regional objective</b>	<b>national objective</b>
regional instruments	$M(rr)$	$M(rn)$
national instruments	$M(nr)$	$M(nn)$

Matrix  $M(rr)$  expresses the effects of regional funding on regional objectives, a problem traditionally studied by regional models. Matrix  $M(rn)$  expresses effects, often unintended, of regional funding of national objectives. Matrix  $M(nn)$  expresses national

funding effects on national development objectives, and the matrix M (nr) describes effects possibly unintended, of national funding on specific regional objectives.

#### 4. Conclusion

An important aspect of modeling lies in the role of *supply and demand financing factors*, financing instruments being considered as exogenous models, the application is directed, assuming high elasticity of supply of funding and funding sources mobility between regions, depending on the needs of regional development funding. In recent years *regional models were modularized by satellite* phenomenon that includes the model in a systematic way, all key regional indicators as the core of the model, while the indicators and components increasingly detailed models can be introduced by satellite.

However, they showed *small-scale modeling* efforts, while the construction of *simple models* to complex spatial dynamic systems remains an unresolved issue. We must not forget that no matter what regional development strategy would be designed the decisive factor will still be the involvement of companies operating in the region. In this respect, the development of specific mechanisms of co-operation between businesses, local administration, financial system, and people should be a concern for all stakeholders.

Lately, more and more it is raised the question of sustainable development, a concept that has direct and immediate link with the micro level. With the reduction of quality and quantity of environmental resources available, unpredictable climate change, reducing environmental quality generally pose major problems to reorient their local communities throughout (public, population, businesses, non-profit organizations). In this sense it becomes very important how people are rethinking basic concepts of economic efficiency, optimality, resource allocation. In this context, business financing mechanism should be sustainable itself, meaning to find and use renewable financial resources (as a reflection of other categories of resources, in turn renewable).

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# INFLUENCE OF FINANCIAL REPORTING STANDARD APPLICATION UPON THE OUTCOMES OF CREDIT INSTITUTIONS

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## Abstract:

*Credit institutions in Romania include: banks, savings and loan banks in the housing field, credit unions and mortgage loan banks. Since 2012, to all these from the accounting perspective, the International Financial Reporting Standards have been applied. The present paper shall envisage the main causes that have led to major banks' great losses in our country. On one hand, the causes are connected to the inefficiency of banks' operation performance and on the other hand to the impact of the transition from national accounting norms applicable to credit institutions to the International Financial Reporting Standards. The differences between national and international norms refer to the assessment of financial instruments at depreciated costs using the actual interest rate, the assessment of financial instruments at their fair values and the adjustments due to hyperinflation, the assessment of value adjustments and provisions related to loans etc.*

**Key words:** provisions, impairment adjustments, prudential filters, accounting standards

**J.E.L. Classification:** G21

## 1. Introduction

Our country's accounting regulations referring to credit institutions have undergone major changes over the time having major effects upon the information issued by means of annual financial statements. The paper herein aims at an analysis of the legislation path since 1990 up to the present as well as of how legislative changes have impacted the outcomes shown in annual financial statements.

## 2. Content of the Paper

The first steps taken in the banking field were first taken on 1 January 1998 by adopting specific regulations for the banks operating in the market-economy conditions, four years later than non-financial enterprises. The accounting regulations applicable to banking entities had their French inspiration as well as non-financial companies did and they almost succeeded in introducing some provisions from European accounting standards. In 1997, Order no.14818/344/1997 of the Ministry of Public Finance and the Governor of the National Bank of Romania was approved regarding the acknowledgement of banking companies' account charts and methodological norms to use the Order issued in Official Gazette no.189/8 August 1997.

Ever since 2001, there has been focus on harmonizing national norms with the international accounting standards laid down by the International Accounting Standard Council (IASB, currently IASB).

The first stage aimed at the convergence of national accounting law applicable in the banking sector with the IAS/IFRS accounting norms by the adoption of banking accounting norms - accounting regulations in compliance with Directive no. 86/635/CEE of European Economic Communities (CEE) and with the International Accounting Standards applicable to credit institutions. Those setting the norms in the field of banking accounting have „adjusted” Order of the Ministry of Finance no. 94/2001 to the features of credit institutions by taking certain provisions from the international accounting norms ensuing from Order no. 1982/5

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August 2005 issued by the Ministry of Public Finance and of the Governor of the National Bank of Romania to be found in specialty books under the name "International Accounting Norms according to the NBR: IAS-BNR".

The accounting regulations complying with European Communities Directive (CEE) no. 86/635/CEE and with the International Accounting Standards applicable to credit institutions (IAS-BNR) have been implemented in seven banks and starting in the financial statements of the fiscal year 2003 these regulations have been implemented in all credit institutions. Such regulations underlie the calculation of banking monitoring indicators reported by the NBR (solvency and liquidity).

Two accounting regulations were applied until the financial statements of 2005: IAS – BNR norms and International Financial Reporting Standards: IFRS. International Financial Reporting Standards include: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations made by the Interpretation Committee for International Financial Reporting Standards (IFRIC) or the former Permanent Committee for Standard Interpretation (SIC) adopted by the IASB. Applying these two types of regulations forced the banks to submit two series of financial reports including two different accounting outcomes.

In the year 2008, by Order 13/2008 of the National Bank of Romania, the credit institutions set out as their accounting basis the accounting regulations corresponding to the Deposit Guarantee Fund in the banking sector.

At present, since 2012, Order no. 27/2010 of the NBR has required the application of accounting regulations compliant with International Financial Reporting Standards (IFRS).

As to the classification of financial asset portfolios, there is a significant difference of approaches:

**Table 1. Classification of "Troublesome" Financial Assets**

	<b>Accounting regulations compliant with European Directives (in force until 31 December 2011)</b>	<b>Accounting regulations compliant with International Financial Reporting Standards</b>
Method to classify "troublesome" financial assets and their contents	<ul style="list-style-type: none"> <li>- Past due and doubtful debts</li> <li>- <b>Past due debts</b> included all the loans and interests not paid on their due dates, namely at least one day delayed.</li> <li>- <b>Doubtful debts</b> included loans and interests in virtue of which banks started juridical procedures against debtors in order to recover their debts.</li> </ul>	<ul style="list-style-type: none"> <li>- Assets, impaired receivables</li> <li>- Impaired financial assets are reported during inventories, when their fair value is lower than their accounting value.</li> </ul>
Indicators used by the central bank to assess the quality of loan portfolios	<ul style="list-style-type: none"> <li>a. Delinquent and doubtful loans granted to the clientele (gross value)/Total loan portfolio associated to the clientele (gross value);</li> <li>b. Delinquent and doubtful loans granted to the clientele (net value)/ Total loan portfolio associated to the clientele (net value). On 31 December 2011, the above-mentioned indicators had the following values: 8.8 % and 2.3%, respectively.</li> </ul>	<ul style="list-style-type: none"> <li>a) impaired receivables of non-banking clientele (gross value)/ Total loan portfolio associated to the clientele (gross value);</li> <li>b) impaired receivables of non-banking clientele (net value)/ Total loan portfolio associated to the clientele (net value).</li> </ul>

The different approach when it comes to the portfolio of "troublesome" loans is shown distinctly in terms of how protection instruments against risks have been set.

According to the new regulations compliant with European Directives, the credit institutions had the obligation to prepare provisions for their past due and doubtful debts based on certain coefficients related to the category of debtors. These provisions were most often set out before the losses of value, as a precaution step.

Until 31 December 2011, the specific provisions related to credit risks were calculated prudentially, according to NBR Regulation no.3/2009 regarding the

classification of credits and investment, and the set-up, regulation and use of specific provisions related to credit risks.

*At present, according to the accounting regulations compliant with International Financial Reporting Standards, credit institutions enter in their accounting documents only value adjustments related to impaired debts.*

On the date of each financial position individual statement, a bank analyzes whether there is any objective hint according to which the financial assets that are not kept at their fair value by profit or loss are impaired. A financial asset or a group of financial assets is impaired and there are impairment losses only if there are objective hints referring to their impairment as a result of one or several events occurring after an asset's initial recognition ("loss generating event"), and the event or events generating losses have an impact upon the future cash flows of a financial asset or of a group of financial assets that can be estimated credibly. Estimated losses as a result of future events no matter how probable they are cannot be recognized.

Consequently, since 2012 the credit institutions have prepared only value adjustments for their receivables, impaired assets, actually based on events that have already happened. Yet, from this perspective, the National Bank of Romania could not just wait without taking any steps.

In a simple analysis, in 2012 and in the coming years, the credit institutions would have reported much fewer value adjustments by the application of the accounting norms in compliance with International Financial Reporting Standards, as compared to the provisions entered until 31 December 2011 by applying the accounting regulations corresponding to European Directives.

In order to counteract the effect of credit institutions' undercapitalization, the NBR has adopted NBR Regulation no. 11/6 September 2011 regarding the classification of credits and investment and the set-up and use of value prudential adjustments. The provisions referring to the classification of credits and investment and to the preparation and use of value prudential adjustments introduced by the new regulation have applied since 1 January 2012.

By means of the regulation, the notion "provisions for credit risks" has been replaced by "value prudential adjustments" associated to credits/investment – value adjustments associated to credits/investment generated and entered in extra-accounting documents, being the level by which, if necessary, one should correct the information in the values of credits/investment with the purpose to state the value which shall be taken into account in order to identify the prudential indicators of a lender.

The Regulation helps set the prudential adjustment coefficients associated to each classification category, differentiated for foreign currency loans or indexed at a foreign currency exchange rate and granted to debtors, natural persons, exposed to foreign currency risks and namely for the loans granted to debtors that are not exposed to foreign currency risks.

a. The coefficients of prudential adjustments for the loans granted to the debtors that are not exposed to foreign currency risks: for "monitored" loans – 0.05; for "substandard" loans – 0.2; for "doubtful" loans – 0.5; for "loss" loans – 1.

b. The provision coefficients set for the loans granted to natural persons exposed to foreign currency risks: for "Standard" loans – 0.07; for "monitored" loans – 0.08; for "substandard" loans – 0.23; for "doubtful" loans – 0.53; for "loss" loans – 1.

The information in loans/investment held by the lenders to a certain debtor rank within a single classification category based on the principle of outranking by contamination, namely by considering the weakest individual classification category.

Under the circumstances of content changes in accounting methodology, especially in terms of setting the impairment adjustments for loans and investment (accounting provisions) and the expansion of fair value use when evaluating the elements shown in financial statements, it has been pursued that the transition to the IFRS should take place without having a major impact upon prudence indicators.

According to the IFRS, impairment adjustments occur only after the emergence of an event generating losses, whereas the principles of prudential regulations require setting up provisions for expected losses, before an event generating losses occurs, taking account of estimations based on historic background, too.

The prudential pattern of an expected loss ensures the anticipation of future losses by recognizing *ex ante* the effects of the loss generating event in the financial statements as compared to the date of its actual occurrence. Such recognition is reflected by more seriously decreasing a profit as a consequence of expenses related to superior provisions in relation with those that might be reported by the IFRS pattern and additionally ensures the reduction in the volatility of credit institutions' financial outcomes, thus contributing in financial stability.

In the context of a persistent economic crisis, the goal of the NBR was to avoid the conjectural increase of its own funds exclusively due to a change in the accounting methodology as a result of setting impairment adjustments much lower than the amount of prudential provisions set before the year 2012 by credit institutions and, consequently, the unjustified consideration of prudence indicators.

The goal was accomplished by the NBR' decision to implement the prudential filters built in order to correct the level of own funds by decreasing them, both with a level of impairment adjustments set by the IFRS and with the provisions set additionally in accordance with a prudential pattern. Prudential filters aim at adjusting the accounting values of own equity so that their recognition in own prudential funds should observe the criteria of permanence, credible evaluation and unconditioned ability to cover losses.

During 1 January – 31 December 2012, in order to lay down certain banking prudence indicators (namely: solvency indicators for credit institutions; large information; information to the people in special relationships with a credit institution; potential changes in the economic values of credit institutions as a result of changes in interest rates) calculated in accordance with own funds minus prudential value adjustments.

The most important filters refer to the positive differences between prudential value adjustments (prudential provisions) and impairment adjustments (IFRS provisions) associated to the Lei loans granted to non-banking clientele for which banks set minimum capital requirements as to loan risks, at individual label according to the standard approach.

In late 2012, there was a positive difference amounting to 9,760 billion Lei of the total prudential value adjustments and the total impairment adjustments as a prudential filter to calculate own funds and banking prudence indicators. As a result, the steps of prudential regulation adopted by the central bank in the context of introducing the new IFRS accounting standards have preserved the level of the solvency indicator.

A positive influence upon a financial outcome by the transition to the IFRS belongs to the expenses related to impairment adjustments associated to financial assets (provisions) reported during the first six months of 2012 according to new standards as they were about 1.5 billion Lei lower than those to be recognized according to prudential approach.

Adopting these prudential filters is highly important to people's trust in Romania's banking system by calculating the solvency indicators and equity adequacy indicators. For the calculation of indicators listed, credit institutions shall disclose information on level 1 own funds.

Level 1 own funds include: legal, statutory and other reserves, the positive reported outcome of the earnings of previous fiscal years and interim profit. They are adjusted according to the following prudential filters:

- the fair value differences related to gains and losses not achieved during operations covering treasury cash flows of financial instruments measured at depreciated costs should be excluded from own funds;
- the gains and losses related to debt assessment arising from fair values caused by prior changes in the *rating* of a credit institution should be excluded from own funds by

adjusting, as appropriate, the net result of the latest fiscal year and of the reported outcome for the periods when the *rating* changes occurred;

- unachieved gains related to the valuation of property investment and fixed assets, resulting from the application of the fair value revaluation model other than those existing on 31 December 2011, should be excluded from level 1 own funds item by item, to be included in basic rate level 2 own funds of 45% of their net value of tax duties, expected on reporting date. Unachieved losses resulting from the application of the fair value revaluation model are not excluded from level 1 own funds;

- differences resulting from the fair value measurement of financial assets available for sale, other than those relating to depreciations;

In 2012, the Romanian banking system had a negative financial outcome due to the continuous growth of provisions volume (due to the depreciation of financial asset quality), the reduction of net interest incomes (due to the decreased interest *spread* and decrease of loans number granted to the real sector) and to a reduction in yield bonds held by credit institutions.

Restructuring the banks and the expected decrease of spending on provisions related to credit risks creates the potential to improve the financial outcome of 2013, after three years marked by the complete erosion of operating profits.

In late 2012, by centralizing the data of the 40 credit institutions, there were record cumulative losses of 2.12 billion Lei, almost triple as to 2011. In 2008, the system reported its highest payouts in history, with over 4.4 billion Lei.

The year 2012 was the third year in a row for the banking system to have a negative outcome, leading to the greatest increase in losses. It was the consequence of worsening the quality of credit portfolio and also of lowering the balances of loans under the circumstances of new credits going down and of many banks having sold non-performing assets. In 2011, the cumulative losses of banks were 777 million Lei, and in 2010 they were about 516 million.

According to provisional calculations of the central bank, in late last year the level of less performing loans in the system reached 18.2%, almost 4% higher than the level the previous year.

The consequence of total losses in credit institutions was 2.1 billion Lei, as low profitability of system equity (-5.4%). To maintain an average solvency system at a reasonable level (14.6% in late 2012), the National Bank of Romania placed pressure upon bank shareholders.

With 2.1-billion Lei losses, the profitability of equity system remained negative, a minus of 5.4%. As in previous years, the National Bank of Romania continued to force bank shareholders having negative results to bring additional capital amounts so that the average solvency in the system stood at 14.6% in the end of the year.

### **3. Conclusions**

- Since 2012, credit institutions have been applying accounting regulations in accordance with the International Financial Reporting Standards;

- Provisions for credit risks since 1 January 2012 have no longer been accounted for, being replaced with impairment adjustments of assets depreciation;

- The NBR predicted in 2011 that by replacing provisions by impairment adjustments banks would have been undercapitalized with a much lower amount of projected adjustments (and so it did);

- In order to counteract this shortcoming (namely the formation of much smaller value adjustments), the NBR issued Regulation no.11/6 September 2011 regarding the classification of loans and investment, and the set-up and application of prudential value adjustments by means of which credit institutions are required to constitute their provisions outside accounting documents under prudential filters.

- Many economic analysts on first examination stated that due to the implementation of the International Financial Reporting Standards, credit institutions have suffered in terms of value adjustments which must be established, and hence of profit reduction. On the contrary, by implementing the IFRS, banks have established value adjustments (expenses) lower than the provisions made according to the old regulations. In fact, the negative result of 2012 was due primarily to worsening the quality of credit portfolio and to the decrease of loan balances under the circumstances where attracting new credits went down and many banks sold non-performing asset packages.

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# THE EUROPEAN COOPERATIVE SOCIETY – JURIDICAL ADEQUATE INSTRUMENT IN THE DEVELOPMENT OF THE COOPERATIVES’ TRANSNATIONAL ACTIVITIES. POSSIBILITIES OF IMPLEMENTING THE CONCEPT WITHIN ROMANIA.

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## Abstract:

*The lack of public understanding regarding the role and impact of cooperatives upon welfare implies not recognizing cooperatives as a form of entrepreneurial activity. There is an obvious need to overcome the contradiction between reality and recognizing cooperatives. The European Community, wishing to guarantee equality of conditions in competition and to contribute to its economic development, should supply the cooperatives with adequate juridical instruments, capable to facilitate the development of their transnational activities. The current paper sets out to follow the implementation mode within the Romanian and European area of the regulation regarding the European cooperative society (SCE).*

**Keywords:** *European cooperative society, the supervisory body, the general assembly, cooperative members, distribution of profit.*

**JEL classification:** P13, P19

## Introduction

Through its activities, the European Union is concerned with and facilitates the development of the transnational activities of the cooperatives, at the same time taking into account their particularities and supplying them with adequate juridical instruments. In this sense, it is enabled the creation at an European scale of new cooperatives by natural or legal persons, since the European Union guarantees the rights to information, consultation and participation of the employees within a European cooperative society (SCE). The committee estimates that the potential of the cooperatives is not fully exploited and that their image must be improved. Through the social orientation of the cooperatives multiple local beneficial effects are generated, such as: a) through the participation of a plurality of interested parties – members, beneficiaries, workers – the cooperatives contribute to the consolidation of the social capital and to the trustworthy relations within the community; b) though protecting the incomes and occupying the workforce, the cooperatives help to resolve the problems that otherwise would remain the responsibility of the public politics – the cooperatives have proven the capacity to create and keep jobs in deteriorated market conditions better than the enterprises owned by the investor; c) besides creating hiring opportunities, the cooperatives favor those workers that are disadvantaged, excluded or prone to exclusion from the workforce. However, the social benefits generated by cooperatives are rarely taken into account by the impact analyses that compare the performance of different types of enterprises, because it also uses efficiency criteria that favor the firms owned by the investors and not their social objectives, the intrinsic results and the collective benefits generated by the enterprises.

## 1. Necessity, scope, the objectives of constituting an SCE

The regulation regarding the European cooperative society (SCE, after its name in Latin “Societas Cooperativa Europaea”) was adopted on July 22<sup>nd</sup> 2013 (JO from August 18<sup>th</sup> 2003), two years after adopting the European society statute (EC Regulation nr. 2157/2001 of the Council). The SCE regulation is completed by the 2003/72/CE Directive of the Council regarding involving the workers in SCE (the 2003/72/CE of the Council

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from July 22<sup>nd</sup> 2003). The deadline for adapting the national legislation to the Regulation and the Directive regarding SCE was established for August 18<sup>th</sup> 2006.

Because the transnational cooperation between cooperatives is nowadays confronted within the Community with juridical and administration difficulties, which should be eliminated in a market without frontiers, these difficulties can be constituted in sufficient elements of the *necessity of building SCEs* within the European area. Establishing a European juridical form for cooperatives, based upon some common principles, but which take into account the cooperatives' specific, should enable them to operate outside their national frontiers, on the entire territory of the Community or on one part of it.

*Establishing a European cooperative society (SCE) aims* to realize the internal market as well as to improve the economic and social situation within the entire European Community by removing the hindrances that stand in the way of commercial exchanges and adapting production structures at the community dimension of the market. The commercial border activities of the cooperatives are aggravated by the disparities between the laws regarding the cooperatives that are implemented in different countries. The SCE regulation aims to limit these problems by enabling the cooperatives to restructure themselves through the means of border fusions.

As a principal *objective of the statute* we note that of facilitating the border and transnational activities of the cooperatives. Like the SE Statute, the European cooperative society's statute (SCE) represents an optional juridical instrument. For their border operations/activities, the enterprises can opt for the juridical form of SCE or for that of a national cooperative.

## **2. An SCE's juridical statute – (CE) Regulation nr. 1435/2003 of the Council regarding the European cooperative society's statute**

Cooperatives are, first and foremost, groups of natural or legal persons that respect special operation principles, different from those of other economic entities. Here we note, for example, the principles of structure and democratic control, the preeminence of the person as well as the equitable distribution of the net profit of the financial year. The preeminence of the person principle, for example, targets specific dispositions referring to the conditions of adhesion, withdrawal and exclusion of members; we are talking about the "one man, one vote" rule, the right to vote being connected to the person, which means that the members find themselves in the impossibility to exercise rights over the cooperative society's asset.

From a juridical point of view, a European cooperative society's (SCE) main objective should be satisfying the needs of its members and/or developing economic and/or social activities of these, by complying with the following principles (CE Regulation nr. 1435/2003): a) the cooperative society's activities mainly follow the mutual advantage of its members, in order for each of them to benefit according to their participation; b) the remuneration from the borrowed capital and from participations must be limited; c) the obtained profit must be distributed according to the completed activities, respectively used for satisfying the needs of the cooperative society's members; d) the cooperating members are involved, in a way or another, in the society's activities, since they can be customers, providers or workers; e) in exercising control, it must equally be shared between its members, however there still exists the chance to admit a pondered vote which would reflect each member's contribution to SCE; f) in the case of liquidation, the distribution of the net asset and of the reserves must comply with the principle of disinterested transmission to another cooperative entity with relatively similar scopes and objectives of general interest.

The community, wishing to guarantee the equality of the competition conditions and to contribute to its economic development should supply the cooperatives, entities normally recognized in all member states, with adequate juridical instruments, capable to

facilitate the development of their transnational activities. Establishing a European juridical form for cooperatives, based upon common principles, but at the same time taking into account the cooperatives' specific, must enable them to operate on the entire territory of the Community. This action is also supported by the United Nations Organization which encouraged all governments to ensure a friendly environment for the development of cooperatives in which they should be able to participate to the economic life (resolution adopted by the General Assembly in the 88<sup>th</sup> plenary session of the United Nations Organization from December 19<sup>th</sup> 2001 (A/RES/56/114)) on an equal footing with the other forms of enterprises. The General Assembly UNO, through its Resolution nr. 49/155 from February 4<sup>th</sup> 1995, referring to "The role of the cooperatives in the light of the new economic-social tendencies" encourages the governments to: a) completely take into account, on elaborating national strategies of development, the potential with which the cooperatives can contribute to solving the economic, social and environment problems; b) take into account that they must reconsider the juridical and administration limitations which slacken the cooperatives' activity regarding the elimination of the constraints that do not apply to the other enterprises and commercial activities.

### ***2.1 Establishing and structuring a European cooperative society***

SCE can be constituted as follows: a) from at least five natural and/or legal persons residing in at least two member states of the European Economic Space (EES), constituted according to the legislation of a EU member state and regulated by the legislation of at least two EU state members; b) through the merger of some cooperatives constituted in accordance with the legislation of a member state, which have their social headquarters and their central administration in the respective state, in the case in which at least two of them are governed by the legislation of different member states; c) through the transformation of a cooperative constituted in accordance with the legislation of a EU member state which has its social and central administration headquarters in the EES, in the case in which this cooperative has had for at least one or two years a unit or branch that is governed by the legislation of another EU member state.

In all these cases the existence of a transnational element is utterly necessary, since the founding members must come from at least two countries.

*Establishment through merger* can use the absorption procedure, respectively a new legal person can be established. The cooperatives that merge through the management or the administrative body, as applicable, draw up a merger project that contains a set of necessary documents/information (art. 22 of Regulation no. 1435/2003); the merger project will be approved by the General Assembly of each cooperative which merges. The control of the merger's legality, in what regards the procedure concerning performing the merger and establishing the SCE, will be exercised by the court of law, the notary or another authority of the member state on whose territory are the SCE headquarters. The merger will be effective from the date when the SCE is registered.

In what regards *establishment through transferring an existent cooperative*, the procedure does not attract the cooperative's dissolution or the creation of a new legal person. The administrative or management body of the respective cooperative elaborates a transformation project as well as a report that explains and justifies the juridical and economic aspects of the transformation as well as the effects on the workplaces; there will also be stated the consequences of adopting the SCE form for the members and workers. The transformation project and the SCE statute will be adopted by the General Assembly of the cooperative.

The SCE regulation requires as *organizational structure* of cooperatives the existence of two systems: a monistic and a dualist one. According to the monistic system, a SCE contains: a) general assembly; b) an administrative body; while for the dualist system a SCE requires: a) general assembly; b) a supervisory body and a management body.



According to the monistic system, the administrative body ensures the administration of SCE and represents it in the relations with third parties as well as in justice. Through statute it is established the number of members in the administrative body – no less than three, as well as its norms of determination. The members of the administrative body are appointed by the general assembly, with the exception of the members of the first administrative body, who can be appointed through statute.

The administrative body reunites at least once every three months (article 45 of CE Regulation no.1435/2003), with a periodicity established through statute, in order to deliberate in reference to the development of the SCE activities and their predictable evolution, taking in account, as applicable, the information regarding the enterprises controlled by SCE which can have a significant impact on the development of the latter's activities. The president of the administrative body is chosen by the general assembly and he can summon the administrative body within the conditions stated by the statute, by default or by the request of at least a third of its members.

In accordance with the *dualist system*, the management body is responsible for the administration SCE and it represents it in relation with the third parties and in justice. The number of members in the management body or the norms of determination are established in the SCE statute. The members of the management body can be appointed and dismissed by the supervisory body. However, a member state can provide through statute that the members of the management body can be appointed by the general assembly.

In accordance with the dispositions from the statute the management body chooses a president from its members. The president summons a reunion of the management body under the circumstances provisioned by the statute, by default or by request of a member. In the request one indicates the reasons of the summoning. The management body informs the supervisory body, at least once every three months with regard to the development of the SCE activities as well as with regard to its predictable evolution. Besides the periodic briefings, the management body must promptly inform the supervisory body about anything regarding the events that may have important repercussions over the SCE.

*The supervisory body* controls the administration ensured by the management body but it cannot exercise by itself the administration of the SCE. The supervisory body cannot represent SCE in front of the third parties, but only in front of the management organ, respectively in front of the members that constitute it, in the case of litigation or signing contracts. The members of the supervisory body are appointed and dismissed by the general assembly; the number of members as well as its norms of determination are established through statute.

Regarding the *general assembly* – the organization, its development as well as the voting procedures, are regulated by the legislation applicable to the cooperatives from the member state on whose territory the SCE headquarters are. Summoning the general assembly can be performed in any moment by the management body, the administrative body, the supervisory body or any other body or competent authority, in accordance with the legislation applicable to cooperatives. Likewise, summoning the general assembly and establishing the agenda for the day can also be done by the SCE members who together represent more than 5000 persons, or who have at least 10% of the total number of votes. Each SCE member has the right to one vote, regardless of the number of social parts he possesses. The decisions of the general assembly are taken with the majority of the valid votes expressed by the attendant members or representatives.

## ***2.2 Cooperative members and distribution of profit***

The quality of SCE member can be achieved by natural and legal persons with the approval of the management/administrative body and by fulfilling certain conditions such as: a) subscribing a minimum quantum capital; b) supplementary capital participation, if the statute requires it; c) other conditions connected to the objective of the SCE activity.

The operations whose effect is modifying the attribution and distribution of capital, its decrease or increase will be enlisted in the members' file – open alphabetically at the SCE headquarters, containing information like address, number and, accordingly, the category of social parts owned – in no more than a month from the registered modification.

Those members who lose the member quality by withdrawal or exclusion benefit from the right to be reimbursed their subscribed capital part proportionally reduced by any loss attributed to the social capital of the SCE. The sums will be repaid within no more than three years, but no sooner than six months from the date of the approval of the balance performed after losing the member quality.

Regarding the surplus of the financial year that will be allocated, the SCE statute differentiates the sums first and foremost towards forming a legal reserve; as long as the reserve does not outrun the capital, the retainer on the profit cannot be smaller than 15% from the surplus after deducting the reported losses. After allotting on legal reserves, the statute can require payment of dividends to the members proportional to the operations performed by them with SCE, respectively proportional with the activities performed in its favor. Likewise, the statute can exclude any distribution.

### **3. Reasons for the relative lack of success of the SCE Statute in the EU countries**

The SCE Statute has registered a relative lack of success not only because it is complex but because the entities that opt to work like a cooperative tend to be well rooted in their local territory; the overwhelming majority of cooperatives are small enterprises that work inside the national frontiers and therefore the SCE statute has a limited action over them, not offering substantial advantages. This is why many people who establish cooperatives have the tendency to rely on their own national laws, which they know better. Likewise, the SCE regulation was implemented too late in many of the member states, even in countries like France, Italy and Spain where the cooperative movement is very strong. In a report of the European Committee from February 23<sup>rd</sup> 2012 – COM (2012) 72 final – to the European Parliament, Council, European Economic and Social Committee and the Committee of Regions regarding the implementation of the (CE) Regulation nr. 1435/2003 of the Council from July 22<sup>nd</sup> 2003, are noted both the advantages and the negative factors in the implementation of the SCE statute. If we were to analyze the advantages that the SCE Regulation proposes, at least the following elements can be outlined: a) the professional organizations claim that the most important advantage of establishing a SCE is the possibility offered by the regulation to have a European image; this way, the founders of a European cooperative can infiltrate on the markets where a European brand is easier to commercialize than a national one; b) by creating a SCE, the founders of a cooperative affiliate to the cooperative movement that enables them to establish branches in other states, respectively common border enterprises; c) the bigger cooperative financial units as well as the mutual insurance societies also benefit from the advantages of the supranational character of a SCE when one proceeds to the reorganization and simplification of their group structure.

Regarding the problems that arose in implementing the SCE Regulation, we can note the following: a) the most important problem when establishing an SCE is the lack of information regarding the SCE within the business community; the most important negative impulses are the ones represented by the establishment costs, the complex procedures that must be followed (as a consequence of the countless references to the national legislation) as well as the juridical uncertainty connected to the law that applies in each case; b) in accordance with the parties involved, the complexity of the regulation (with its multiple references to the national legislation) discourages not only the cooperatives, but also other types of entities that would be interested in organizing activities through a SCE; c) since it was implemented several years later than it should

have been, even in some states with a strong cooperative tradition like France, Italy and Spain, the SCE Regulation came across the relative lack of interest from the cooperative entities, especially since the overwhelming majority of the cooperatives are small enterprises that function within the national frontiers, well rooted in their local territory.

Coming back to the Report of the European Committee from February 23<sup>rd</sup> 2012 – COM (2012) 72 final – analyzing the distribution of SCEs at EU level, the following can be noted:

**Chart nr. 1. Existent SCEs at 11.22.2011**

Country	Number of SCEs
Austria	0
Belgium	2
Bulgaria	0
Cyprus	0
Czech Republic	0
Denmark	0
Estonia	0
Finland	0
France	1
Germany	2
Greece	0
Hungary	3
Iceland	0
Ireland	0
Italy	5
Latvia	0
Liechtenstein	1
Lithuania	0
Luxemburg	0
Malta	0
Netherlands	1
Norway	0
Poland	0
Portugal	0
Romania	0
Slovakia	7
Slovenia	0
Spain	1
Sweden	0
United Kingdom	0
<b>Total number of SCEs</b>	<b>24</b>

Source: Committee Report for the European Parliament, Council, European Economic and Social Committee and the Committee of Regions from February 23<sup>rd</sup> 2012 COM (2012) 72 final

In November 2011, in the 30 member states of EU/SEE there were registered 24 SCEs, as follows: five in Italy, seven in Slovakia, one in France, one in Liechtenstein, one in Netherlands, one in Spain, one in Sweden, three in Hungary, two in Germany and two in Belgium. The SCE Regulation was supposed to take effect in 2006. However, the great majority of the member states did not succeed in respecting this deadline. In December 2011, three member states had not yet taken the necessary measures in order to ensure the efficient implementation of the regulation.

#### **4. Implementing the provisions of the measures of transposition of (CE)**

##### **Regulation nr. 1435/2003 of the Council in Romania**

The overall visibility of the SCE in Romania is limited (CE Regulation 1435/2003 on the Statute for European Cooperative Society). A legal scholarship related to SCE does

almost not exist. The few mentions of the SCE in articles or chapters in books rather enunciate the provisions of Regulation 1435/2003, without including an analysis of the subject. Strategic meetings or contacts have been convened and conducted with the management representatives of the main national cooperative associations (meeting with Mr. Ioan Crisan, the President of the National Union of Consumer Cooperatives of Romania (CENTROCOOP) – open discussion and questionnaire based interview, Bucharest, January 2010) and with relevant cooperative members (telephonic questionnaire based interviews have been conducted with the following persons: Mr. Alexandru Puzderca, the President of the Prahova County Union of Handicraft Cooperatives, Romania, January 2010, and Mr. Gavril Florescu, Manager of the cooperative society —Supercoop, Târgu Neamț, Romania, January 2010) with the aim of gathering as much direct feedback and data as possible. Synthetic documents and information about the functioning and activity of national cooperative societies in Romania have been gathered as a result of contacts had with representatives of the Ministry of Economy, Trade and Business Environment (the main contact person has been Mr. Florin Rosu, Director responsible for the activity of cooperatives). No further specific measures have been taken by the relevant authorities in order to promote the SCE Regulation (publishing the SCE statute in Romania).

The legislation on SCEs has been collected mainly by consulting EU and Romanian websites, online libraries, online legislative data bases, online journals, bookshops and university libraries. In order to identify if there are any SCEs established in Romania, the National Trade Register has been consulted online and telephonically, which resulted in the negative (Trade Register Office of Romania). Overall, it can be said that the lack of dynamics as regards SCEs in Romania could be due to several factors: deficiencies regarding the visibility of the legal framework of SCEs within the cooperative sector, the civil society and the public sphere at large; although, a National Advisory Council of Cooperatives in Romania has been set up according to the provisions of Law 1/2005 on national cooperatives, the relationship between public bodies/administration and national cooperatives is remote and not targeted to the specificity of the national cooperatives' activity and needs/interests; the lack of specific measures/activities for the promotion of the SCEs; the specificity of the conditions for setting up SCEs (the minimum capital requirement which is high compared to the size of most of the cooperatives in Romania, difficulties in contacting and finding partners from other MSs in order to set up SCEs).

### **Conclusions and suggestions**

In the European scenery, the cooperative societies could represent a binder in the direction of finalizing the internal EU market through minimizing the existent border obstacles and consolidating the EU competition. As a component of the social model, the cooperative entities deserve to benefit from a high level of recognition and support, like the constitutions of some of the member states and other different key documents of EU require. The (CE) Regulation nr. 1435/2003 of the Council from July 22<sup>nd</sup> 2003 regarding the statute of the European cooperative society (SCE) and the 2003/72/CE Directive of completion of the statute of the European cooperative society regarding the workers' participation are closely connected between them, so that the lack of attraction as well as their limited implementation within the European countries have led to countless reports regarding the identification of reasons and other obstacles encountered during the implementation. More than often the SCE takes the form of *a second degree* cooperative, exclusively formed of juridical persons and it is used by mutual societies that do not have a European stature, but wish to use a juridical statute associated with the social economy, respectively by the big enterprises. Moreover, the small cooperative societies which constitute the biggest part of the European cooperative movement continue to have difficulties in acceding to the SCE statute.

From the performed research, in 2011 only 24 SCEs were established, which confirms the failure to adapt of the statute to the specific character of the cooperative societies within Europe. The SCE Statute fulfills the necessities of the cooperatives only partially due to its complexity, this is why this instrument should be simplified and rendered comprehensible so that its accessibility degree for the users can grow, so that it can become easy to understand and applicable, guaranteeing the rights to information, consultation and participation for all the workers. On the other hand, increasing the European cooperative society's Statute's attractiveness must not be performed to the detriment of the standards; revising the Statute must allow a better recognition of this form of society in EU, the future initiatives and European measures connected to the SCE must focus on transparency, on the protection of the rights of the interested parties and on following the national habits and customs.

The SCE Regulation also contains countless references to the national legislation, either regarding the cooperatives, either regarding the equity stock companies. For example, an SCE must organize a general assembly of the shareholders at least once a year, with the exception of the case in which the national legislation regarding the national cooperatives requires a bigger frequency, or for the case in which a merger is performed in order to protect the creditors – this must be regulated by the national legislation regarding the mergers of equity stock companies.

Moreover, the SCE Regulation contains a series of options or references that allow the member states to impose on the SCE a certain behavior. In order to simplify the regulation, one must delimit more than 30 articles that contain such options and references in three principal categories as follows: a) articles that regulate common aspects of the SCE and SE Regulations; b) articles that directly refer to the legislation regarding stock companies; c) articles that contain references and options that regulate the activities and aspects specific to the cooperatives.

In a more general context, the problem of the European juridical forms, in our case the SCEs, and of the necessity to revise these, is placed within the framework of the current reflection about the future of the European right of the commercial societies. The results of this reflective process will contribute to the Committee's assessment regarding the necessity and, if it is the case, regarding the instruments that will be employed to satisfy the requirement of the business environment within Europe for a more equitable environment, a better regulation and simplification.

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# THE ROLE OF INTERNAL AUDIT IN THE CONSULTANCY OFFERED TO ORGANIZATIONAL MANAGEMENT

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Claudiu, Șerban<sup>2</sup>

## Abstract:

*The function of internal audit has occurred after successive overlaps with other forms of control, resulting in the need to increase the number of specialists in internal audit. Defining internal audit as an activity that adds value has happened in the conditions under which its characteristics were crystallized: universality, independence, and periodicity. Being structured as a separate activity within the economic entity, internal audit is an independent evaluation function, and the "beneficiary" is entity's management. The aim is for the firm to base its decisions on the conclusions and recommendations resulting from the audit. Internal audit is based on professional standards and norms, procedural guidelines and codes of conduct that form a flexible reference framework internationally recognized, which can be adapted to legislative and regulatory peculiarities of each country. This allows internal audit to add value by its ability to improve internal control system of the organization, but also through the communication to management of solutions regarding risk assessment, reorganization of management control, and change in the mentality of the audited.*

**Keywords:** *audit concepts, audit evolution and organization of its specific activity, evaluation of audit departments, necessity and objectives of the audit.*

## 1. Introduction

Specialist D. Matthews (2006) in his work „A history of auditing: the changing audit process in Britain from the Nineteenth Century to the present day” presents chronological the progress of audit in general, with a particular focus on audit in the UK, using for the first time the interview technique by conducting interviews with retired chartered accountants and those active but with a rich professional experience.

Emergence of economic activities, of incipient financial transactions in the very distant history of mankind, has generated the need for knowledge and information on their "dimensions". Various forms of evidence, especially regarding money and public goods' management, can be identified since antiquity.

Evolution occurred over time, both in the economy and in ways of reflection and verification of economic processes. Thus, after several stages in which terms, types and objectives overlapped and intersected, a clear delineation of each "domain", in terms of recording data, informing on economic events, and then examining, verifying, analyzing them, was achieved.

Based on the needs and complexity of activities in the contemporary society, we can essentially define accounting as a process outlining, classifying and describing economic events, in a logical order, to provide relevant and necessary information to decision-makers and others. Accounting's function of quantitative information provider is doubled by the need of professional accountants to understand the principles and rules governing it.

Audit (which originates from the Latin "auditus" meaning to listen, to hear) reveals his objective as determining the extent to which accounting information reflects objectively the economic events in a given period.

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## 2. Research Methodology

We have used the comparison method in most of the article to highlight specific features of internal audit within commercial entities which are distinctive from those of internal audit of public entities. Research methodology used in this paper combines quantitative with the qualitative research indicating that the effectiveness of results obtained from research would be greater if an optimal combination would be made between the quantitative-qualitative researches in order to achieve objectives.

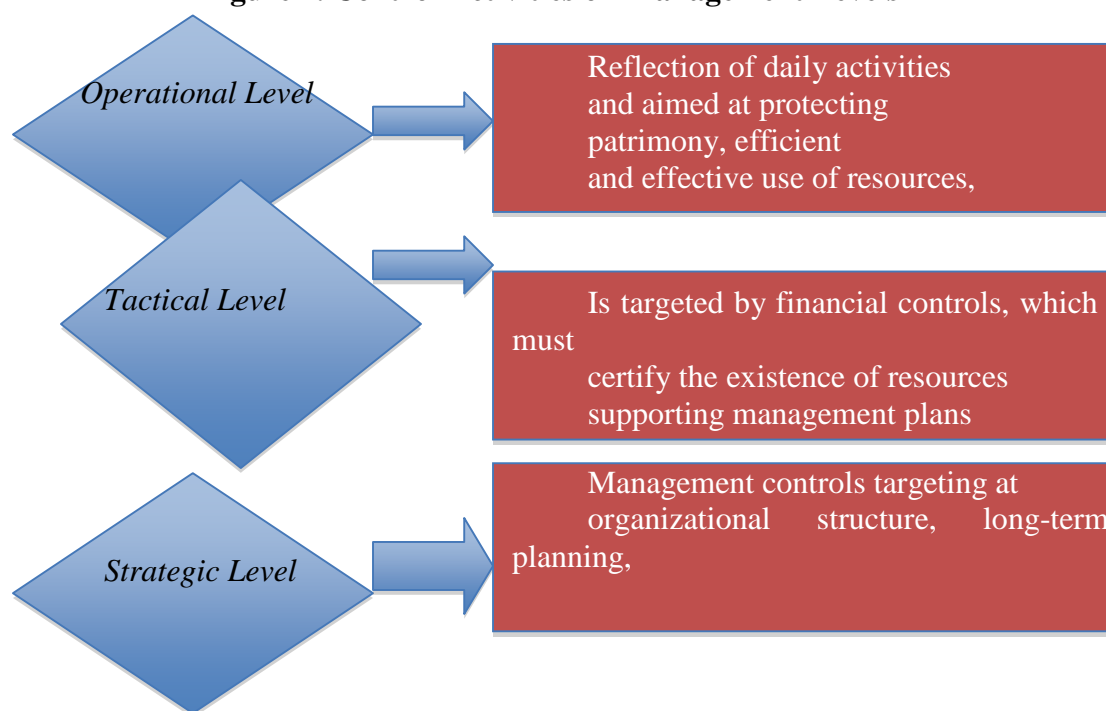
Over time there has been a need for internal audit activity, as a function within organizations, starting from financial-accounting domain and subsequently expanding its goals.

There were moments in the beginning when the concept of internal audit overlapped that of internal control, but their fields of action were established at last.

The attention of management any organization is focused on the management of risks those continuously emerge and evolve in order to avoid unwanted effects. Hence it has proved necessary the organizing of an internal control system within each entity, which then became the subject of internal audit.

If we overlap management control actions on the managerial levels of any organization, it is observed that the accounting can be found at the *operational level*, where internal control is focused on recording and processing data.

**Figure 1. Control Activities on Management Levels**



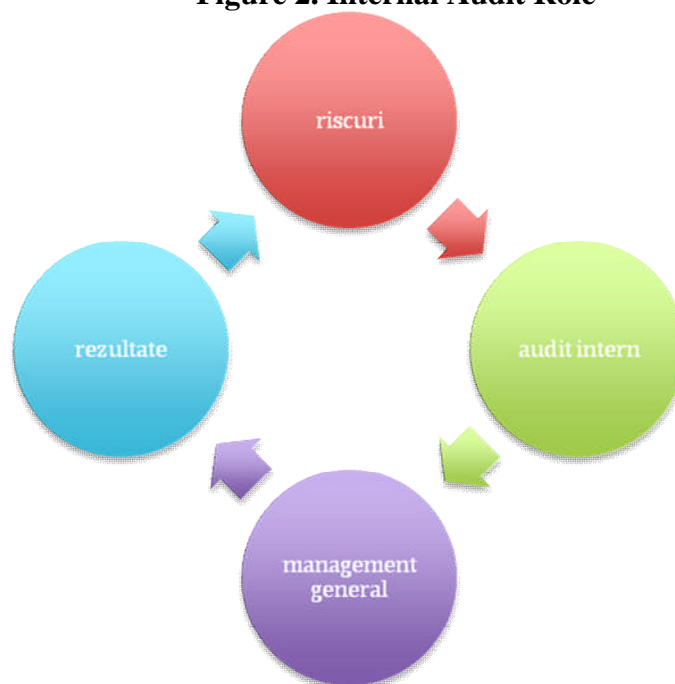
Source: Author's projection

Internal audit, structured as a separate activity within the economic entity, is an independent evaluation function, the 'beneficiary' being the management of the audited department. The aim is to support their decisions on the conclusions and recommendations resulting from the audit.

In practice, it is necessary to understand the relationship managers-internal auditors as a partnership, not one based on opposite sides, that has the same objectives, to achieve the targets and bring effectiveness to the managerial act.



**Figure 2. Internal Audit Role**



Source: Author's projection

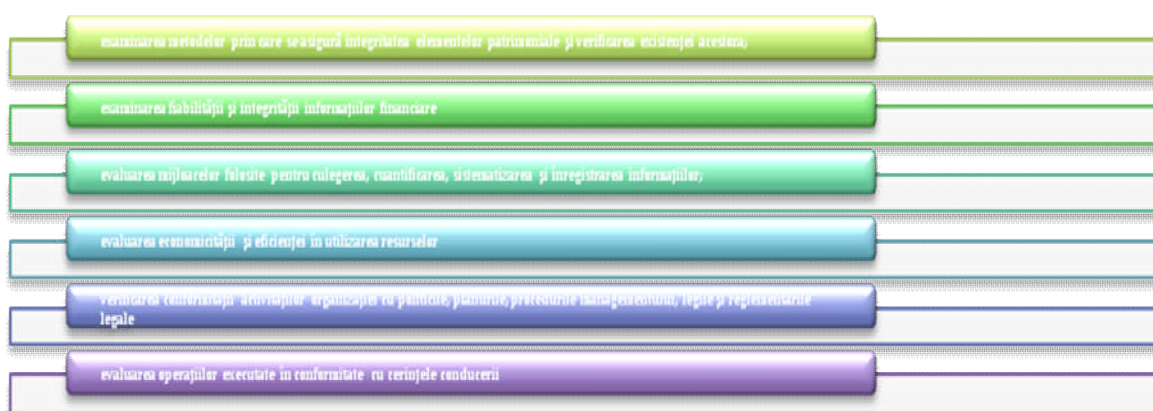
As can be noted from the above mentioned, the role of internal audit is considered materialized if the strategic guideline of organization does not interrupt. Internal audit assesses any department, office, activity of the organization, providing analyses, recommendations, and information for the managerial team.

The aim is to help organization's members to effectively take on their responsibilities and find solutions to eliminate possible malfunctions or irregularities encountered.

The objective of internal audit is to provide evaluation at a reasonable cost, aiming at the relevance and effectiveness of the internal control system within the economic entity.

Considering these aspects, one can identify the main functions of internal auditors as:

**Figure 3. Responsibilities of Internal Auditors**



Source: Author's projection

Thus, it is considered that the organization has received real benefits resulting from the professional skills of internal auditors, by systematic evaluation, based on audit standards and best practices, policies, procedures and activities of the entity.

Value added by internal audit can be expressed by "evaluation of internal control and analysis of all risks" associated to audit activities, and also by the recommendations contained in the report prepared and submitted in order to ensure the organization's objectives."

But it is necessary to emphasize that internal auditors are not able to certify protection from risks or dysfunctions of the activities audited, because of the relativity of internal control. Evaluation of the entity's internal control system allows reasonable assurance regarding management functionality, from the perspective of the internal auditors. Objectives can be achieved if there is a well organized, formalized system of internal control.

On the other hand, internal audit is based on professional standards and regulations, procedural guidelines, codes of conduct that form a flexible reference framework internationally recognized which can be adapted to legislative and regulatory peculiarities of each country.

Reference framework of the internal audit includes:

- Internal audit concept, which states a few essential elements:
- internal audit carries out assurance and consultancy missions;
- its areas of responsibility are risk, internal control and management of the entity;
- internal audit's purpose is to add value to the organization;
- Audit Code of Conduct, which provides internal audit principles and values that allow auditors to direct their professional practice depending on the specific context;
- professional standards for internal audit practice that guides auditors to management tasks and specific activities;
- practical implementation standards that comment and explain the standards and recommend the best practices;
- support for professional development, consisting mainly of studies and articles of doctrine, and documents of colloquia, conferences and seminars.

To successfully fulfill the purpose for which it was created, in relation to organizational management, internal audit function must have a constitutive document, Internal Audit Charter. This has the role to present internal audit to other departments and functions of the entity.

Internal Audit Charter importance is highlighted by its regulation in professional norms, considering that:

- a. defines the position of internal audit within the entity and its objectives;
- b. sets internal audit's scope, area of activity, level of independence that ensures its objectivity in performing tasks;
- c. specifies authorization for access to documents, individuals, physical locations so to achieve appropriately the tasks of internal audit;
- d. makes sure that internal audit - management relationship is understood after the examination and approval of Internal Audit Charter, which becomes an official document of communication;
- e. indicates the role and position of internal audit for all hierarchical levels of management, avoiding misunderstandings.

In order to clarify all aspects aimed at internal audit activities, carrying out insurance or consultancy services for the management, the Internal Audit Charter necessarily refers to the following important points:

1. *internal audit function*, often found in practice as internal audit definition, a statement that establishes its purpose;
2. *independence*, by providing the relationship of internal audit with other parts of the organization, so as to assure its objectivity and impartiality;

3. *internal audit's role and purpose*, pointing out it has access to all activities, personnel and documents of the entity. It is also outlined here the role of insurance and consultancy for the management, internal audit types used and assessing of the outcome and quality of internal audit;
4. *reporting*, which refers to the reporting level of internal audit and reporting requirements, or to the internal audit committee or senior management level;
5. *responsibility*, contained in a section of the Internal Audit Charter, which emphasizes the responsibility of the head of internal audit department on:
  - *continuous training* of internal auditors to keep them at an appropriate level of knowledge, skills, experience;
  - *strategic and operational planning*;
  - *implementation of internal audit programs* approved by management;
  - *communicating the results of internal audit* to the audit committee.

Relying on these norms, internal audit may be conducted in the form of its two components, namely insurance and consulting, setting their goals in advance.

Although sometimes overlap their areas of action, there are well defined limits for each of the activities - insurance or consultancy, by identifying the types of services, authorization base and the final objectives.

Insurance is considered to be "an objective examination of evidences to provide an independent assessment on risk management and control or management processes."

In reality, this activity of internal auditors is reflected in missions with a wide range of coverage, having a clear endpoint. Here are found the audit of: control processes of budget execution, implementation of personnel policies, IT system, preliminary financial analysis, measuring the effectiveness of audit activities, etc.

Consultancy or counseling that involves internal audit "means those activities related to the nature and purpose of the organization, designed to add value and improve its management, risk management and control processes, without the internal auditor assuming managerial responsibility".

Conducting internal audits and consultancy work involves the determination of the form they may take, under the current legal framework.

Thus, one identifies *consultancy activities*, meant to specify the shortcomings in implementation processes at a normal pace and schedule parameters and identify the causes, consequences and solutions for eliminating them.

Internal audit can aim to *facilitate understanding* for the entity's staff that knowledge of a system, its operation, of normative provisions is the responsibility of these employees (managers) working with/in it.

*Professional training* is also an area of internal audit missions, which aims to provide theoretical and practical knowledge with regard to financial management, internal control, risk management, by organizing courses and seminars to employees of the entity.

At the same time, the internal audit activity as consultancy has several variants, namely:

- formalized consultancy missions, provided in the annual internal audit plan, in a separate section. It is based on systematic and methodical approaches, under formalized procedures with predetermined character;
- informal consultancy missions, achieved through participation in projects of fixed duration, in various committees, meetings with timely goals, being carried out by following their own procedures;
- consultancy missions for force majeure situations, exceptional events or crisis, which require the participation internal auditors in the established teams.

### **3. Conclusions**

By considering the logical reasoning of research, we considered as particularly important the subject of internal audit - internal control relationship; after the research of the conceptual approaches of internal control, internal control patterns and by paying attention to consultancy and monitoring issues, we concluded that internal control is the main objective of internal audit, thus the audit work should consider determining the reliability of all financial and operational information, evaluating controls aimed at protecting company assets, assessing devices regarding the compliance of operating results with goals and objectives, in order to help management fulfill the entity's objectives.

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# THEORETICAL ASPECTS REGARDING THE FINANCIAL CRISIS OF THE TERRITORIAL ADMINISTRATIVE UNITS

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## Abstract:

*Financial and economic crisis, worldwide installed, passivity, incompetence and, in some cases even corruption are the factors for financial crisis in the administrative territorial units. The paper addresses theoretical issues of, the financial crisis through the prism of Law no.273/2006 on local public finances and of the Government Emergency Ordinance no.46/2013 on the financial crisis and insolvency of the administrative territorial unit, being examined issues relating to the establishment of the crisis, the Committee for crisis situations, financial recovery plan, ending the financial crisis.*

*The final part of the article presents the findings from the analysis of the procedure established by law for liability coverage of administrative territorial units in crisis.*

**Keywords:** crisis, financial, insolvency, public authorities.

**JEL Classification:** K00, K3

## 1. Introductory elements

By Article 85 of Law no.273/2006 on Local Public Finances, the Romanian legislator has undertaken the obligation to adopt a law that would regulate the financial crisis and insolvency of the administrative territorial units, established for this purpose and within 6 months from the entry into force of the law, the Ministry of Administration and Interior and the Ministry of Public Finance were authorized to draft the law project.

The financial crisis procedure and the insolvency of administrative territorial units (counties, cities, communes-article 1 of Law no.2/1968on Administrative-Territorial organizing) was also regulated by art. 74 and 75 of Law no.273/2006, the provisions of these articles would come into effect on 01.01.2008, but the legislator considered that it is also necessary to adopt a special law that would detail how this procedure will be applied.

Subsequently by Government Emergency Ordinance no.28/2008 for modifying Law no. 273/2006 established that Article 74 and 75 shall enter into force on the date of entry into force of special law. In 2010, the Boc Government has submitted to the legislative forum, a law project on the financial crisis and the insolvency of administrative territorial units, but the project remained unfinished.

After more than six years from the entry into force of Law no.273/2006 in the meeting of 21 May 2013, the Government adopted Emergency Ordinance no 46/2013, which establishes the general framework and collective procedures for liability coverage of administrative territorial units under the financial crisis or insolvency.

Failure to comply with the burden imposed by the legislator, for the development and adoption of the bill on the financial crisis and administrative-territorial insolvency before the deadline remained unpunished, which can generate many questions about the accountability and responsibility of the decision makers.

The adoption Government Emergency Ordinance no 46/2013 on the financial crisis and insolvency of administrative territorial units has as groundwork among other as resulting from the preamble of the enactment "the need to unlock to suppliers of goods, services and works that have to recover from local public administration authorities, amounts that represent arrears "condition imposed by international financial institutions.

The legal act regulates two distinct situations, namely the financial crisis and insolvency of administrative territorial units. In the following we address some aspects regarding the

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financial crisis that has as main reasons besides the economic and financial crisis worldwide installed, the passivity of public authorities, mismanagement of public funds and corruption. "Hunger", "thirst" for votes is another issue that caused the financial crisis, because of a desire to gain the goodwill of the voters, elected officials contract papers of investment that are not budgeted, which creates arrears that can not be covered from existing financial resources, a phenomenon that has negative effects not only for the territorial administrative unit but also for public works and services providers that can reach insolvency.

## **2. The concept of financial crisis**

The legislator defines the financial crisis in art. 74 of Law no.273/2006 and art. 1, letter M in G.E.O. nr.46/2013 as "the status of the patrimony of administrative territorial units characterized by the existence of financial difficulties, by severe shortage of cash availability resulting in non-payment of payment obligations, liquid and chargeable over a period of time".

From the analysis of the definition enunciated, results that an administrative territorial unit is in financial crisis if no payment obligations are acquitted, liquid and chargeable (as defined by article 2 paragraph e of G.E.O. 46/2013) for a certain period of time due to acute lack cash availability.

Therefore, non-payment of pecuniary debts by the administrative-territorial unit because of negligence or bad faith of people with the necessary powers, does not generate the financial crisis situation, it exists only if it satisfies the conditions required by law.

## **3. Situations in which the financial crisis is presumed.**

According to article 1 point m of G.E.O. No 46/2013, the financial crisis is presumed in the following circumstances: when there are liquid and chargeable payment obligations for more than 90 days that are unpaid, obligations exceeding 15% of the general budget of the administrative-territorial unit.

Therefore, in this case the financial crisis is presumed only if the following requirements are met:

- there are payment obligations, liquid and chargeable unpaid;
- unpaid payment obligations that are older than 90 days;
- unpaid payment obligations exceeding 15% of the general budget of the administrative-territorial unit.

The legislator, however, establishes an exception according to which at the presumption of the financial crisis are not taken into account those payment obligations which are subject to trade dispute (Article 2 point m1) because receivables being litigious do not have a clear character (Pipera, 2008, p.56). It can be observed that the legislator uses the notion of commercial litigation, although the analyzed enactment was adopted after the entry into force of the new Civil Code that uses the phrase "litigations between professionals" which can lead to the conclusion that it was either an oversight by the legislator, or the use of the term pursued with a goal that can be exploited later to return to the old term.

Another situation where the financial crisis is presumed concerns the hypothesis of nonpayment of salary rights provided in the income and expenditure or the institutions' budgets, or public services of local or county interest, as appropriate, for a period exceeding 90 days from the due date.

It is worth mentioning that the debt based on which is established the state of financial crisis covers all the financial obligations which belong to local public administration authorities (local councils, county councils) or subordinated public services at some point obligations arising from the non-payment of payment obligations, liquid and exigible to natural or legal persons resident and / or resident in Romania, namely employees of the administrative territorial units, regarding salary rights arising from labor relations and provided in the budget of revenue and expenditure (art. 2 letter n from G.E.O. No 46/2013).

From the actual drafting of the provisions of Article 2 point n from the analyzed normative act, it appears that unpaid payment obligations concern both individuals and legal persons resident and / or not residing in Romania and are composed of, arrears recorded by administrative territorial units towards suppliers of goods, works and services as well as salary rights arising from employment relationships and provided in the budget of income and expenses.

From corroborating of the provisions of Article 2 letter n with the provisions of Article 122 paragraph 1 from G.E.O. No 46/2013, it appears that for the establishment of the financial crisis situation, are taken into account time-due payment obligations that belong to administrative territorial units, its subdivisions, namely public services of local or county interest.

To notice is that the legislator reports the value of the remaining payment obligations at the entire budget of the administrative-territorial, financial crisis being presumed in the first situation only if the debt exceeds 15% of the budget.

In the second hypothesis, the legislator takes into account only those salary rights provided for in the income and expenditure budgets of local administrative territorial units or the budgets of public institutions and services of local or county interest, as applicable, that are unpaid for more than 90 days from maturity.

It can be seen that in this situation the legislator does not set a threshold value of the salary rights, but requires only the condition that the salary right to be provided in the budget of revenue and expenditure and to be unpaid for more than 90 days after maturity.

#### **4. The procedure for establishing the financial crisis.**

According to Article 74 paragraph 2 of Law no. 273/2006, the situation of the financial crisis can be detected by: the chief authorizing officer(Mayor, County Council President), the head of the financial accounting department of the specialized apparatus of local public administration authorities, the secondary authorizing officer and spending units within public services, subordinated to the local council, heads of commercial companies or autonomous administrations subordinated to the local council, various creditors, County Director of the Directorate of the county public finances, respectively Bucharest, territorial structures of the Court of Accounts.

From the actual drafting of the mentioned text of law, it appears that the rule provided for in Article mentioned above has a disposition character, not imperative, and therefore it is up to the subjects mentioned if they notice or not the financial crisis situation. Relating however, the provisions of art. 74 paragraph 2 of Law no.273/2006 to the provisions of art.114 paragraph 1 of G.E.O. No 46/2013 it can be seen that from among the persons listed in Article 74, only the Chief Authorising Officer has an obligation to notify the state of financial crisis since failure to do so is an offense and is liable to a fine of 10,000 RON to 50,000 RON.

Therefore, declaring the financial crisis is at the discretion the Chief Authorising officer of the local government unit the sanction of the contraventional fine applicable in this case being able to attract its attention on the consequences arising from non-fulfillment of the obligation established in its charge. Noticing the financial crisis situation is done at the general direction of public county finances or of Bucharest and at the Chief Authorising Officer of the administrative territorial unit which is in a state of financial crisis.

Within 5 working days of becoming aware of the financial crisis, the Chief Authorising Officer has the obligation to inform the deliberative authority (local council / county council) and the general direction of public county finances or of Bucharest, as appropriate. The deliberative authority notes the existence of the financial crisis by adopting a decision that will be registered at the request of the Chief Authorising Officer in the local register of financial crisis situations of the administrative territorial unit, which is managed by the county general directorates of public finance, namely of Bucharest (article 3 paragraph 3 of G.E.O. 46/2013).

Reporting the financial crisis situation is done according to the procedures established by Order no.821 of the 18<sup>th</sup> of June 2013, emitted by the Ministry of Public Finance.

The Chief Authorising Officer must request registration of the deliberative authority's decision within 5 working days of its adoption, in which the term should be established by order of the prefect and financial crisis situations committee whose composition is determined by Article 5 par. (1) G.E.O. No. 46/2013. The Committee consists of the Chief Authorising Officer, the head of the financial and accounting department of the territorial administrative unit, or the subdivision, in financial crisis, the head of the public service of local interest that generated the state of financial crisis where appropriate, a representative of the deliberative authority of the administrative-territorial unit or its subdivision in financial crisis, a representative of the General Directorate of public county Finance or Bucharest, and a representative of the associative structures of local public administration authorities in whose category falls the administrative-territorial unit in question.

According to Article 5 paragraph (3) of the normative act analyzed, the Chief Authorising Officer with other members of the Crisis Committee must prepare within 30 days of the adoption of the decision by which was declared the state of financial crisis, a financial recovery plan of the administrative territorial unit, with the notice of the local chamber of accounts.

To be mentioned, is that the legislator does not provide, which is the legal nature of the notice from the territorial chamber of accounts but from the wording of the text of law, we think it can be concluded that it can only be a concurring notice, given that the plan should include measures that may lead to financial recovery of the administrative territorial unit or the institution providing the notice is the one that checks how public funds are used and as such, it can assess whether the proposals in the plan may lead to obtaining the result sought (Petria 2010 p.186; Petria 2010, p.308). Moreover, if the notice in question would have had an advisory nature, the legislator would have expressly provided this as he stipulated for the opinions provided by art. 11 and 12 of the Ordinance. The financial recovery plan must include on a compulsory basis the measures under Article 5 paragraph. (4) of G.E.O. No 46/2013 and approved by the deliberative authority by decision on the proposal of the Chief Authorising Officer [Article 5 paragraph. (5) G.E.O. No 46/2013].

In case there is information or facts which were not known at the date of approval of the financial recovery plan, the Chief Authorising Officer may request whenever necessary, its modification. The new plan is developed by the Chief Authorising Officer along with committee members for financial crisis situations and is subject to the approval of the deliberative authority (Article 7 of Ordinance No. 46/2013).

Implementation of the measures and activities included in the financial recovery plan is mandatory, the Chief Authorising Officer having the duty of informing at least once a month the deliberative authority and committee members on this issue (8 of Ordinance No. 46/2013) . During the implementation of the plan, the Chief Authorising Officer may not take the measures expressly provided by Article 11 of the analyzed enactment, only with the approval issued by the deliberative authority and the advisory opinion of the committee.

This prohibition is intended to prevent any violations of the measures provided for in the recovery plan and avoid engaging the administrative-territorial unit in performing expenditure that can not be covered by income.

## **5. Termination of the financial crisis**

Termination of financial crisis situations is subject to conditions laid down by the legislator in Article 12 of the Ordinance. Thus the cease of the financial crisis is declared at the request of the Chief Authorising officer and the advisory opinion of the Committee on the financial crisis situations by the deliberative authority, by adopting a resolution. It can be seen that the deliberative authority does not self notify on its own initiative, but is



necessary the intervention of the chief authorising officer and the advisory opinion of the Committee on financial crisis situations.

To avoid confusion regarding the legal nature of the opinion, the legislator expressly establishes that it has an advisory nature. From the wording of Article 12, it appears that the obligation to request the opinion of the committee for financial crisis situations lies with the deliberative authority. We consider, however, that this opinion may also be obtained by, the Chief Authorising Officer, who shall submit it along with the application, to the deliberative authority in order to dispose accordingly. The deliberative authority, shall adopt the decision only if two conditions are met:

a) for a period of 180 days there are no longer found the causes that led to the financial crisis framing (provided by article 2 point m1 and m2 of G.E.O. 46/2013);

b) when the criteria for declaring the insolvency state are met, provided for in Article 75 para. (1) of Law no. 273/2006, in which the administrative-territorial unit is subject to insolvency proceedings.

For not accomplishing this obligation, the legislator does not establish any kind of sanction which may lead to the conclusion that it was considered that this kind of situation can not be met, since the Chief Authorising Officer is most interested that the administrative-territorial unit should no longer be in a state of financial crisis.

Since, as they say "nothing that is human is not impossible," we consider that the cancellation of the registration of the financial crisis can be requested not only by the Chief Authorising Officer, but also by persons provided for in Article 74 para. (2) of Law no. 273/2006 which are entitled to notice of the financial crisis situation of the administrative - territorial unit. For cancellation of the registration of the financial crisis, the Chief Authorising Officer must submit to the general direction of public county finances, the address for requesting the removal, the decision of the deliberative authority of cessation of the financial crisis situations as well as the situation regarding the analysis of the cease of the financial crisis, a condition imposed by Article 8 of the regulations approved by Order nr.821/18 June 2013.

We consider that for the cancellation of the registration of the financial crisis it is sufficient to submit only the application of radiation and the decision of the deliberative authority as it represents the act stating that the end of the crisis and is founded on documents proving the termination of this state.

If in doubt about the legality of the decision, it may be contested under the Administrative Litigation Law, the general direction of public finances having a representative in the Committee for financial crisis situations which gives its opinion to the cease of the financial crisis and who can assess the legality and how thorough this administrative action is. Therefore we believe that the presentation of other documents is unnecessary, costly and bureaucratic, and if we do not put an end to increasing bureaucracy we will finish the forests.

Procedures should be simplified (in all areas) rather than complicated, since only this can ensure compliance first of all, targeting certain rules and ensures efficiency in completing tasks. It is to be specified that the provisions of G.O. No. 22 on the execution of the payment obligations of public institutions established by executive titles, does not apply to the administrative territorial units, their subdivisions and public institutions under local orders (Article 122 para. (2) of the Ordinance nr.46/2013).

## **Conclusions**

Reporting financial crisis situations follows the same procedures established by Order 821 of 18 June 2013 issued by the Ministry of Finance.

The establishment of the financial crisis represents the first stage of the financial recovery of administrative - territorial unit in difficulty. The procedure for declaring the financial crisis is expressly regulated and so, compliance with the requirements of EO No.

46/2013 is mandatory. The purpose of establishing this procedure is to take financial recovery measures to avoid entering the administrative - territorial insolvency.

The difference between the two states, respectively the state of financial crisis and the insolvency state, is given by the amount of unpaid liabilities, and length of the period of un-payment and therefore if the conditions for the declaration of insolvency are met, is no longer required to be previously declared the state of financial crisis, but follows the insolvency procedure.

By declaring the financial crisis state, the administrative territorial unit is not dissolved and does not obtain certain advantages, but by the measures contained in the financial recovery plan, it is being created the possibility of financial management, reduction of costs, the growth of the level of collection of income, measures that can lead to financial recovery and the emission of the establishment of the insolvency state. The financial crisis can be avoided if there are followed the minimum requirements regarding the preparation and executing the income budget and costs of the administrative territorial unit and for meeting this requirement, a competent manager is needed.

We consider that the adoption of a special rule that would regulate the financial crisis procedure of the administrative territorial unit was needed, but G.E.O. no.46/2013 with all the imperfections it contains and that will be totally noticed only after its implementation, is empowered to discipline the chief authorising officer, which will be mire careful and rational in administrating public funds and solving issues of the community he represents.

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# STRUCTURE OF EU SPENDING. COMPARATIVE APPROACH

Ionela, Popa<sup>1</sup>

## **Abstract:**

*In recent years, many researchers have turned their attention to the changes that have occurred in Romania after the time of its EU accession.*

*The comparative analysis of the evolution and composition of public spending and fiscal policy in the European Union is a theme that aims at addressing the basic features of an economy's financing areas: education, health, culture, social security, national defense and identifying Romania's ranking within the EU 28.*

**Key words:** public spending, financing areas, fiscal policy.

**JEL Classification:** H10, H50

## **1. Introduction**

A state, irrespective of how it has evolved along the history, has been and still is the best structured solution to the issues generated by the complexity of the world one lives in. Aspects related to deeper social gaps, the increase of social demands against the decrease in the resources meant to finance them, the increasing dependence of man and organizations to technology, the emergence of threats upon people's security and health all make it necessary for a state to intervene in its economy.

In order to ensure the financial support of all these needs, a state requires financing; a fiscal system plays an important role in this respect.

The way an economy's fiscal system is implemented in accordance with the principles of taxation (neutrality of fiscal policies, certainty of taxation, fiscal equity, and efficiency of taxation) reflects the economic, social and political strategies promoted in a certain country. On the other hand, the way public funds are allocated according to purposes outlines the basic features of an economy's financing areas: education, healthcare, culture, social security, national defense.

## **2. Structure of Romania's Public Spending**

By means of its public spending, a state covers its public needs for roads and services regarded as priorities at any time.

Public spending may be seen as representing economic-social relations in a monetary form between a state on one hand and society members on the other, in the context of state financial resource allocation and use under the circumstances where a state pursues the fulfillment of its roles and of the society's general needs.

Public spending takes place in the form of payments made by a state from resources deployed in various ways, in order to purchase goods or render services needed for the accomplishment of various goals envisaged by a state's policy: general public services, social-cultural acts, army maintenance and keeping up of the entire military activity, domestic public order, social security, economic activities etc.

What is specific to public spending is much more diversity at present. Some expenses manifest directly by the state's financing of public institutions in order to operate. Others influence the economic and social environment and therefore they are the tools of a policy changing the respective environment so that to improve it. Since it is used as an intervention tool, public spending should be analyzed not only from the perspective of the field it occurs in, but also in terms of the influence it can have upon the general process of social distribution.

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The analysis of public spending mainly pursues the collection of pertinent information related to the former's progress.

In order to analyze the dynamical and structural changes of public spending, the author of this article has used information taken from the official web site of the Ministry of Finance regarding the changes in public spending ever since 2000.

**Table 1. Absolute Value Public Spending during 2000-2013**

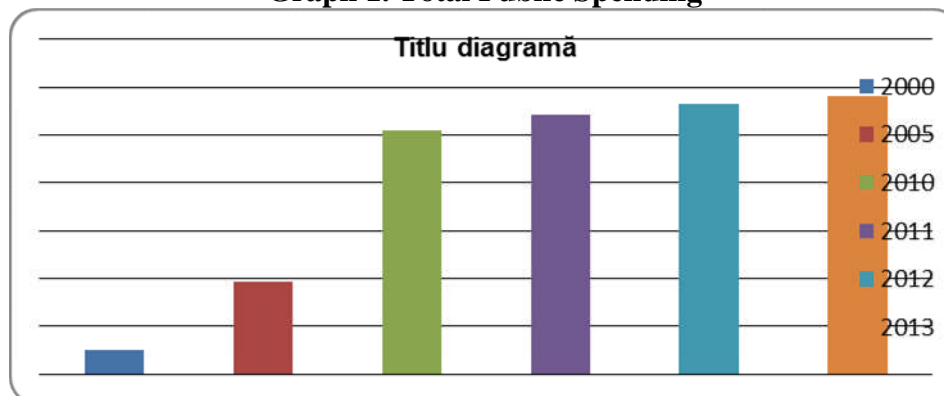
-in thousand Lei-

Indicators	2000	2005	2010	2011	2012	2013
Total public spending	10,429,689	38,778,688	101,678,400	108,481,950	112,920,380	116,359,340
General public services	729,739	5,783,868	32,639,623	42,106,387	43,203,998	48,160,084
National defense, public order, and security	2,510,324	10,246,492	15,756,360	14,604,872	15,327,511	16,848,288
Social and cultural spending	3,807,464	12,458,554	30,579,238	26,087,319	26,694,242	26,521,483
Public services and growth, housing, environment and waters	365,778	994,426	2,707,090	3,024,291	3,922,803	2,889,993
Economic acts	3,016,384	9,295,348	19,996,089	22,659,081	23,771,826	21,939,492

Source: prepared by the author based on the information accessed on [www.mfinante.ro](http://www.mfinante.ro)

There is a noticeable ongoing increase during the time interval in question related to the amounts of public spending. Since spending is an effort indicator, its increase can be seen as unfavorable, yet due to such spending's being justifiable, its increase is accepted. In the basic year 2000, public spending amounted to 10,429,689 thousand Lei whereas this year, namely in 2013, it has reached 116,359,340 thousand Lei. It can be noticed the value of spending has become almost twelve times higher.

**Graph 1. Total Public Spending**



Source: prepared by the author based on previous tables

The structural analysis of the changes in public spending during 2000-2013 reveals the information below:

**Table 2. Relative Value of Public Spending during 2000-2013**

- in thousand Lei -

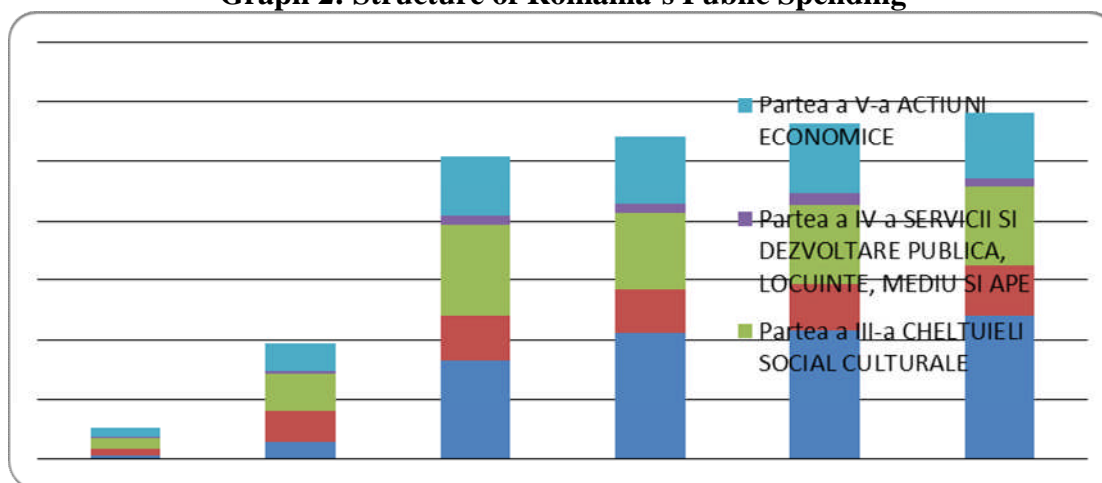
Indicators	2000	2005	2010	2011	2012	2013
TOTAL PUBLIC SPENDING	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GENERAL PUBLIC SERVICES	7.00%	14.92%	32.10%	38.81%	38.26%	41.39%
NATIONAL DEFENCE, PUBLIC ORDER, AND SECURITY	24.07%	26.42%	15.50%	13.46%	13.57%	14.48%
SOCIAL AND CULTURAL SPENDING	36.51%	32.13%	30.07%	24.05%	23.64%	22.79%
PUBLIC SERVICES AND GROWTH, HOUSING, ENVIRONMENT AND WATERS	3.51%	2.56%	2.66%	2.79%	3.47%	2.48%
ECONOMIC ACTS	28.92%	23.97%	19.67%	20.89%	21.05%	18.85%

Source: prepared by the author based on the information accessed on [www.mfinante.ro](http://www.mfinante.ro)

The share of spending categories during 2000-2013 has been as follows:

- spending on general services meant in 2000 7% of total spending and in 2013 has reached 41.39% of total public spending;
- national defense, public order, and security were 24% of total public spending in 2000, and have dropped to 14.48% of total public spending in 2013;
- social and cultural spending was 36.51% of total public spending in 2000, whereas in 2013 it has plummeted to 22.79% of total public spending;
- spending related to public services and growth, housing, environment and waters used to be only 3.51% of total public spending, whereas in 2013 it has been 2.48% of total public spending;
- spending related to economic acts was 28.92% of total public spending in 2000 and it is 18.85% of total public spending in 2013.

**Graph 2: Structure of Romania's Public Spending**



Source: prepared by the author

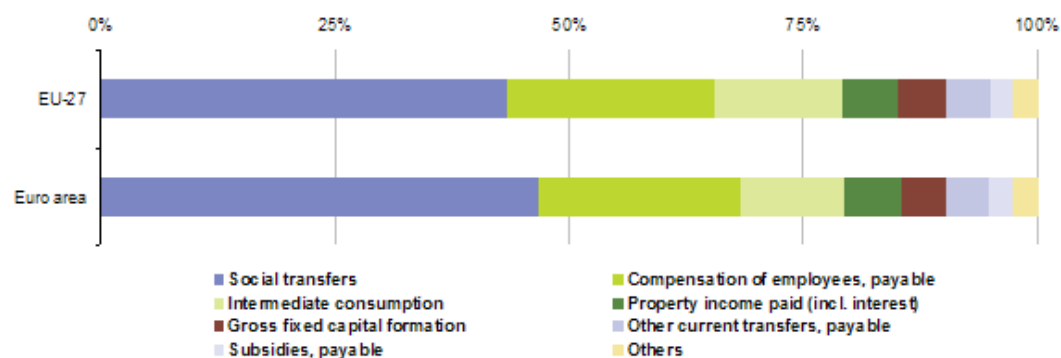
Legenda: Part 5: Economic Acts / Part 6: Public Services And Growth, Housing, Environment And Waters / Part 3: Social And Cultural Spending / Part 2: National Defence, Public Order, And National Security / Part 1: General Public Services

### 3. Structure of Public Spending in European Union Member States

In order to estimate the structure of public spending in the European Union member states, the author has used the data available for the year 2011.

Most public spending in the EU-27 in 2011 was the redistribution of incomes in the form of social transfers in cash or in kind.

**Graph 3. Structure of Public Spending in the EU-27**

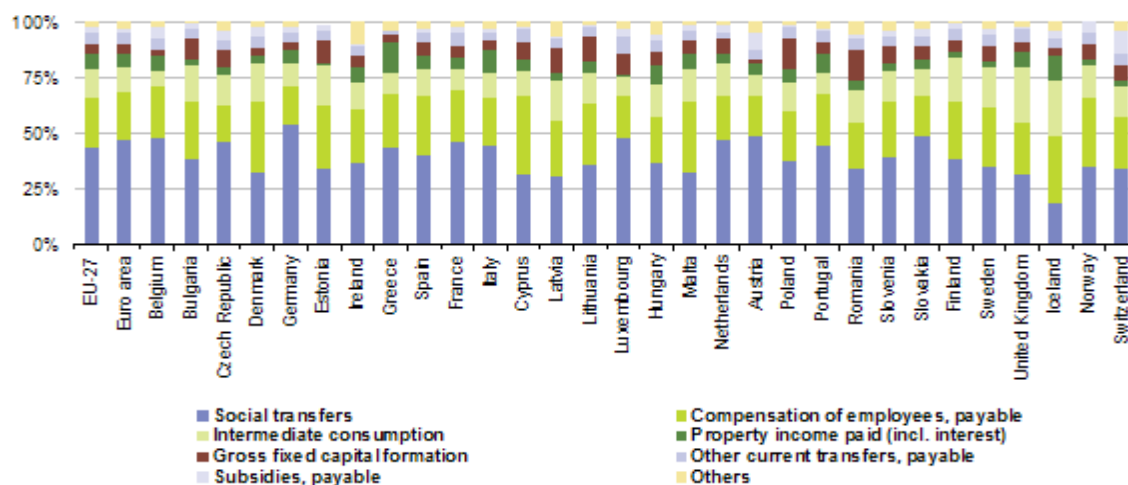


(1) Data extracted on 22.10.2012.

Source: Eurostat (gov\_a\_main)

Social transfers were 43.4 % of the total spending in the EU-27 (46.8 % in the Euro Zone). Compensating the employees was 22.1 % of public spending (21.4 % in the Euro Zone).

**Graph 4. Structure of Public Spending in the EU – Country Particularization**



(1) Data extracted on 22.10.2012.

Source: Eurostat (online data code: gov\_a\_main)

Analyzing each state's public spending provides the following information: in terms of the social transfers in Romania, they rank below the average of the European Union, exceeding Ireland, Great Britain and Latvia. Those ranking high above the EU average (43.4%) are developed economies such as Germany, Luxembourg, Austria etc.

Employees' compensation is in Romania quite low as compared to the situation of other countries below the EU average. Shares above the average are in Northern European countries and in others such as Cyprus and Malta.

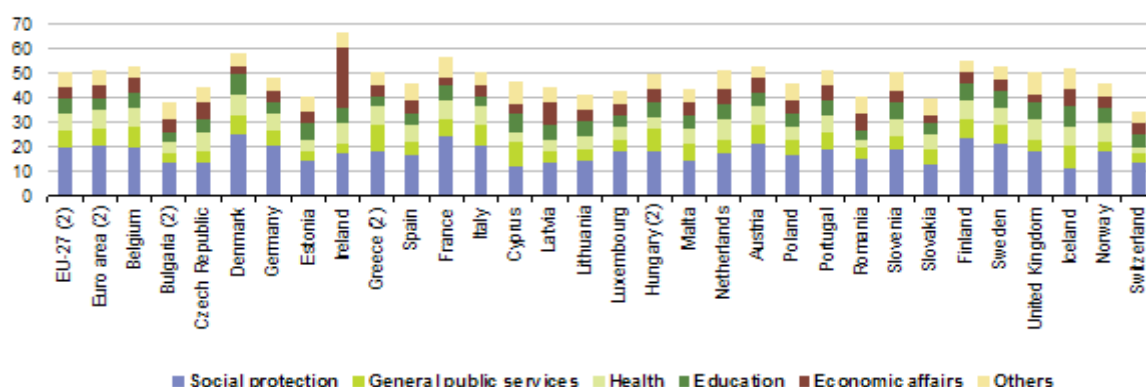
Property incomes paid – of which most are by far the interest payments – were 6.0 % of the public spending in the EU-27 (6.1 % in the Euro Zone), a percentage which rose to 13.9 % of total spending in Greece and 10.9 % in Iceland.

The spending of general public administration can be analyzed in more details by means of the classification of public administration positions (Ro. CFAP).

The classification of government positions, short CFAP, was developed in 1999 in its version as it is now by the Organization for Economic Cooperation and Growth and issued by the Statistics Directorate of the United Nations as a classification standard for governmental activity purposes.

In 2011, social security steps were the most part of public spending in all the EU member states, at a 19.9 % average of the GDP in the EU-27. This pattern has been representative to all the member states except Ireland where the capital transfers to support the Irish banking sector have influenced the high share of the “Business” function. The share of the “Social Protection” function has varied from 25.4 % of the GDP in Denmark, 24.2 % in France and 23.9 % in Finland, respectively, down to 11.7 % in Cyprus and 11.2 % in Iceland. The following CFAP functions in the order of their relative importance in the EU-27 have been healthcare (7.5 % of the GDP), general services of public administrations (6.5 %) and education (5.5 %). The spending related to economic affairs in the EU-27 was 4.7 % of the GDP in 2010, whereas to each function such as public defense, order and safety, environment preservation, housing and community business, recreation, religion or culture less than 2 % of the GDP has been affected (all these functions are grouped as “Others” in Graph 5).

**Graph 5. Structure of Public Spending According to Government Position Classification**



(1) COFOG: classification of the functions of government; data extracted on 22.10.2012.

(2) Provisional.

Source: Eurostat (online data code: gov\_a\_exp)

The spare efficiency related to budgetary spending is very high. For instance, Romania has been allocated the largest amount of investment-related expenses as a percentage of the GDP (and as a percentage of total budgetary revenues) of all the EU countries during 2002-2012, yet Romania's outcomes were modest due to the fact that it has the weakest infrastructure in the European Union. Countries such as Poland, Hungary, Bulgaria, Slovakia and Slovenia with lower investment expenses have a better quality infrastructure.

The example above clearly shows that money was spent inefficiently. One mitigating circumstance is the low level of the GDP and the initial quality of the infrastructure in Romania.

#### 4. Conclusions

An important aspect that is worth mentioning is that due to approaching the indicators in their relative terms, as a share of the Gross Domestic Product, the latter varies significantly from one country to another. Thus, Romania and Bulgaria have a GDP per capita which ranks a little lower than 50% of the average in the EU-27. Luxembourg has the highest GDP per capita and it is by far a leader in this ranking, with a GDP twice and a

half higher than the average in the EU-27 and six times higher than the GDP in Bulgaria and Romania which are the poorest EU member states with respect to this indicator. Under such circumstances, one cannot assign data comparability too high a degree.

It can be estimated that the structure of Romania's budgetary spending is characterized by the prevalence of consumer spending to the detriment of investment. The expenses belonging to the first category primarily include expenses related to salaries and social care (pensions, welfare), thus being part of the trends in other European Union member states.

The poor status of the public pension system is the major vulnerability of public finance as the share of this spending category in total revenues is still too high. Applying the new pension law should support on medium term the goal to decrease the share of this spending category in total budgetary incomes. From the perspective of medium- and long-term sustainability, it is important that a prospective salary spending increase in the budgetary sector during the coming years should take place only in compliance with the changes in economic performance and particularly with productivity gains. Therefore, a major issue Romania is currently facing is the deficit of social insurance budgets which has become more critical and more significant in the total deficit.

Thus, the deficit reported in the public pension system greatly affects the status of public finance and it means a relevant risk in terms of fiscal policy sustainability on medium- and long-term.

Careful attention should be given to fiscal policy, too as it is the one generating the most part of resources needed to finance public spending.

Romania's accession into the European Union has been a desideratum that ever since mid 1990's has marked the tax policy of our country. In practical terms, Romania's path towards the European Union started on 1 February 1993, the date of concluding Romania's EU Joining Agreement and was fulfilled on 1 January 2007, the date when it was granted the status of an EU member state.

All throughout this time interval, the fiscal system reform has been in progress with its main purpose to remove inconsistencies and to harmonize goals such as turnover, efficiency and equity that characterize an ideal fiscal system. One of the main goals of the fiscal reform in this context is harmonizing the legislation which has envisaged the consideration of economic, social and political structures of our country. An important step to accomplish the fiscal reform was the approval of Law 571/2003 regarding the Fiscal Code, a normative act that has combined all the taxes applied on our country's territory. It means the legal framework for the incomes and taxes that contribute in the public budget and local budgets, it states the taxpayers that are due to pay them and it sets their calculation and payment methods.

Unfortunately, even though in terms of principles the fiscal legislation has been harmonized with the provisions of the European Union, the reform of the fiscal system cannot be regarded as successful. Specialists, irrespective of their political beliefs, agree with one aspect: the fiscal policy has shortcomings and directly affects the economy.

The fiscal pressure in Romania is around 33%. As compared to developed countries in the European Union where the value of such an indicator exceeds 40-45%, at first sight, one might estimate that it is low. Yet, Romania's GDP reaches around 140 billion Euros which ranks our country as having a GDP per capita a little below 50% of the EU average. Under these circumstances, a 33% fiscal pressure can no longer be regarded as a sound fiscal policy!

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# CLASSIFICATION, RECOGNITION AND DERECOGNITION OF ASSETS

Claudiu, Șerban<sup>1</sup>  
Sabin, Armășelu<sup>2</sup>

## Abstract:

*We have tried to capture in this article the essential aspects that characterize the definition, recognition and derecognition of accounting assets, relying our research on the national and international accounting standards. Starting from the premise that an entity controls an asset if it has the ability to obtain future economic benefits from its use and that it may restrict the access of others to those benefits, we may support the theory that an entity can prove through estimations the existence of economic benefits attached to assets and is allowed to exercise control over all resources held. The use of controlled resources that an enterprise may have suggests the coverage of fixed assets, which becomes more comprehensive due to the transition to IAS application, integrating here the current assets that the company exploits, rents or holds as investment property. Thus, it can be explained in an entity's accounting the recognition of assets that are not owned, e.g. leasing assets held, situation in which the preeminence of economic principle over legal one is respected.*

**Keywords:** *recognition, derecognition, asset, controlled resources, future benefits.*

## Introduction

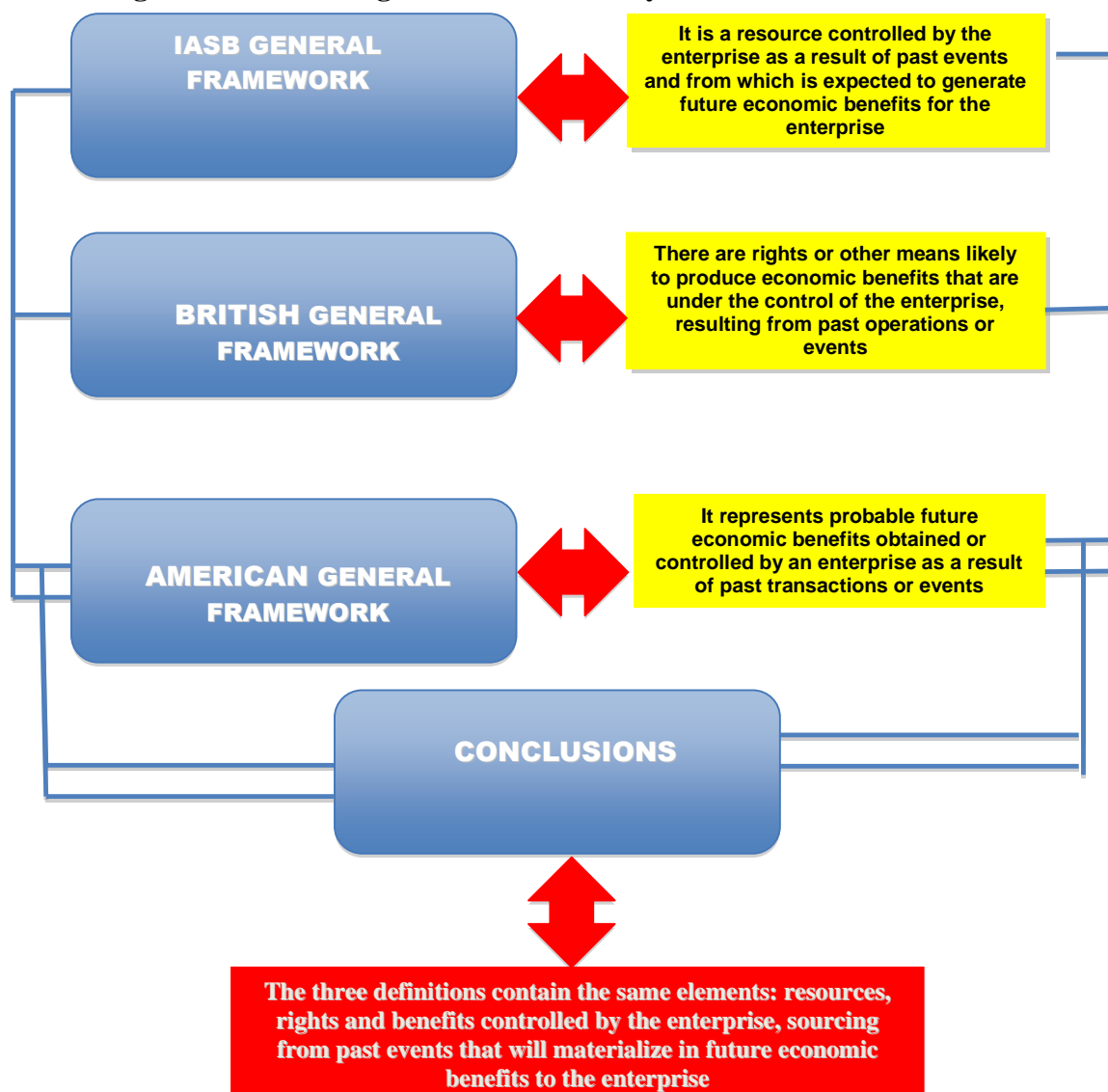
The asset replaces all items that have exchange value. International Financial Reporting Standards and IAS 1 "Presentation of Financial Statements" illustrate examples on structure and delineation of assets in the balance sheet according to the *period of time* in which the estimated economic benefits attached are generated. According to this provision assets will be defined in the balance sheet in **current assets** and **intangible assets**. If criterion "time" can not be used, „liquidity” criterion shall be used that delineates assets in two categories assets "fewer than 12 months" and "over 12 months". No other classification can be drawn from the standards, since they are permissive, allowing enterprises' freedom to classify information regarding assets on their own, specific criteria; but they are required to submit their own classification policies and accounting principles on which the accounting system of each company relies. For the definition of assets we have chosen to present the general definition of the IASB, British and American Framework. (July Jianu, 2007:195). The conclusion drawn from these concepts suggest that they contain the same elements: resources, rights or benefits controlled by the entity, arising from past events that will materialize in future economic benefits to the entity. They can take the following schematic form:

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**Figure nr. 1. Defining assets in conformity with international standards**



Source: author's projection

In conclusion, the stated above definitions of assets and liabilities identify their essential features but their usefulness for decision, in other words, the reason for their presentation in the financial statements is ensured by applying the recognition criteria. *Recognition of assets* is a new concept, taken in while harmonizing Romanian accounting regulations with European Directives and International Accounting Standards. "In formulating the recognition criteria, it is necessary to take into account the restriction cost-benefit and materiality criterion (Doinea O., 2005)"

An asset is recognized in the balancesheet when the following criteria are met:

- Probability of benefits' entry in the entity from use of the asset. It focuses on how assets bring economic benefits to the entity. According to this criterion, there should not be a factor which may have as finality the unfulfilment of conditions for benefits' entry in the company at the end of the financial year.
- Determination of a credible cost or value. Takes into account the determination of the cost or value accepted for elements like assets.

There are situations in which the value attributed to assets is an estimated value. Estimates are considered reliable when based on a number of models recognized by the accounting profession.

If the inflow of cash does not generate economic benefits for the enterprise in future periods, it shall not recognize an asset. Instead, this type of transaction will result in the recognition of an expense in the Profit and loss account. This treatment does not imply that the purpose for which expenditures have been made was other than obtaining an economic benefit for the enterprise or that the management was poor. The only implication is that the degree of safety regarding the realization of a benefit in a later accounting period is insufficient to warrant recognition of an asset. Economic benefits arising from assets are reflected by their ability to contribute, directly or indirectly, to the cash flow-cash items coming into the entity. Specifically, generating economic benefits is reflected primarily in assets' utilization in production, as process characteristic for the operating activity of any society. But we can state this process is not unique for a company, where other activities can be carried out that affect cash movements, either by increasing the effects on cash flow or by reducing the efforts for its implementation.

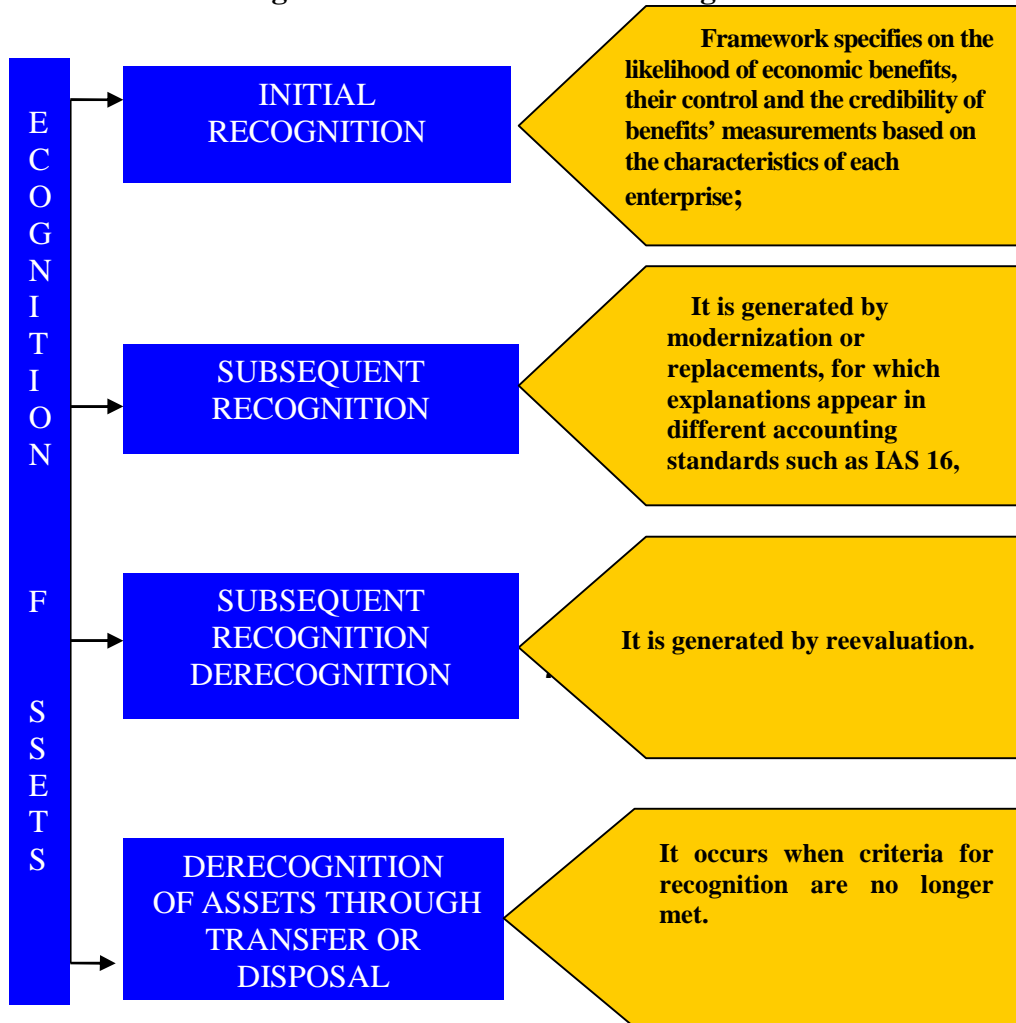
In order to assist professional judgment, we shall present a series of conditions that must be met to be considered that the criterion of economic benefits' probability raised by IAS 38 *Intangible assets* is fulfilled:

- ☐ *technical feasibility for completing the intangible asset so that it is available for use or sale;*
- ☐ *intention to complete the intangible asset to be used or sold;*
- ☐ *ability to use or sell the intangible asset;*
- ☐ *manner in which the intangible asset will generate probable future economic benefits, justified by the existence of a market for the products of that intangible asset or the intangible asset's usefulness to the enterprise;*
- ☐ *existence of technical, financial and other resources adequate to carry out its development so to use or sale that intangible asset;*
- ☐ *ability to accurately assess the expense attributable to the intangible asset during its development.*

For greater clarity and understanding, an IASB Framework point out there is a close relation between cash outflows and recognition of assets, but it is not necessary that the two coincide. Therefore, when there is a cash outflow, it may mean that the purpose is to obtain future economic benefits, but it is not conclusive proof the item meets the definition of an asset. Similarly, the absence of an outflow of cash does not exclude the possibility of an item satisfying the definition of an asset which can be recognized in the balance sheet.

The general rules on the recognition of assets, resulting in the recognition criteria, are completed with the moments of recognition. Although neither the IASB Framework nor IAS 1 do not make any specific references to the moments of recognition, accounting standards specific for such elements organize them into several categories which involves different treatments of the assets. There can be identified as moments of recognition the following:

**Figure 2. Moments of assets' recognition**



Source: author's projection

Derecognition requirements found in specific accounting standards emphasizes that an asset should be removed from the financial statements when it no longer meets the definition or at least one of the criteria required to be recognized. As an example of derecognition, we can bring into question *the simple case of transfer or disposal*, accompanied by more complex cases, such as:

- investments in subsidiaries, joint ventures or associates generates derecognition if the conditions of control over that companies or significant influence conditions are no longer fulfilled;
- assets arising from construction contracts are excluded from the financial statements when the final stage of construction process is reached;
- expenses are derecognized when the company achieves the expected benefit.

### **Conclusions:**

Delineation and justification of economic benefits related to the recognition of an asset should be complemented by providing the determination of reliable values for the benefits. Although in most cases, benefits' credibility can be proven and judged by respecting the specific requirements of various accounting or financial reporting standards, there are situations in which the high uncertainty level may affect the reliability of the assessment.

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# THE EVOLUTION AND PERSPECTIVES OF IMPLEMENTING SOLVENCY II REQUIREMENTS ON THE ROMANIAN INSURANCE MARKET

Camelia, Ștefan<sup>1</sup>  
Mihaela, Bursugiu<sup>2</sup>

## Abstract:

*Solvency II represents a great challenge for the European Insurance Market, in the laborious approach of creating a unitary framework, based on uniform supervising standards, adjusted to the complex risks which the financial system meets. Domestic models of determining the capital demands offer a source of competitive advantage to the pro-active players who have started implementing coherent systems of risk management. The final objective of Solvency II is offering to its insured persons a high level of protection. In subsidiary, the new regulations /settlements will sustain the increase of the integrating degree and of the insurance market competition Within the European Union in order to improve the competition between the European insured persons at an international level.*

**Key words:** Solvency, Insurance, Risk Management, FSA

**JEL Classification:** G22

## 1. Features of the present development in the insurance services

### 1.1. The crisis impact on the field

Due to the financial liberalization, deregulation and innovation, insurance markets have become even more connected to the capital market and to the financial system in general. Insurance ways have appeared on the capital markets like other products such as derived instruments. Moreover, the insured persons offer even more products to save and to invest, similar with the banking products and the investments funds. The interaction and convergence of the financial market, in general and the insurance market, in special have determined issues related to the field settlement, specific elements related to the risk, being determined, in their turn, by the national regulation systems.

**However, the insurance industry** entered a crisis period on a stronger position and was not so much affected than the banking sector due to the nature of the specific business model. This means that the insurers, illegally undertake responsibilities on a long term, coordinating them with the investments on the same period in "sure" instruments, while the banks do not have the same sequence between assets and liabilities, thus being more under the risk of ratio and over-liability. The stress tests the analysis of different scenarios required by the supervising authorities from many countries (Great Britain, Germany, Holland) **have proved the field steadiness.** The main activities of the insurers do not generate systematic risk, the "classical" insurance products do not generate that type of risk which could determine a financial crisis: this aspect should also be understood under the context in which the activity of the multinational banks is mainly global, while the insurance services take place in national spaces.

The financial crisis has proved the necessity to adjust to measures of economic and legal policy in order to make the difference between the banking and insurance sector, even if some of them are common, thus available for both sectors. (Ciurel, V. 2011).

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Considering the interaction, more and more important, between different types of companies on the financial and insurance markets that can determine complex problems, including the systematic instability, context in which the authorities of regulations and supervision have a very important role to make sure that, in cooperation with similar authorities in each country, cooperates and settles a proper supervising and controlling system for the complicate insurance markets and for the participants on these markets. This adds to the main role of the supervising insurance authorities, that of keeping financial steadiness and of the insured persons protection.

The lower impact of the crisis on insurance can be explained by the improvements in the risk management, organizing and managing companies in the last years, even if these can be still improved substantially in order to anticipate future losses of the customers and shareholders. OECD and IAIS have cooperated beginning with the spring of 2008 to settle a new governing model of the insurance companies. Among the recommended changes because of the crisis can be mentioned <http://unsar.ro/politici-si-reglementari-post-criza>:

- **improving risk management usages** – the integrated approach of the risk, efficient communication and implementing reporting systems proper to identify, evaluate and control the risks; redefining the function of risk management which will have to be independent within a company;

- **the boarding members of the insurance company** to have enough knowledge and experience to manage the company, an essential condition because of the complexity of the insurance products and the financial markets;

- **the remuneration system to consider the nature of the insurance**, to be motivating for a proper behavior related to the assumed risks – on a short and long term, both at the company level and the suppliers of insurance services;

- **risk assessment made by the rating agencies to be filled with own assessments of the company.**

### ***1.2. Requirements adjustment concerning the insurance solvency***

The evolution of these products had another feature: since the autumn of 2004, the European Commission proposed to the European Committee for those settling the regulations and supervisors in the field of insurance and occupational pensions (EIOPC), the text of the adjustment project, improving 13 directions (which became 14 after adjusting the direction concerning the reinsurance), known as Solvency II Direction.

Actually, reviewing the calculation way of the solvency and the risk management standards for the insurance within the European Union lead to the new direction concerning solvency, known as Solvency II, the exact name being DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) since November 25th 2009.

Later, on January 19th 2011, the Commission adopted a proposal ("Omnibus Proposal II"), to adjust the Direction 2009/138/CE to consider the new architecture of supervising in the insurance field, meaning the creation of the European Supervising Authority (The European Authority for Insurance and Occupational Pensions). The Omnibus II Proposal also includes provisions to prolong the terms of transposition and to postpone the application date of the Direction 2009/138/CE and to postpone the abrogation of the Solvency I date.

The Direction will be applied for all the insurance and reinsurance companies with a yearly volume of premiums of more than 5 millions of Euro or with technical reserves of more than 25 millions of Euro. Though, **Solvency II** regime was approved in November 2009, according to the Lamfalussy process (which has as an objective simplifying and accelerating the legal process of the EU in the field of financial services, in which, both insurance and occupational pensions within a four level plan), this direction will have to be used in the national legislation of each member state. The initial implementation plan dates October 2012,

but the term was extended for all the European countries (including Romania). According to the figures of the Insurance European Federation - CEA, from the about 5.000 insurance companies from Europe, about 3.600 will go under the incidence of Solvency II, but only 65% from these have participated at the impact quantitative studies QIS5.

**Solvency II Direction** will lead to a **new approach of the supervision process** at a common European level based on economic principles to measure assets and liabilities, considering the great variety of risks of the company and using common principles to set the capital level, updating the calculation methods of the insurance companies in case of unusual situations.

**The central elements** of the Solvency II regime are quantitative and qualitative, on a three level approach.

Level I refers to setting some quantitative requirements concerning capitalization, this being observed with the aim to increase flexibility, a two dimensional system to determine it (the existence of a minimal social capital, and the possibility to settle it basing on solvency).

Thus, one aims to guarantee a proper protection of the insurer, in order to keep the market competition.

Level II will create the frame by which to allow the supervising authorities to make a global assessment of risk management within insurance companies: the general strategy to subscribe, damages, protection by giving up in reinsurance.

Level III will introduce a "discipline effect" of the company management the field, providing an increase of the organizational transparency.

Implementing **Solvency II Direction** will have a great influence on the risk approach, capital, products, business mix, prices, distribution, in operational process of the insurance industry as a whole and for this reason, the general fundamental frame and the modalities of supervising the insurance. The direction aims to approach solvency in a complex way determined by the realities of the present financial world and by the complexity of the risks undertaken by the insurers in their activity. Moreover, these requirements do not aim only the capital optimization, but they will also affect the present risk management procedures, the architecture of the data basis, audit function, being even necessary to create new responsibilities in order to integrate the requirements into organization.

**Graphic no. 1 The structure of Solvency II requirements**



Source: DARAG

Within the process of developing the implementation measures at level 2 related to the Direction 2009/138/EC, in March 2010, the European Commission asked the Supervising European Committee from Insurance and Occupational Pensions (CEIOPS) organizing the fifth study of quantitative impact QIS5.



## **2. Romania and Solvency II requirements**

The initial program of implementation for Romania was also advanced with one year. The principles of Solvency II Direction will have to be implemented by all member states in the European Union beginning with January 1st, 2014 and represent a set of deep transformations, both for Financial Supervisory Authority institution and the supervision bodies.

FSA - the Financial Supervisory Authority in Romania has been established in May 2013 under the Law for adopting the Government Emergency Ordinance no.93/2012 as an autonomous, independent, self-financed administrative authority with legal personality. The new structure will operate by taking over the attributions and functions of CNVM - the Romanian National Securities Commission, CSA - the Insurance Supervisory Commission and CSSPP - The Private Pension System Supervisory Commission, authorities that were dissolved.

Application of Solvency II in Romania meant a very good cooperation between CSA - the Insurance Supervisory Commission and the insurance companies, a process which meant setting the own calendar for correct understanding and assimilation of all the necessary adjustments – legal, organizational and professional ones.

Since QIS5 exercise is considered by the European Commission as being the real test to validate the implementation measures and to calibrate Solvency II, the European Commission for Insurance Supervision made efforts to sustain the insurers from Romania to attend this exercise.

Thus, CSA made interviews with important within the 28 insurance companies on the topic of Solvency II and QIS5. CSA also received, verified and centralized all reports sent by insurers according to the technical specifications of QIS5, in order to draw the country Report QIS5, asked by EIOPA in order to integrate the report at a European level.

### **2.1. Objectives and results of QIS5 exercise**

#### **Requirements for the Romanian insurers**

- providing detailed information to all interested parties related to the quantitative impact on the balance drawn by the insurers/ reinsurers in accordance with the implementing measures at level II, comparing to the existing situation according to the present regime of Solvency – Solvency II;
- verifying the fact that the technical specifications of the exercise are in accordance with the cooperation principles and aims set up by the frame Direction, of level I, concerning Solvency II;
- encouraging insurers/reinsurers and supervisors to prepare themselves to introduce Solvency II and to identify the fields where the domestic process, procedures and infrastructure need to be improved, particularly encouraging insurers/reinsurers to improve the process of collecting data.

#### **Conclusions of QIS5 Report for Romania**

##### **1. Financial impact**

Considering the transition from the present supervising regime to Solvency II, which, globally can be characterized by an increase of the capital requirements, a decrease of the technical reserves values and an increase of the eligible funds values, financial position of the insurance sector in Romania remains a stable one: the resulted surplus (SCR) resulted according to the QIS5 technical specification is only 17,47% smaller than the surplus of the current regime, for the insurance sector in Romania.

##### **2. Assessment methodology and design**

According to the results and comments of the qualitative questionnaires in case of QIS5 exercise, one can conclude that Solvency II design was highly supported. However, in order to provide a consequence and compatibility, the assessment methodologies of the technical reserves (definition of the limits in case of insurance contracts, calculation of risk margin) and of the postponed taxes need further analysis.

### 3. Calibration of standard formula

QIS5 tested if the system is correctly calibrated (sized), if for SCR the trust level of 99.5% is provided for a period of one year. Generally, even if the results proved this, however, some areas have been identified, where further calibrations are needed: catastrophe risk, cancellation risk for the general insurance, premium and reserves risk for general insurance. One can mention that EIOPA works for these recalibrations.

4. Feasibility and complexity (SII System aims both small companies and middle and big ones)

After analyzing the information sent by insurers by attending QIS5, some fields within Solvency II Regime have been identified which could take advantage of more simplicity (either by a less complicated design of the standard formula, or by means of simplifications), on condition to be captured properly all the quantifiable risks. These are: failure risk calculation of the counterparty, adjusting calculation for the capacity of the postponed taxes and the technical reserves to cover the losses, catastrophe risk design, assessment of the possibilities and guarantees stipulated under the insurance contracts, risk margin calculation.

### 5. Preparing to implement Solvency II

The large rate of participation at QIS5 provides a positive message concerning the fact that the insurance sector prepares to implement the new supervising regime. Though the QIS5 reports of the insurers show that some fields should be improved: data quality, IT systems, human resources training, however, there were positive signals, all the participants mentioning that they will be ready when coming into force the new supervising regime.

## ***2.2. The situation of the Romanian insurance market, according to Solvency I, between 2007-2011***

**The degree of solvency and the insurance funds** that an insurance company should permanently have, registered increase, between 2007-2010, while 2011 was the first year which brought a decrease, both for general insurance and life insurance, is shown in the report of 2011 concluded by the Insurance Supervising Commission (ISC) and published on the institution site.

Analyzing the value evolution of the available **solvency margin**, one can observe that for the general insurance: in 2011, it was a nominal decrease of 87.193.098 lei, which means **4,10%**. Eliminating the inflation influence showed a stronger decrease, that is **198.934.582 lei (-9,36%)**.

For life insurance, the available solvency margin registered a nominal decrease of 190.516.421 lei, that means in real terms a cut of 246.921.972 lei. The whole amount of assets free of any task, excepting non-corporal assets correspond with Solvency Margin.

**Table no. 1. The evolution of the available Solvency margin between 2007-2011**

<b>The available solvency margin</b>	<b>31/12/07</b>	<b>31/12/08</b>	<b>31/12/09</b>	<b>31/12/10</b>	<b>31/12/11</b>
<b>General insurances</b>	1.615.625.237	1.856.450.935	2.012.033.024	2.125.511.889	2.038.318.791
<b>Life insurances</b>	666.682.358	944.393.619	1.199.193.246	1.219.431.465	1.028.915.044

In the field of general insurance, according to the aggregate calculation, the middle Solvency degree was, at the end of 2011, at 2,13, a mainly similar level with that of 2010, that is 2,21. This result has been registered in the context of lower level for the subscribed premiums, as well as the net loss resulted from the activity done, is shown in the ISC report.

**Table no. 2. The evolution of the Solvency average degree between 2007- 2011**

Level of middle solvency	31/12/07	31/12/08	31/12/09	31/12/10	31/12/11
General insurances	2,38	2,14	2,15	2,21	2,13
Life insurances	3,85	3,64	4,46	4,29	3,93

For life insurance, the average Solvency degree registered at the end of 2011 was of 3,93, in a slow decrease comparing to the level of 4,29 for 2010. This negative evolution was determined by the net loss registered in the field of life insurance.

In the same report of ISC of 2011, there is also mentioned the fact that Solvency II directions are considered, which introduces two capital levels minimal capital requirements (MCR) and solvency capital requirements (SCR), so that if the own funds of the company are lower than the minimal capital, SCR will start a last resort action (of withdrawing the license), and if the own funds are lower than the solvency capital requirements, the supervising authority will make supervising measures according to the situation of the company.

According to these, in March, 2011, ISC sent a questionnaire regarding the level of all actions taken for implementation of the requirements included in the Solvency II Direction to the Romanian insurance companies.

The replies received by ISC for this questionnaire shows that five insurers analysis the possibility of using a domestic patterns for the Solvency capital requirements calculation. Considering all these aspects, within ISC, a document was elaborated regarding the documentation requirements for the process of pre-applying for domestic patterns, which will be applied at a local level, is mentioned in the quoted document.

There is also important for ISC activity the fact that, the Council for the Insurance Supervising Commission (ISC) agreed in 2012 with the strategy for the period between 2012-2016 and the action plan for achieving the aimed targets.

The two main general objectives of the ISC strategy approved for the period between 2012-2016 are:

- consolidation of the supervising authority at a national and international level;
- elaborating a regulation frame to support the insurance market development.

The evolution analysis of the Romanian insurance market and the domestic and European context were the main aspects considered to set up the *strategic objectives*, which aim two large fields and involve action policies clearly defined by the strategy:

- Improving the institutional capacity of the Financial Supervisory Authority.
- Changing the supervising philosophy, by replacing the 'accordance' supervising with the one based on risk assessment, this representing the preliminary stage necessary and essential for implementing the requirements of the European Directions Solvency II and Omnibus II.

On a short term basis, the principles of Financial Supervisory Authority are concentrated on four three areas: reforming the regulation frame, with a stronger accent on the activity of managing the financial stability of the company and with the insurance brokers and developing the initiatives aiming the improvement of the consumer protection.

### **3. Conclusions**

At the level of the insurance industry, the evident effects of the crisis – besides the financial aspects – consist of the increase of the liquidity risk and the insolvability risk. These aspects are approached by the statutory principles at the three levels on which the regulations of Solvency II are built.

Considering the fact that Solvency II project was developed and analyzed from the quantitative impact point of view before the crisis at the level of global economy, it is obvious to appear a set of questions about the availability of some provisions and the necessity of adjustments to consider this real test of stress of the financial system, broadly and the insurance industry, especially.

Even if practice will prove or not the Solvency II provisions, the present crisis confirmed the importance of many principles promoted by these.

Certainly, a capital level correlated with the risk profile, a closer supervision of the insurance industry operations and the increase of the responsibility degree are necessary measures that can only make the insurance industry even stronger. No matter the efforts of updating the normative frame, experience proves that the provision and supervising system tends to react rather late and it develops an inertial mechanism comparing with the market evolution.

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## **LINGUISTIC CHANGES IN THE CONTEXT OF EUROPEAN REGIONAL DEVELOPMENT**

**Camelia, Chirilă<sup>1</sup>**  
**Georgiana, Mîndreci<sup>2</sup>**

**Abstract:**

*More than two decades after the fall of the communist regimes in Eastern and Central Europe, the need for some economic, social, administrative restructuring and territorial division has been strongly felt. The current regional development strategies will not only transform the political, economic, social and cultural realities of Europe, but they will change the linguistic situation of the region as well.*

*Experts on applied linguistics and sociolinguistics, law, social studies and statistics have worked together to contribute to a better understanding of how local, “national” and “international” languages interact in contemporary Europe. Thus, they have discovered that all linguistic innovations and changes in language policies, patterns and vocabulary are due to globalization, democratization, technological advancements and territorial division and will undoubtedly contribute in the near future to the transformation of the entire European linguistic landscape.*

**Keywords:** regional development, territorial division, linguistic changes, linguistic landscape.

**J.E.L. Classification:** A12

### **Introduction**

One of the EU objectives is to support the economic and social progress and to consolidate the economic and social cohesion of the EU member states. Nevertheless, the current regional development strategies will not only reconstruct the political, economic, social and cultural realities of Europe, but they will change the linguistic situation of the regions as well.

Since the linguistic innovations and changes represent an interesting direction of the regional development, they can also be regarded as one of the regional challenges in European and global context. Nowadays it is more and more evident that there will be a close connection between the strategies of regional development and their consequences in the linguistic landscape. Therefore, the regional linguistic development can be regarded as a form of adaptation to globalization.

### **1. At home in tomorrow's Europe?**

The European Union is today a region characterized by “unity in diversity”. This is symbolized by variety in culture such as different languages, linguistic patterns and types of speakers. Among the cultural traits, language is an important instrument of cultural identity since it is through this medium that different groups of people communicate with the world and express a sense of identity to a place. Often, social tensions emerge when a certain segment of society feels ostracized from social and economic processes of development due to lack of knowledge of the dominant and prevalent language. This often leads to granting linguistic minorities special privileges to accommodate them in the process of mainstream national social and economic development.

An increasingly significant role in this process is given to regions, which are considered *spaces, areas situated very close to the citizens*. Thus, *the European Charter*

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*for Regionalization* defines the region as “a territory which forms, from a geographic point of view, a net unity or a similar union of territories characterized by continuity, in which people have some common elements and want to keep the particularity and develop it in order to stimulate the cultural, social and economic process.”

An intensely debated issue in the contemporary world and especially in the context of the European regional development, the region is the essential element situated in the center of these theoretical and practical concerns. This concept appeared at geographers in the early twentieth century, and today there are some accepted phrases that are found in the literature. Thus, it is assumed that the region has a material component, the territorial cutting, on which is designed the relational component, these being in an indissoluble association. Regarding the delimitation of regions, whatever the criterion (economic, administrative, geographic, social, cultural, historical, ecological etc.), there is no methodology completely satisfactory, compromise being inevitable. There are many definitions, and the choice depends to a large extent on the objectives followed. In the broadest sense, the term region is used to group several areas, provided that between any two of them belonging to the same region there is a similarity. However, given the multitude of definitions, we can say that this concept of similarity can have several interpretations. Thus, it can be called the idea that the existence of regions involves the division of geographical space which consists of a large number of elementary spatial units (also called places). Even if a state territory, in accordance with the previous classification, may be subject to different cuttings, we subscribe to the view that the plan region is the most effective and coherent organization, because existing administrative system provides the basis of regional planning. The definition adopted by the Assembly of European Regions (AER) in the Declaration on regionalism in Europe (1996) seems to best fit this type of region and reads as follows: the region is the appropriate territorial public entity immediately below the state level and endowed with a government that has its own political power. Because the term region is a concept with multiple meanings, various theoretical delimitations are required. "Communitarian Charter of Regionalization" defines the region as "a territory formed from geographically point of view, a net unit or a similar group of territories characterized by continuity, in which people have some common elements and wants to keep the specificity thus resulted and to develop it in order to stimulate the cultural, social and economic process". In the administrative hierarchy, the region is in a position immediately below the central administration. Region is the cornerstone of the regional science, in general and of the regional economy, in particular. As we stated above, there is no comprehensive definition in which to be included all aspects that characterize a region. Common to all definitions given to region is the idea of space as a whole, so that the most significant expression that can be made about the region is that it represents a unit that includes a limited number of medium and territorially neighboring areas. The region term applies not only to the national space regionally bounded. It is also used internationally for the delimitation of areas located in a particular geographic area. It can be formed of the border areas of some countries or of a group of countries, as a result of economic, commercial and cultural links between them (e.g.: the Nordic countries, the Pacific/Southeast Asia countries). In the EU context, using the notion of region faced with problems, such as lack of firm demarcations from economic point of view or administrative-territorial heterogeneity of Member States. From the perspective of EU policies, region means a territorial cutting of any country, with or without administrative attributions.

### **3. Linguistic Changes**

The linguistic regionalization is the result of an attitude determined by economic interests. Thus, all changes in the business vocabulary highly contribute to the process of regionalization.

The need to address an issue such as the linguistic changes derived from the regionalization process comes from the importance given to the influence of the English language in recent years at European and international level. In this study, we start from the premise that any regionalization scenario affects the linguistic pattern at all levels and in all areas of manifestations.

Exploring this area of linguistic changes can be a useful way of equipping European people to deal, not only with the way languages evolves and the new words they are likely to encounter but can also help them to understand the way the words they already know have evolved and developed. An understanding of this area can be a key skill in helping them to become more independent in their language learning and develop a greater enjoyment and engagement with the language.

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. Throughout the history of a language, it has not only borrowed words from other languages but has also re-combined and recycled them to create new meanings, while losing other words.

Dictionaries try to keep track of the changes in languages by recording (and, ideally, dating) the appearance in a language of new words, or of new usages for existing words. By the same token, they may tag some words as “archaic” or “obsolete”.

On the other hand, many new words enter a language all the time - the exact number is uncertain but there are thousands appearing every year. English, for example, is a common language in many specialized areas such as science, technology and the Internet, and as these areas grow so does the vocabulary needed to express new ideas and objects. Here are some examples of English words that entered the Romanian language:

- **accounting:** *audit, debit, cash, balance, auditor, clearing, control;*
- **publicity:** *banner, billboard, host, print, media, blog, copy;*
- **banking system:** *banker, bonds, interest, draft, cheque, overdraft, penalty, interest, saving;*
- **commerce:** *trade, shopping, dealer, export, import;*
- **distribution:** *logistics, cash and carry, carrier, distributor;*
- **finance:** *asset, cashflow, broker, capital, stock, discount, dividend;*
- **technology of information:** *computer, hardware, software, hard disk, chip, cursor, mouse, digital, display, e-mail, fax, password;*
- **management:** *full-time project manager, leasing, franchising, know-how, leader, job, target;*
- **marketing:** *brand, market, marketer, respondent, brainstorming, moderator, directory, mass media, copyright, dumping;*
- **transportation:** *charter, airbag, jeep, scooter, intercity.*

In the current context of European integration, the regional linguistic development can be regarded as a form of adaptation to globalization. We strongly consider that the research related to regional development will register an improvement in the near future and that there will be a minimization of the rigid approaches related to the research in the field of regional linguistic changes.

Exploring the area of linguistic changes can be a useful way of equipping European people to deal, not only with the way languages evolves and the new words they are likely to encounter but can also help them to understand the way the words they already know have evolved and developed. An understanding of this area can be a key skill in helping them to become more independent in their language learning and develop a greater enjoyment and engagement with the language.

#### **4. Conclusions**

Language development should be primarily seen from an objective perspective. The causes that lead to language changes are related primarily to economic and social choices.

The large spreads of English words in various languages are present phenomena that tend to become international. The facts and the arguments show that language development should be interpreted as a consequence of the globalization of the economy has created a new situation that requires communication to trading partners using a single language as a unique linguistic communication tool.

The current linguistic changes suffered by European languages, with a tendency of internationalization, remain a phenomenon derived from the natural development of a language or another.

The European regional development will lead to increased economic, political, social and cultural rights at the regional level which will contribute at a rate proportional to the intensification of the use of foreign languages, especially English.

All linguistic changes that may arise in the context of European regional development must be regarded as an improvement of the communication act in a more limited area or extended is not mandatory to have repercussions on the national language.

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# THE NEW EUROPEAN UNION COHESION POLICY AND ITS IMPACT ON THE ROMANIAN ECONOMY

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## Abstract:

*Considered to be a model of economic and social development worldwide a few decades ago, European edifice is currently very heterogeneous in this respect.*

*European Union cohesion policy is based on financial solidarity and aims at reducing disparities between the levels of development of regions and member states. Also, promoting economic convergence in Europe is one of the main directions of this policy.*

*However, the social and economic differences between countries remain substantial, in continuous growing after the expansions in 2004, 2007 and 2013.*

*This paper aims to capture the new objectives of cohesion policy proposed by the European Commission, which will come into force in 2014, and their implications for our national economy.*

**Key words:** *the cohesion policy, the structural funds, connecting Europe facility, economics disparities*

**JEL Classification:** E 61, L38

## 1. The Legal Bases Specific to the European Cohesion Policy

The economic and social cohesion is a political priority of the community institutions since the '80s.

The concept of economic and social cohesion was introduced by the Unique European Act in 1986 and it signifies the harmonious development of the whole grouping, respectively reducing the disparities between the European regions.

As an expression of solidarity between the Member States, the European economic and social cohesion policy encompasses all the initiatives and measures adopted by the community authorities taken in order to reduce the disparities of economic and social development between regions, by means of actions oriented both to the increase of their competitiveness and to the creation of new jobs.

In 1992, the Treaty from Maastricht included this area through its main objectives, considering it one of the pillars of the community structure. Thus, in the chapter entitled "Common Provisions" mention is made that the Union shall promote the balanced and sustainable economic and social progress, in particular through the creation of an area without internal frontiers, through the strengthening of the economic and social cohesion and through the establishment of an economic and monetary union, including a single currency .

The XVIII<sup>th</sup> title, "Economic and Social Cohesion", art. 130a, states that "In order to promote a harmonious development of the Community ensemble, it shall promote and pursue actions leading to the strengthening of the economic and social cohesion. The Community especially seeks to reduce the gap between the development levels of different regions and the rise of the level of the most disadvantaged regions, including of the rural areas."

The Treaty from Maastricht introduces three new elements: The Cohesion Fund, the Committee of regions, the principle of subsidiarity. The same document stated that every three years the European Commission should present a report on the achieved progress in achieving the economic and social cohesion at European level. Given the importance of this process in

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ensuring the success of the European edifice, in addition to the provisions of the Treaty, the Member States have signed a "Protocol with regard to the economic and social cohesion".

With the **Treaty from Amsterdam** in 1997, the Member States confirmed the important role of the economic and social cohesion in increasing the employment rate and in the fight against unemployment.

The Treaty from Lisbon, signed in 2007 and entered into force on the 1<sup>st</sup> of December 2009, provides the introduction of the concept of territorial cohesion, which becomes an objective of the Union. Therefore, the document states that "The Union shall promote the economic, social and territorial cohesion, as well as the solidarity among the Member States". Referring to the importance of the regional development, the Treaty states: "Among the regions concerned, particular attention shall be paid to the rural areas, to the areas affected by the industrial transition, as well as to the regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density, as well as the island, cross-border and mountain regions".

The "Europe 2020" strategy defines the position that the EU must occupy within the world economy in 2020 and has the issue of employment as main concern. In this respect, mention is made to the reaching of an employment rate of 75% among people aged between 20 and 64. Europe 2020 puts forward three mutually reinforcing priorities:

- Smart growth: developing an economy based on knowledge and innovation;
- Sustainable growth: promoting a more efficient economy in terms of resource use, more ecological and more competitive;
- Inclusive growth: promoting an economy with a high rate of employment, ensuring the social and territorial cohesion.

The cohesion policy is accomplished mainly through structural and cohesion funds and is based on some principles: programming, partnership, additionality, concentration.

The programming principle allows the development of multi-annual development programmes and is developed through a partnership decision process.

The partnership principle requires that each program should be developed through a collective process involving authorities at local, national or regional level and the European authorities. This agreement applies to all the stages of the programming process and aims to ensure that the programme is tailored to the needs of each region.

The additionality principle stresses that European aid is complementary to the national aid, thus, they it not replace the latter one. The Commission comes to an agreement with each country the eligible public expenditure for the programming period and verifies the compliance with this condition in the middle of this period.

The concentration principle aims to optimize the investments in favour of the the poorer sections of the population in a system with insufficient resources. This principle has three aspects:

- The concentration of resources: most of the resources made available through the structural funds are directed towards the poorest regions and countries;
- The effort focus: The investment effort is focused on specific objectives. For example, within the period between the years 2007-2013 these objectives were: research and development, innovation, information and communication technologies;
- The expenditure focus: at the beginning of each programming period an annual funding for each programme is determined. Funds must be spent within two years of allotment.

## **2. The Cohesion Policy Instruments**

The cohesion policy is one of the most reformed community policies, the European officials realizing the necessity of adaptation to the needs of the member countries. The main changes over time through reforms aimed at changing the budget allocated for it, its

programming procedures and expanding the partnership to various competent bodies designated by the Member States.

Within the period 2007-2013, three funds financed the economic and social cohesion policy: the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund.

The priority objectives of this policy covering the period 2007-2013 were regulated by the Council Regulation no. 1083/2006 from the 11<sup>th</sup> June 2006. These were:

a) The convergence objective which pursued the speeding up of the Member States and of the least developed regions' convergence through economic growth and the increase of the employment, through the improvement of the investment quality in the physical and human capital, the development of innovation and of the information society, the adaptability to the economic and social changes, the protection and improvement of the environmental quality as well as of the administrative efficiency. This objective is the priority of the Structural and Cohesion Funds.

The regions eligible for this objective are the regions whose GDP per capita is less than 75% of the average GDP of the EU-27.

b) The objective regarding the regional competitiveness and the employability of the workforce is intended to enhance the competitiveness and attractiveness of the regions, as well as the employability of the workforce. This objective aims to improve employment and to adapt it to the requirements of national economies through increased investment in the human capital, the innovation and the promotion of the information society, fostering entrepreneurship and labor market development.

The regions eligible for funding on the grounds of this objective are those which are not included in the convergence objective.

c) The European territorial cooperation objective is intended to strengthen cross-border cooperation through joint local and regional initiatives, strengthening transnational cooperation by means of actions in favour of the integrated territorial development and to stimulate both the inter-regional cooperation and the exchange of experience.

The regions, counties and cross-border areas are eligible for funding under this objective.

The budget allocated to the structural funds and the usage rules are agreed upon by the European Council and Parliament rested on proposals from the Commission. In the period 2007-2013, the economic and social cohesion policy had at its disposal 35.7% of the Community budget, respectively the amount of 347.41 billion EUR. The distribution aiming the three objectives were: 81.54% (282.8 billion EUR) for convergence; 15.95% (55 billion EUR) for the regional competitiveness and the employability of the workforce, 2.52% (8.7 billion euro) for the European territorial cooperation.

The whole European Union is subject to one or more objectives of the cohesion policy. Europe is divided into several groups of regions in according to the Nomenclature of the Territorial Units for Statistics (NTUS). In the case of the regions receiving significant financial assistance in the pre-accession period, gradually suspension systems of funding have been introduced in order to avoid rapid changes between the two phases of the programme.

The structural and cohesion funds management involves the European Commission and the Member State governments. Thus, the Member States shall submit its own National Strategic Reference Framework, which defines the development strategy and proposes a list of operational programmes they intend to implement. The European Commission negotiates and approves the programs proposed by the Member States and allocates the financial resources. The Member States and their regions manage the programmes, ensuring their application and select the projects. The Commission takes parts in the programmes monitoring, commits and pays expenses and verifies the control systems in place.

Created in 1957, the European Regional Development Fund aims to strengthen the economic and social cohesion in the EU by reducing the regional imbalances. It can intervene to support the three objectives of this policy. This concerns, in particular, the funding related to:

- Investments that help to create jobs;
- Investments in infrastructure;
- Measures to support the regional and local development;
- Technical assistance.

The European Social Fund is intended to improve the opportunities of the employability of the workforce and the job quality in the EU. It occurs within the objectives “Convergence” and “Regional Competitiveness and Employment”. Specifically, the European Social Fund supports the state’s actions in the following areas:

- Adapting workers and enterprises to current conditions (promoting lifelong learning);
- Improving access to jobs;
- The social inclusion of the disadvantaged people and combating all the forms of discrimination in the labor market;
- Building the human capital through the implementation of particular reforms of the education systems.

### **3. The New EU Cohesion Policy (2014-2020). Key Elements of Future Approaches**

The global economic and financial crisis has shown how interdependent are the member countries, revealed the vulnerabilities of the European construction, widening the social and economic gaps within it. The crisis has made the achievement of the Europe 2020 objectives more difficult, as a result of the rise of the unemployment rate, of the poverty and social exclusion. In addition, the deepening of the regional economic disparities undermines the achievement of the objectives specific to the cohesion policy.

The successive enlargements of this grouping, the new multi-annual financial framework and need to adapt the cohesion policy to the global and regional situation required a new reform.

The European Commission presented its proposals with regard to the new cohesion policy covering the period 2014-2020, even since October 2011. Currently, these proposals are subject to negotiation with the European Parliament and the Council of Ministers and will come into force at the beginning of the next year.

The European Commission has proposed several important changes of the way the cohesion policy is designed and implemented, namely:

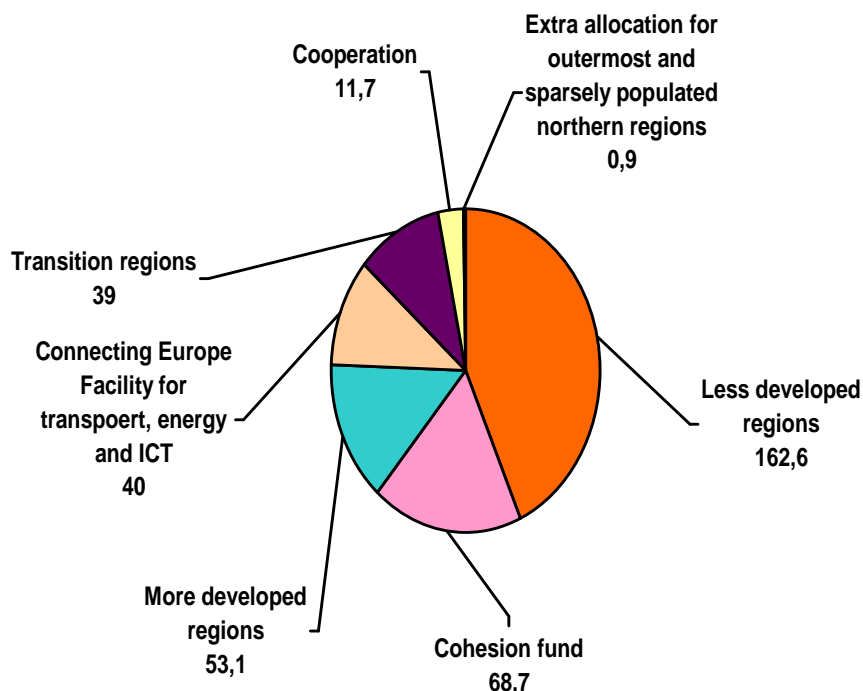
- Concentrating on the Europe 2020 Strategy’ priorities of smart and sustainable growth which is in favour of the inclusion;
- Supporting the integrated programming (combining investments on areas and activities);
- Focusing on results, respectively monitoring progress in achieving agreed objectives;
- Strengthening territorial cohesion;
- Simplifying the funding procedure.

In its proposal, the Commission has decided that the cohesion policy should remain an essential element of the next financial package and has underlined its pivotal role in achieving the objectives of the Europe 2020 Strategy.

The budget destined to this policy covering the period 2014-2020 is of 376 billion EUR, including the funds for the new facility “Connecting Europe”, designed to increase the number of cross-border projects in the energy, transport and information technology area. The Commission intends to allocate these amounts to different target areas: 162.6 billion EUR for the regions related to the convergence objective; 39 billion EUR for the transition regions; 53.1 billion EUR for the regions related to the competitiveness

objective; 11.7 billion EUR for the territorial cooperation; 68.7 billion EUR for the cohesion Fund (fig. no. 1).

**Fig. no. 1. The Budget for the Cohesion Policy Post - 2013**  
(2011 prices, billions EUR)



“Connecting Europe” Facility is one of the innovations specific to the cohesion policy and is destined to finance the priority infrastructure of European interest in the transportation, energy and information and communication technology area. The European Commission will allocate 40 billion EUR to the creation of this facility, as well as 10 billion EUR to the investment in the transportation area within the Cohesion Fund.

In order to maximize the impact of the policy regarding the achievement of the European priorities, the Commission proposes to strengthen the strategic planning process. This involves the introduction of a common strategic framework, of some partnership agreements and of a list of thematic objectives in conformity with the objectives of the Europe 2020 strategy.

In order to enhance the performance new provisions on compliance will be introduced. It will take two shapes: ex-ante conditionality (conditions to be met before payments) and ex-post conditionality (conditions that will allow the release of the additional funds only if it is found that the desired outcome is achieved). Failure in meeting the objectives specific to a stage may lead to the suspension of funding. At the same time, you can apply an increase in the amount of contributions (10%) in the situation where a Member State receives financial assistance through the European Stability Mechanism, a financial instrument created by the European Union in 2012.

Each European region can be supported by the structural funds. There will be three types of regions: less developed regions, transition regions and more developed regions. The less developed regions, whose GDP per capita is less than 75% of the average GDP of the EU-28, will remain a key priority of the cohesion policy. The transition regions represent a new category that includes all the regions with a GDP per capita between 75% and 90% of the EU average GDP. The more developed regions refer to those areas whose GDP per capita is greater than 90% of the EU average GDP.

The current financial framework experience shows that many Member States have difficulties in absorbing large volumes of EU funds. Moreover, the financial situation of some Member States has made the release of funds in view of ensuring the national co-financing more difficult. Therefore, the Commission suggests a number of measures in order to facilitate funds' absorption:

- Establishing the amount of 2.5% of the GDP of the ceiling rates for the allocations in the cohesion area;
- Reducing the co-financing rate at each priority axis level within the operational programmes;
- Including certain conditions on improving administrative capacity in the partnership agreements.

The regulation suggested by the European Commission stipulates, in relation to the European Regional Development Fund (ERDF), the strengthening of the thematic concentration. Thus, to ensure the concentration of the EU investments, minimum allocations are established for a number of priority areas. For example, in the more developed and transition regions, at least 80 % of the FEDR resources at national level should be allocated for energy efficiency and renewable energies, innovation and support for SMEs. The less developed regions should allocate at least 50 % of the FEDR resources for energy efficiency and renewable energies, innovation and support for SMEs. Special attention will be paid to the areas with specific natural or demographic characteristics, as well as an additional allocation for the peripheral and sparsely populated regions. A percentage of at least 50 % of this additional allocation will be directed towards the actions that contribute to the diversification and modernization of the economy of the peripheral regions, with special emphasis on research and innovation, information and communication technologies and on the competitiveness of the SMEs.

The European Social Fund (ESF), as the main tool aiming at investing in human resources, covers four thematic objectives: promoting the employability of the workforce and supporting the labor mobility, promoting the social inclusion and combating poverty, investing in education and lifelong learning; strengthening the institutional capacity and the efficiency of public administration.

Minimum shares of the ESF will be established which are specific to each category of regions (25% for the less developed regions, 40% for the transition regions and 52% for the more developed regions), representing 25% of the budget allocated to the cohesion policy, that is to say, 84 billion EUR.

The European Commission's proposal contains specific provisions in view of strengthening partnerships and encouraging the active participation of social partners and NGOs to the ESF investments.

The Cohesion Fund will continue to support the Member States whose gross national income (GNI) per capita is less than 90% of the EU-28 for the investments in trans-European transportation networks and environmental domains.

In the environmental area, the Cohesion Fund will support the investments in the adaptation to climate changes and in the risk prevention, the investments in the urban areas. The investments in the energy efficiency and renewable energy are also supported by the Cohesion Fund. In the transportation area, this fund will contribute to the investments in the trans-European transportation network and to those in the transportation systems with low carbon dioxide emissions.

#### **4. The Impact of the Cohesion Policy on the Romanian Economy**

With a GDP per capita at around 46% of the EU average in 2012 and of 70% of the average GDP per capita of the new Member States of the EU, Romania is far behind most

of the European countries regarding the economic development. An analysis of the level, structure and sector performance clearly shows the existence of many deficiencies: low added value of the national agricultural production, the lack of an entrepreneurial culture, non-competitive productivity levels at international scale in many industrial domains, the current under-representation of significant added value services within the economy, the inefficient use of the resources in the Romanian research institutes.

In Romania there are large discrepancies between the household incomes and multiple differences of opportunity or education. In 2011, a percentage of 40.3% of the population was at risk of poverty and social exclusion (the EU average being of 24.2%), half of them being children. Romania has a very low density of the employability of the workforce, large areas of the country do not have a functioning labor market and many young people are unemployed. In 2011, 4.74 million people were at the risk of poverty, and 6.28 million people were facing severe material deprivation.

Romania has the highest share in the EU in terms of population living in the rural areas (45% of total population) and the risk of extreme poverty is four times higher in the rural areas (8.8%) compared to the urban areas (2.2%).

The urban areas affected by poverty include small towns facing demographic aging and depopulation, mono-industrial cities (i.e. mining towns) or agricultural towns. The small towns concentrate poverty because of the poor infrastructure (transportation, education, health); in addition, they have been strongly affected by the industrial restructuring.

Romania's economic growth is hindered by the poor and outdated infrastructure. Romania is characterised by a weak administrative capacity of public institutions and by a predisposition to excessive bureaucracy and regulations adversely impacting the fragile business environment.

Under the new multiannual financial framework covering the period 2014-2020, Romania will be allocated the amount of 21.825 billion EUR to the cohesion policy, amount exceeding 10% of the 2007-2013 allocation, being located at the level of 19.8 billion EUR. In addition, Romania will receive 125 million EUR in order to fight youth unemployment, but also other 420 million EUR (60 million per year) in order to support the disadvantaged rural population. In the case of the states which are in an assistance programme with the European Union and the international Monetary Fund, the co-financing rate in the European projects will be 5% as opposed to 15% for the countries which have not signed such agreements.

As being set out in the Romanian National Strategic Reference Framework, the EU funds will be invested in the period 2014-2020 in order to reduce the economic and social disparities between our country and the other EU Member States, being able to generate an additional GDP's growth of 2, 5% annually. This scenario is based on a rise of performance in all the sectors of the national economy, particularly in the industrial sectors with high export potential and in the construction sector, where the investments provided for the infrastructure represent a prerequisite for growth.

On the 1<sup>st</sup> of October 2013, the Ministry of the EU Funds in Romania published the first version of the Partnership Agreement covering the period 2014-2020. It sets out the ways in which the investments in the European funds will be concentrated in order to promote competitiveness, convergence and cooperation in view of encouraging the obtaining of a comprehensive development based on economic growth and social inclusion. The document specifies the five areas of development ("development challenges") which will be financed from the structural and thematic objectives for each area:

a) Competitiveness, which includes the following thematic objectives: strengthening research, technological development and innovation, improving access to the information and communication technologies, to their use and quality, increasing the competitiveness of the SMEs, of the agriculture and piscicultural sector;

b) People and society which aims at: promoting the employability of the workforce and supporting the labor mobility, promoting the social inclusion and combating poverty, investments in education, competencies and lifelong learning;

c) The infrastructure, an area which aims at promoting sustainable transportation and eliminating traffic jams within the key networks' infrastructure;

d) Resources, respectively: supporting the transition to a low carbon dioxide emissions' economy in all the sectors, protecting the environment, promoting the adaptation to the climate changes, the risk prevention and management;

e) Administration and governance that involves increasing the institutional capacity and an efficient public administration.

All these thematic objectives will be implemented through seven operational programmes:

- three operational programmes will receive financing through the European Regional Development Fund. It concerns: the regional operational programme, the operational programme for the economic competitiveness' growth and the operational program for technical assistance;

- two operational programmes will be financed by the European Social Fund and will focus on developing both the human resources and the administrative capacity;

- the operational programme for the environment and transportation will be financed by both the European Regional Development Fund and the Cohesion Fund.

The European Regional Development Fund will finance the activities under the "European territorial cooperation" objective which consists of three areas of cooperation: cross-border, transnational and interregional cooperation. Within this objective, Romania will take part in the cross-border cooperation programmes with Hungary and Bulgaria, in the transnational cooperation programmes for the Black Sea and to two growth and neighborhood programmes.

The main results that can be obtained if the aimed goals are achieved are the following:

- reducing the economic and social disparities between Romania and the other Member States of the EU;

- the improved access of the enterprises and citizens to public services and information of national and local interest;

- the increased use of information and communication technologies in the business environment;

- the expansion of the productive and service sectors with high added value into the international markets;

- more investments for the less developed regions as a result of an integrated approach;

- developing the producers - processors - merchants chains;

- reducing the number of people at the risk of poverty and social exclusion;

- reducing school abandonment;

- the increase of participation to lifelong learning process;

- the development of the transportation infrastructure and the rise of its efficiency (shortening the travel duration, the increase of connectivity between the regions of the country);

- strengthening the organisational culture within the public, ethics, transparency and integrity administration.

## **5. Conclusions**

The EU faces a difficult challenge regarding the escape from the crisis and restoring the economy towards sustainable growth. The strategy of escaping from the crisis involves the consolidation of the public finances, structural reforms in order to stimulate growth and investments oriented towards economical growth and jobs. The new cohesion policy of the European Union covering the period 2014-2020 follows these coordinates.



It addresses the most acute problems of the Member States, focusing both on the investments to stimulate the economic growth and job creation and on the need of reducing the economic disparities in Europe. The strong alignment with the Europe 2020's priorities, the compliance, the thematic concentration and the integrated approach will increase the cost effectiveness. The European funds will be an important source of investment and will serve as a catalyst for the economic growth.

Romania still faces huge challenges in development. The future prospects of development are affected by: the persistence of particular structural deficiencies, the poor infrastructure, the demographic decline, the low percentage of the educated population, low investment in research. The ineffective and burdensome administration has also proved to affect significantly the businesses and public investment areas. The new EU cohesion policy meet these needs, while respecting its principles can result in re-entering the European Union's savings a solid path.

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# LEGAL VALENCES OF GOOD FAITH IN THE CONTEXT OF CONSUMERIST RELATIONS WITHIN THE EUROPEAN UNION

Gheorghe, Bonciu<sup>1</sup>

## **Abstract:**

*The study aims a critical examination of the concept of good faith in relation to unfair terms in consumer contracts present in terms of legal regulations specific to the European Union. Addressing on all matters relating to the origin, meaning and evolution of good faith in the present dependence on unfair terms in consumer contracts, I have followed the extent to which good faith is a universal remedy apparently resorting equally to justice and litigants, being nothing but a measure of morality into the legal. At the same time, the good faith standard acts as valence ethical behavior of the persons, being able to remove unfair terms in contracts concluded between consumers and professionals, its content is influenced by social factors and is emphasized both of moral doctrine and the law.*

**Keywords:** good faith, unfair terms, equity, consumer contracts, professionals, consumers.

**JEL Classification:** K12, K22

**1. Preliminaries.** Consumerism represents a veritable spearhead used in the new doctrines belonging to the contractual moralism, in order to break the monopoly of the will autonomy. The ontological imbalance between the parties of the consumption contract imposed the necessity to resort to instruments which would reinstate stability and harmony. Good –faith represented one of them. Therefore, we shall encounter the usage of good faith as an apparent universal remedy to which resort to the same extend both the litigants and justice itself, thus fulfilling the role of a scale with ethical values regarding the behaviour of the law subjects (Poillot, E., 2006, p.198 and foll.).

Presently, the consumer in his capacity of bearer of the requests for goods, has become a real market partner, whose positions occupied within the market are consolidated at the same with the evolution of the society. The behaviour of consumers when buying goods has started to gravely affect companies, organisations, bodies and institutions; that is why, the consumer is enjoying an increasing attention. (Apan, R. D., 2008).

The United Nations Organization has established by the resolution 39/248 from April 1985 a series of “directing principles” in order to protect consumers, created as to ensure the governments and all countries a framework in which the elaboration and the foundation of a policy and legislation for the protection of consumers is to be applied.

In these last decades, the issues related to consumer protection have grown to be the center of attention for economic and legal theories and practices all over the world. These problems, which are more and more complex, in their content and mainly by the solutions demanded, ensure the fact that this theory of consumer protection be more studied at the level of various international and world-wide communities, governmental or non-governmental, in view of establishing the measures necessary to create the appropriate legislative and institutional framework as to ensure a proper protection for the consumers.

The role and of course, the achievements of the European union in defending the rights and ensuring the protection of the consumers may be structured in three main domains: introducing a minimum set of rules, of directing principles, of obligatory norms, both for each member state, as for the other European states, if the later integrated itself within the Unique European Market, principles which are inscribed in an important supporting document for establishing the objectives specific to the consumer protection; for the creation at the level of the European union of a proper institutional framework for

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the consumer protection, of bodies with attributions in this essential domain, and with these methods, to create premises that, each and every state will contain governmental or non-governmental bodies that are functioning in favour of consumer protection; the continuous interest for harmonizing the legislation and the institutional framework in the domain of consumer protection, interest which is encountered both in the overall activity of the bodies belonging to the European Union, as well as each and every country. .

**2. Consumption contract and autonomy of the will.** In conformity with the volunteer theory, the contract represents an agreement of will and not an exchange in patrimony. Generally, a contract embodies the concept of contractual freedom, of autonomy of will, which means that it must also express the will of the parties which are equal before the law. Unfortunately, this autonomy of will is fragile and even false in the framework of the consumption contracts, since it is confusedly concretised both in public law mechanisms, as well as in private law mechanisms.

Liberty simultaneously represents both the origin and the objective of the contract and implicitly, the legal equality of the parties. Moreover, the consumption reports stipulate that one of the participants will have an advantage, and, as a direct consequence, the other party will be in a clear disadvantage (Vasilescu, P., 2006, p. 22). Any contract is an agreement of wills, however not any agreement of wills represents a contract. The legislator framed the consumption contracts in the category of contracts, evidencing their essence by explaining the elements of public law or the elements of a special and extraordinary legislation, resulting in the gradual loss of the legal value of the contractual freedom, thus its consequence being not the agreement of the parties, but the understanding of the legislator related to the will of the parties (Ruen, A., 2011, p.34).

In reality, the consumption legal document is situated right at the limit between the public law and the private law, being accompanied by sanctions from the public law as to perfect it, but simultaneously resorts to purely civil means, such as good-faith as to appreciate the abusive character of the clauses it involves and which also invoke the simple adhesion of the consumer to the claims of the other party. (Ruen, A., 2011, p.34).

The directive 93/13/CEE of the Council referring to the abusive clauses from the contracts concluded with the consumers<sup>1</sup>, by art. 4 paragraph 2, excluded from its space of incidence the clauses which generate a significant contractual imbalance, caused by the inadequacy „between price and remuneration, on the one hand, and the services or goods provided in counter-performance, on the other hand”, meaning the injurious agreements<sup>2</sup>.

**3. Good faith in consumerism contracts.** Good faith, along with the concept of equity represent two cardinal notions which are omnipresent in the civil law. The search for the balance necessary for equity is subordinated to the privilege of the legislator, under an objective form, as in the *common law*, or under a subjective form, in the case of the continental system. On the contrary, good faith complements the contractual obligations with the social expectations which are imposed on a contract from the perspective of the different sides of the legal existence (Souriaux, J.-L., 2000, p.517 and foll.). The notion of good faith, intensely emphasised at the level of jurisprudence, as well as at a doctrine level, appears to be regulated in art. 1170 Romanian civil code from 2009 in conformity to which

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<sup>1</sup> Published in the „Official Gazette of the European Union” L 95/29 from 21.04.1993. This directive was amended by the Directive 2011/83/UE of the European Parliament and Council, published in JO L 304/64 from 22.11.2011.

<sup>2</sup> The Romanian legislator in the Law no. 193/2000 regarding the abusive clauses from the contracts concluded between the traders and the consumers (published in the O. G., no. 560 from the 10<sup>th</sup> of November 2000), by which the directive was transposed in the internal legal order, omitted this provision.

„The parties are to act with good faith both when negotiating and concluding the contract, as well as during its execution”<sup>1</sup>.

The phenomenon of the adhesion contracts represented the echo of economic evolution for the Occidental civilisations founded on the principle 1 „*laissez-faire, laisser-aller*” which also imposed an even increased contractual liberty and a discrete intervention of the state in the contractual relations (Jaluzot, B., 2001, p. 226 and foll.).

The development of the post-war world could not lead, except in an indirect manner, to a limitation of the principle of autonomy of will by the intervention of the state authorities in favour of certain law subjects susceptible of being easily submitted to the economic vicissitudes. In the consumption reports, the contractual liberty of a consumer is crushed by the economic power of the professional and, as a result, the liberty of the latter may not be total, as it is enclosed by the legal norms meant to protect the consumer.

In the space of the European Union, the arguments established against good faith may be grouped in two categories and, namely the impossibility of adapting to the notion of good-faith in the context of abusive clauses, respectively its superfluous character.

The incompatibility of the notion of good faith with the control mechanism of the abusive clauses is supported by the German and Swiss jurists.

The Swiss doctrine considers that good faith could permit the completion of the contract, its interpretation, but not its correction, a domain which is reserved for the abuse of the law (Jaluzot, B., 2001, p.231-232). In its turn, the German doctrine pronounced itself in the sense of rejecting the good faith from the category of appropriate criteria as to achieve such control, affirming that the limits of contractual liberty is firstly determined in conformity with the general interest, that all the lawful subjects have the obligation to observe equally, and that, secondly, the particular interest of the two parties is the one imposed as a determinant factor. (Jaluzot, B., 2001, p. 231-232).

The European Directive referring to the abusive clauses also stipulates, except the breach of good faith, the existence of a significant imbalance between the performances of the parties, which determined the French jurists to renounce to the defining of the abusive clauses, as the notion of imbalance would be sufficient and the abusive clauses required a review, from case to case, by the court.

In the system of *common law*, specific to the British space, the Crown Courts constantly and intensely rejected the doctrine of good faith, qualifying it as “inherently repugnant regarding the adversarial position of the parties” and „non-functional in practice” (Teubner, G., 1968, p.11). The British legal doctrine expressed two points of view and namely: concern towards the negative effects that the good faith might produce, if it would be carelessly implanted in the British law, respectively the enthusiastic welcoming of good faith being considered as an opportune infusion of the community values, a possible remedy of the contractual formalism, which would interact positively with other essential elements of the British law of contracts. In reality, as it was legally demonstrated (Ruen, A., 2011, p.37), it is not the attitude of rejection or integration of the doctrine of good faith by the British authors from the contract domain which proved to be crucially essential in all this process, but the mass of consecutive transformations to which the concept of good faith has been submitted, its role in the legal British context being that of filter of appreciation of the abusive clauses in the consumption contracts.

The British jurists preferred, as a consequence of the specificity of the *common law* system, to distinguish and to elaborate diverse factual contractual situations, thus mending

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<sup>1</sup> In the system of the Romanian Civil Code from 1864, art. 970 par. 1 is was expressly stipulated „The Conventions must be executed with good faith”, however the jurisprudence applied these provisions for pre-contractual breaches of the good faith. The situation is also similar is the other European states, whose civil legislation was inspired from the French Civil Code from, (Benabent, A., 2001, p.137 and foll.).

the very essence of the *common law*, the existence of the legal precedent, with the introduction of a continental element, good faith, succeeding to create a forced adaptation of the profoundly European good faith in the British legal space.

During the period subsequent to the industrial revolution, the abusive clauses had a constant presence in the German law due to the frequency with which they could be encountered. The German courts reacted by a variety of methods, either using the concept of *contra proferentem* in order to solve the ambiguities from the standard contracts, which assumed that the interpretation had to be performed against the party which had edited and introduced the respective clauses in the contract, either discussing that in the framework of a standard contract, the clauses were considered as not being an integrated part of that contract if they “surprised” the consent of the other party (Zimmermann, R., 2010, p. 175 and foll.).

Along with the passing of time, the rationale and the arguments of the courts evolved, thus applying the in Imperial period, the concept of *contra bonos mores* contained by the dispositions of art. 138 from the Civil Code, being appreciated as a reason sufficiently strong enough since one of the parties, after benefiting of the respective abusive clause, managed to create a type of monopoly, by transforming the act of consumption in an indispensable act for the other party (Zimmermann, R., 2010, p. 175 and foll.). After the year 1956, the jurisprudence replaced the concept *contra bonos mores* with the dispositions of art. 242 Civil Code referring to good faith. Thus, a clause was considered as being abusive, and as a consequence invalidated, if, contrary, to the requests of good faith, conferred the other party an unreasonable advantage<sup>1</sup>.

From a legal point of view, good faith, as developed by the German jurisprudence is conferred three functions: permits the establishment of the existence of contractual obligations and their extent (*officium iudicis*)<sup>2</sup>; makes possible a virtual limitation of the contractual rights (*prater legem*)<sup>3</sup>; permits a possible transformation of the contract (*contra legem*)<sup>4</sup>.

However, considering the special context in which the abusive clauses are formed, developed and in course of being repressed, a global control norm at the hand of the jurist appears as being necessary, being appreciated that this necessity can not be ensured except by the legal qualities comprised by the good faith<sup>5</sup>. Along with the Directive 93/13/CEE, a test in introduced in the conscience of the member States, which is to be applicable irrespective of the pre-existent law, respectively good faith as an appreciation factor of certain abusive clauses from the contracts concluded between professionals and consumers. The breach of good faith represents the main impulse of launching the mechanism of abusive clauses.

Thus, the affirmation of Domat that „there is no convention where the idea that each parties owes to the other contractual party the concept of good faith, with all the effects imposed by the equity, both regarding the execution, as well as the formation and interpretation of all conventions is not implied” is still valid (Romain, J.-F., 2000, p.27). As a result, at a general level, the notion of good faith plays the role of a qualitative in appreciating the formation, interpretation and execution of conflicts within the continental systems, the obligations encumbered to the parties being subjected to a general criteria of honesty. The regulation of equity must prevail in all contracts, for if one of the parties

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<sup>1</sup> There is an unreasonable advantage if the respective clause is not compatible with the essential notions of justice and justness, as they were statuated in the non-imperative dispositions from the German Civil Code.

<sup>2</sup> The establishment of an extensive approach of the contractual relations is found divided in a series of obligations statuated at a doctrinaire level such as the obligation to inform, protect and to cooperate within the framework of a consumption contract.

<sup>3</sup> Sanctions the non-fulfilment of their own obligations resulted from a consumption contract when there is a situation of abuse of the contractual rights.

<sup>4</sup> There is an expansion of the judicial power to reconsider the contract in the light of events which occur in its conclusion as a result of producing an imbalance between the contracting parties. (Teubner, G., 1968, p. 20 and foll.).

<sup>5</sup> It is the solution chosen by the Romanian legislator by adopting the Law no. 193/2000.

which does not have the intention to make a donation to the other party, that party will not ultimately be forced to give anything except the equivalent of that which the other party had given or had undertaken to give (Fin-Langer, L., 2002, p.10).

The fact that continental good faith is rooted in morality, does not imply that this is reduced to moral, even if from an ideological point of view, it descends from the ethical maxim of love and mutual respect between people, respectively among subjects of law, from which result the notions of fidelity and trust (Romain, J.-F., 2000, p.107 and 113).

To support the idea that under the exigencies of the equity of the judge, situated outside the contractual report, might intervene as to appreciate the good execution of the contract in the scope considered by the parties and for adapting it in view of ensuring a balance between the contracting parties is unfair taking in to consideration the role of good faith in our system of law. The Civil Code from 1864 grants priority to the good faith in report of equity and thus, the concept of good faith is the one which could justify the right of the judge in appreciating the abusive character of the consumerism clauses, this being the moral axe around which the contractual reports gravitate (Deleanu, I.; Deleanu, S., 2003, p.128).

Moreover, in our doctrine, it has been supported that good faith embodies the meaning of an objective behaviour norm and that the breach of the obligation of good faith would represent an abuse of the law, considering the fact that the abuse of law is but a subdivision of ill faith. (Popa, I.-F., 2004, p.208).

4. *The abusive clauses in the consumerism contracts.* The European directive 93/13 from the 5<sup>th</sup> of April 1993 also embodies the concept of good faith as a decisive criteria to determine the abusive character of certain contractual clauses. The regulation from art. 3 pct. 1 disposes that „A clause of a contract which does not represent the object of an individual negotiation is considered as being abusive if, taking into consideration the demands of good faith, it created in the detriment of the consumer a significant imbalance between the rights and obligations of the contracting parties”. This principle was transposed in the internal legislation by the majority of member states of the European union which constituted a control of the abusive clauses also justified by the demands of the good faith<sup>1</sup>.

The repression of the abusive clauses constitutes one of the essential elements chosen by the legislator for the protection of the economic interest belonging to the consumers every time there is a significant imbalance between the right and obligations of the parties due to the undermining of the concept of good faith. In other words, the legal act of consumption appeals to the notion of good faith in order to sanction an objective norm of behaviour . (Popa, I.-F., 2004, p.195). In the space of the European Union, the good faith related to consumption remains the privilege of the legislator, the role of the court being resumed to identifying its presence in a context of consumption by using means of public law.

Including in the national law of the concept of abusive clause was achieved by the Law no. 193/2000 which by defining the abusive clause appeals to the concept of good faith and by receiving the regulations from the Directive 93/13/CEE. Art. 4 par. 1 disposes that „a contractual clause which was not negotiated directly with the consumer will be considered abusive if, by itself, or along with other provisions from the contract, create a significant imbalance between the obligations and the rights of the parties in the detriment of the consumer and contrary to the requests of good faith”.

The notion of consumer is defined by art. 2 par. 2 from the law that „any natural person of group of natural persons constituted in associations, which conclude a contract outside their authorised, professional or commercial activity” (text identical with art. 2 let. b from the Directive).

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<sup>1</sup> Austria did not adopt a general definition of the notion of abusive clause; however the law anticipated the possibility of an appeal to the criteria of good morals. Switzerland, Belgium, and France are also include in the states where good faith has been contested, the later also amending the definition o the abusive clause in 1995 (Popa, I.-F., 2004, p. 227-228).

Thus, the consumer is a natural person or a group of natural persons constituted in associations, the normative protectionist domain referring expressly to the consumer which are natural persons, aspect which has been constantly acquired by the jurisprudence of the Court of Justice of the European Communities<sup>1</sup>.

The contracts concluded with the professional trader by the consumer must present a non-professional character from the perspective of the cause which animates the latter, the law establishes a formal criteria of choosing the consumption documents.

In the doctrine (Calais-Auloy, J.; Steinmetz, F., 2000, p. 183-184), the abusive clause was defined as a contractual provision by the consumer trader and as to produce a significant imbalance between the obligations and rights of the parties, in the sense of promoting a more advantageous positions for the trader, thus contrary to the concept of good faith.

In order for a clause to be abusive, the following conditions must be fulfilled consecutively: the lack of contractual negotiation; the breach of the concept of good faith and the imbalance between the rights and obligations of the parties.

The economy of consumption created reports which, generally, exclude communication and implicitly, the negotiation of the terms of agreements of will. The expression specific to the right of consumption is the adhesion contract, in whose sphere enter the contracts standard type (pre-edited by the trader), obligatory or forced contracts (which are also, generally, contract types) and any other contracts which exclude the idea of pre-contractual negotiation (Popa, I.-F., 2004, p. 205; Ripert, G., 1946, p.99; O. Rădulescu, O.; Rădulescu, M. A., 1999, p.63-66).

Generally, only the individual clauses of the contract are void, and the legal effects of the invalidity stipulated by the legislator of the Union operate only in favour of the consumers, the obligations of the professionals (traders) compared to the provisions of the abusive clauses is regular. As only the invalidity of this clause and the continuation of the contract which, after eliminating the imbalance created in detriment of the consumer continues to engage both parties. The objective pursued by the legislator is exclusively represented by the establishment of the balance, and not in eliminating the contract itself. The continuation of the existence of the contract is the rule and its suppression is the exception.

The Law no. 193/2000, after the model of the Directive 93/13/CEE, stipulates that the clear and unequivocal editing of the clauses is obligatory; hence the fact that specialised knowledge is not necessary for its understanding. If there are doubts on the interpretation of the clause, it will be interpreted in favour of the consumer, with the specification that the regulations of the abusive clauses will be also applied when the consumer understood the clauses of the contract.

Justifying the notion of the abusive clause was mainly, explained, on a general presumption of lack of experience of the consumer facing the technical “perversions” of the professional, but also on the contractual balance. The protection of the consent of the consumer is ensured by instituting the obligation to inform, prohibiting the lying advertising, the right to unilateral termination etc., however, the notion of abusive clause remains attached to the concept of good faith (Stoffel-Munck, Ph., 2000, p. 316 and foll.).

Regarding it imbalance, it is reported to the state if the parties from the moment of concluding the contract and must be of an objective nature, irrespective of the fact that it produced or not effects on the patrimony of the consumer. As evaluation criteria, the evaluation *in abstracto*, *global* evaluation or the evaluation *in concreto* can be used, without excluding each other, but, on the contrary, completing each other.

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<sup>1</sup> CJCE, room 3, „*Cape*” decision from the 22<sup>nd</sup> of November din 22 „*Oceano*” from the 27<sup>th</sup> of June 2000 in „Revue trimestrielle de droit civil, 2001, p. 878.

However, the Directive 93/13/CEE expressly mentions that the appreciation of the abusive clause may not be achieved by reporting to the main object of the contract<sup>1</sup>, meaning that establishing the price in a consumption contract may not be the object of the protective norms. The variety of abusive clause is infinite, for which reason the appreciation must be performed in practice from case to case depending on the provisions of the contract and the situational circumstances of its resiliation.

**5. Sanctions applicable to abusive clause.** The sanctions applicable to abusive clauses are both of a civil and conventional nature. Firstly, in a civil plan, the sanction specified applicable to the abusive clause consists in the fact that it will not produce effects on the consumer and, secondly, under the aspect of the inefficacies of a legal act, the invalidity is the adequate sanction as it eliminates the effects contrary to the imperative norms which must be observed related to its valid conclusion from the legal document.

The invalidity as a sanction of the legal document is absolute. (Popa, I.-F., 2004, p.205; Bălan, I. I., 2001, p.36 and foll.) as it focuses on the non-observance of an imperative norm, which may be total or partial, as the cancellation of the abusive clause determines the annulment of the whole contract as an effect of the essential character for one of the parties, thus eliminating the contract from the cause, or after the elimination of the abusive clause, which is not essential, the contract will continue to be in force.

In case the contract will not continue, the sanction is not the resiliation, as stipulated in the Romanian legislator, but the total invalidity which results from the provisions of the Directive, which may be invoked directly and with the possibility of requesting damages – interests. These will be requested in combination with any of the sanctions described above according to the norms of tort liability, related not to the non-performance of a contractual obligation, but a legal obligation prior to the contract and independent of its execution without a cancelled clause. It is not illegal that the damage interests be requested separately (individually) subsequent to the observance of the abusive cause.

**6. The procedure of observing the abusive character of a clause.** In conformity to a jurisprudence of CJUE, the protection system applied by the Directive 93/13/CEE is founded on the idea in conformity to which the consumer is in a situation of inferiority compared to the sellers of the providers regarding both the power to negotiate, as well as the level of information, situation which determines him to adhere to the conditions priority formulated by the sellers or the providers, without exerting an influence on their content<sup>2</sup>.

The main means with which the legal practices are confronted are related to the difficulty of creating efficient means that will act as to ensure a balance of forces within the relation offerer - consumer. Ensuring the contractual balance, when it is possible, or the resiliation of the contract, if the balance can not be achieved, is fulfilled by the so-called commutative justice which can be performed by extrajudiciary means, administrative-jurisdictional means and legal means.

**6.1. Extrajudicial means<sup>3</sup>.** The paralegal means are organised by the state or private institutions and are situated outside the jurisdictional order. These are divided into: legal

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<sup>1</sup> The Romanian law did not assume this dispositions, however the jurisprudence replaced this lacuna by choosing an interpretation in the sense of the regulations in the Directive.

<sup>2</sup> See the Decision from the 27<sup>th</sup> of June 2000, Oceano Grupo Editorial and Salvat Editores (C-240/98-C-244/98, App., p. I-4941, pct.25) and the decision from the 26<sup>th</sup> of October 2006, Mostaza Claro C-168/05, App., p. I-10421, pct.25).

<sup>3</sup> Extrajudicial procedure: any method which permits the solving of a conflict due to the intervention of a third party which proposes or which imposes a solution. In truth, the extrajudicial instruments may be established by the public authorities, by the professionals from the legal sector, by the professional groups or the organisations of the civil societies (arbitral tribunal, centers of private arbitral, mediators etc.). Under a normative aspect, it presents importance [Directive 2008/52/CE](#) of the European Parliament and the Council from the 21<sup>st</sup> of May 2008 regarding certain aspects of the mediation in civil and commercial domains; the



consultations provided to the consumer freely or at reduced prices, exercising pressure on the offerers and solving litigations as to bring the consumers and offerers face to face.

The European Commission encourages the amicable settlement of the consumption conflicts. As to consolidate the trust of the consumers and the companies in the extrajudicial procedures of the conflicts, the Commission establishes principles which focus on facilitating the access of the consumers to the procedures of extrajudicial settlement of the conflicts and the consolidation of the quality of these procedures<sup>1</sup>.

Indeed, consumers may confront themselves with obstacles in valuing their rights, due to the high costs of the legal assistance, of the duration and the complexity of the legal procedures, and especially in case of transboundary conflicts.

Thus, the Commission aims at promoting the extrajudicial procedures of solving conflicts, such as the mediation, conciliation or arbitration. These procedures may help consumers and companies to solve their conflicts in a simple, rapid and low-cost manner.

In this sense, the Commission requests the observance of the following principles: independence and expertise of the body; transparency of the procedure and the functioning of the body; effectiveness, rapidity, gratuity or low cost of the procedure<sup>2</sup>; legality of the decisions, which shall observe the laws regarding the protection of the consumers; the fairness of the procedure, for each party involved.

This recommendation is subsequent to the conclusions of the Green card regarding the access of consumers to justice and amicable settlements regarding the consumption in the unique market.

**6.2. Administrative – jurisdictional means.** The bodies authorised in the domain of consumer protection (agents of the ANPC and of other bodies of the public administration with attributions in this sense) to inform the consumers or ex officio may perform verifications of the contracts that professionals (traders) conclude and who have the obligation of bringing to its disposal.

If the authorised bodies ascertain the existence of certain abusive clauses, a minutes is concluded in which they mention their conclusions and which is sent to the court situated in the territory of the domicile or headquarters belonging to the professional (trader) In case the court decides the existence of an abusive clause, it will apply contraventional sanctions and disposes the amendment of the contractual clauses under the sanction (if the contract is maintained) or the resolution of the contracts with damages –interests. The decision of the court is submitted to an appeal (in the system of the Code of civil procedure from 1865) or the appeal (in the system of the Code of civil procedure from 2010).

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Recommendation of the Commission from the 4<sup>th</sup> of April 2001 regarding the principles applicable to the extrajudicial bodies charged with the consensual solving of the consumption litigations non-included in the Recommendation 98/257/CE [Official Gazette L 109 from 19.4.2001]. This recommendation is applied to the bodies responsible with the procedures of extrajudicial settlement of the consumption litigations, who are trying to find solutions to a litigation by bringing the parties together in order to reach a common agreement. Moreover, these bodies should take into consideration the following principles: impartiality, transparency, effectiveness and equity of the procedure.

<sup>1</sup> In this sense, the following were adopted: Communication from the Commission on the out-of-court settlement of consumer disputes [[COM\(1998\) 198](#) final – Not published in the Official Journal] (Communication of the Commission from the 30<sup>th</sup> of March 1998 regarding the extrajudicial solving of the consumption conflicts [COM(1998) 198 final – Not published in the Official Gazette]). Commission Recommendation [98/257/EC](#) of 30 March 1998 on the principles applicable to the bodies responsible for out-of-court settlement of consumer disputes [OJ L 115 of 17.4.1998] (Recommendation 98/257/CE of the Commission from the 30th of March 1998 regarding the principles applicable to the bodies responsible with the extrajudicial solving of the litigations referring to consumption).

<sup>2</sup> Resorting to a lawyer or a legal representative must be optional, although each party has the right of defending his point of view.

**6.3. Judicial means.** In the opinion of the Court, the possibility of the court of examining ex officio the abusive character of a clause represents an adequate means both for achieving the result stipulated by art. 7 from this directive. The right of the court thus recognised was considered necessary as to ensure an effective protection of the consumer, especially taking into consideration the important risk that the consumer is not aware of its rights or to encounter difficulties in exercising them <sup>1</sup>.

All the member states dispose of legal procedures in order to prohibit the abusive clauses (Ebers, M., 2009, p.422 and foll.). In certain member states, the focus is on instruments of administrative law, while in all the member states the initiation of a collective action is possible.

The judicial means include the notion of appealing to a court of civil or administrative nature, which represents numerous inconvenient for the consumers: the very high costs of the court, psychological obstacles etc.

The patent versatility of the professional creates a simple presumption of abuse, as a smaller or larger dose of injustice does exist, which has to be corrected in view of establishing the contractual balance (Thibierge-Guelfucci, C., 1997, p.381-382). Although the action in declaring the absolute nullity is imprescriptible, the action in damages remains prescriptible. The action is exempted from the payment of a stamp duty. (art. 29 par. 1 let. f from OUG no. 80/2013).

Almost every time when we deal with the vices of consent which are the result of the attitude of a contracting party, the jurisprudence finds its sanction by an implicit reporting to good faith, as well as the fraud is implicitly reported to a general obligation of good faith as the fraud in justice also involves the intention of the parties (thus ill faith) of a legal document for breaching the law (Stoffel-Munck, Ph., 2000, p.58 and foll.). One must remember the constant effort of the European jurisdiction of imposing to the member states the application of the community directives, sometime, even with the risk of a retroactivity and of completing and ameliorating the data base CLAB<sup>2</sup>.

These are also adjacent means to the common law which permit the same correction of the contractual imbalance, such as using the law of competition in order to obtain the nullity of the contractual clauses which are reported to the anti-competition practices. However, the simple lack of professionalism in business may not be invoked as an excuse for the losses caused by the inattentive conclusion of a contract.

A general characteristic of the procedural law from the majority of the member states is the fact that a decision of the court pronounced in the concrete situation of a litigation of contractual law related to the abusive character of a clause does not automatically prevent the usage of the clause, as the work authority of this type of decision has no effect except between the parties of the trial (Ebers, M., 2009, p.432). Some member states have adopted measures as to prevent the usage by the sellers or suppliers of similar clauses, which eventually would not be covered by the work authority regarding the decision of the court (for example the United Kingdom, Cyprus, Romania etc.).

**7. Conclusions.** The configuration of an essential leverage for the protection of the consumers in the law of the European Union and, implicitly, in the national law, is the expression of the idea of honesty and loyalty which directs the consumption contracts in view of ensuring the contractual balance which is based on the good faith.

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<sup>1</sup> The decision from the 26<sup>th</sup> of October 2006, Mostaza Claro C-168/05, App., p. I-10421, pct.25.

<sup>2</sup> CLAB represents a data base, administered by the Commission, with an open character, which contains solutions related to the internal law (of the courts of law and of other institutions with attributions in the domain) in the domain of abusive clauses.

In the consumption society, the existence of means for protecting the rights of the consumers remains a remarkable plus for civilisation, and the general necessity of good faith implies the generality of applying the notion of abusive clause and implicitly a common approach: concern for life, the continuity of the contract, as to ensure, along with an equitable and balanced contractual report, of the legal security and social peace.

From this observation, the following were formed: the obligation of pre-contractual information, the appeal to unpredictability, concessions made to the injurious as vices of consent when they recognise the right of the consumer to invoke the abusive clauses since they were not directly negotiated, by defeating the requests of good faith and creating a significant imbalance between the rights and obligations of the parties.

As a result to this fact, the entire Europe, in the space of the national law systems, witnessed the tendency to reinvent the general theory of contracts, by consecrating the principles of equality, balance and contractual fraternity, along with the principles of security and freedom. The useful and the just were the notions which founded the new contractual paradigm.

The protection system applied by the Directive 93/13/CEE is founded on the idea in conformity to which the consumer is facing a situation of inferiority related to the sellers and the providers regarding the power to negotiate, as well as the level of information, situation which determines him to adhere to the conditions priory formulated by the sellers or the providers, without having the possibility of exerting an influence on their content. At a general level, good faith plays the role of a qualitative element in appreciating the formation, interpretation and execution of contracts, the obligations encumbered on the parties, these being subjected to a general criteria of honesty within the continental systems.

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# RECONSIDERING WORK-LIFE BALANCE, PREREQUISITE OF DIMINISHING THE WAGE DIFFERENTIAL AND ATTAINING GENDER EQUALITY WITHIN THE EUROPEAN AREA

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## Abstract:

*Some realities of social life within the European room such as individualising life styles, patterns of low fertility in all Member States, and demographic ageing amplifying care services' requirements for the "fourth age" and some major objectives of the European policy like the target of 75% employment for individuals between 20 to 65 years of age, and the objective of "demographic renewal" have imposed reconsidering the work-life balance. The balanced division between the responsibilities of family life, including the ones between family and society is regarded as prerequisite of increasing integration of women into the labour force, allowing the transition from "male breadwinner model" to "dual earner model", and at social scale same contribution to economic growth and sustainable development. This would unburden women from excessive weights in private life thus combating horizontal and vertical segregation on labour market and, consequently, diminishing wage differentials and attaining gender equality. This turned into a topic of concern for the European policy already since the nineties, making the object of several communications of the European Commission, decisions of the European Council and resolutions of the European Parliament which together represent a true political European commitment regarding gender equality.*

**Key words:** wage differentials, gender gap, horizontal and vertical segregation

**JEL Classification:** J08, J70

## 1. Realities of the social life in the European area and objectives of the European policy imposing the reconsideration of the work-life balance

The complexity of the woman's statutes in the contemporary society and on labour market in particular, resulting from the multiple responsibilities pertaining to her by virtue of the special parental status and to the recent trend of increasing integration into the labour force have led to imposing within the society of a true "culture of women's life".

The estimates regarding the importance and significance of the women's statutes on the labour market as held currently and as desired in the future are realised by delineating two levels under the temporal aspect.

First, in the past the prevalent trend was that of a less professional engagement of the women based on assuming some increased family responsibilities, but also on the lower skills' level.

Secondly, the trends desirable for the future result from the realities of the social life within the European area and some major objectives of the European policy directly linked to the statutes of women on labour market.

One first such objective, of major importance is the one substantiated in the framework of the European employment policy, of increasing the employment rate up to the level of 75% for the age segment 20-65 years, to which must contribute both the extension of active life by increasing employment amongst elderly, but also the one of women as result of their increasing integration into the labour force.

The second objective of the European policy, directly connected to the social and occupational statutes of women is the priority objective of "demographic renewal", resulting from the models of low fertility in all Member States and which cannot be reached without higher willingness of women regarding the fertility and birth phenomenon.

Next to these two priority objectives of the European policy, the realities of social life within the European area that have incidence on the occupational statutes of women are the

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individualisation of the life styles and the important changes in the size and structure of family, in parallel with demographic ageing.

Thus, the existence within society of more singles, divorced persons, mono-parental families and, on the other hand, the transition from the extended family to the nuclear family which separates generations which traditionally provided for mutual support within the extended family triggers the debate about the issue of a possible decline in the future of the mutual support between generations.

In ensuring the conditions of implementing and achieving the first mentioned objective, we consider that the starting point must be the acknowledgement of the fact that in the information society era, any individual employed on labour market cannot be but of a high productivity and competence. Women cannot be an exception from these occupational requirements, the more so, if the aim is to eliminate the currently existing gap between genders, under the multiple forms it takes. Under these conditions, in order to bring a consistent contribution to social work, equal to the one of their life and work partners they must benefit in a non-discriminating way of wide access to all “training” forms, including the ones on-the-job, as well as from the continuing training process during the entire active life.

In order for the fertility and birth rates of Europe to turn to a healthy state becoming a certainty and, thus, not remaining in the sphere of desiderates, according to the second above-mentioned policy objective, are required increased efforts of drafting, implementing and monitoring an optimum work-life balance under the given conditions in the modern society which underwent the process of demographic transition.

The evidence for the importance of optimising this balance, and the existence of vivid concern about promoting it, is the organisation, already in 2004 in Dublin of a Forum of the European Foundations for the Improvement of Living and Working Conditions. The main objective of this event was to bring consistent contribution in the framework of the pertinent debate on this issue. Practitioners, politicians and high-rank experts from various member countries of the EU have discussed about the various facets of this balance and made experience exchanges.

The main conclusions of this debate make reference both to the benefits of the increased integration of women in the labour force, and about the challenges that it triggers in the social life and for the European policy.

The benefits of women’s participation on the labour market consist, mainly in ensuring their economic independence and in realising the transition from the family model of the male breadwinner to the dual earner model.

On the other hand, the challenges triggered in the social life cannot be underestimated, consisting in a lesser readiness of women to give birth, motivated (in particular in the case of full-time employed women) by the narrowing of the time that can be allotted to child nurturing, and to domestic tasks, to elderly and adult dependents’ care.

These undisputable challenges for child-care and nurturing, and for fulfilling the functions of assistance within the family, turned the optimisation of the balance between work and life into an explicit objective both for the employment policy, and in the European social policy.

The action vectors at the level of implementing policies, resulting from the debate occasioned by the European forum are firmly set in the two mentioned spheres, the one of employment and the social one.

In the field of employment, the imperative is the flexibilization of the labour market and imposing some flexible employment alternatives.

Thus, it becomes increasingly more obvious that the traditional eight-hours working day having as working hours the nine-to-five schedule shall be in the near future no longer a lasting norm, under the conditions in which the definition of working time and the barrier between activity and inactivity becomes more and more blurred. This is explained by the

fact that professional activity tends to support less the material side and location as such, so that leaving the job place does not necessarily mean ceasing activity under the conditions of ICT prevalence (computers, mobile communication means, etc.) all of the devices accompanying the population at home.

The work content is also undergoing a change process, this becoming more intensive and thus requiring employees (who must be adaptable and multilateral trained) to fulfil several tasks, in a compressed working time.

From the viewpoint of the entire active life, the work-life model developed from the traditional one which presupposed distinct periods of education and vocational training, subsequently of active life and finally, pensioning, to the trend of associating active life with the process of continuing training, of alternating some sub-periods of activity with those of inactivity, and possibly, combined with studies.

The main ways of rendering concrete the flexible employment alternatives, ensured by a large part of the employers consist in: parental leave-of-absence, flexible working time, access to the “part-time” work, in particular during periods of special stress of the individual in his/her private life; to these are added home-delivered work, and working for determined periods of time. The reality proved that the provision of some flexible alternatives of employment increases the loyalty of the employees for the respective companies, especially within the private sector.

In the social sphere, from the perspective of rendering compatible the professional commitments assumed by individuals with the tasks and responsibilities resulting from their role in the family life, is necessary to involve the society in supporting private life that would ensure the balanced division of the burden of family life not only inside the family, but also between family and society.

We consider that the most important forms that supporting private life by the social environment can take, might be the following:

- support from the society, consisting in care services for the “fourth age”, the importance of which is on increase in the context of “demographic ageing” and of a significant growth of this age segment in total population;
- child-care and nurturing services by ensuring a corresponding number of crèches and kindergartens with extended hours at an adequate proximity;
- outlining a support policy for child-care and nurturing with particular focus on children from poor families.

This balanced division of the tasks of family life inside the family, and also between families and society might generate effects at both levels related to the European policy objectives above-mentioned:

- at demographic level, a higher readiness of women for giving birth, contributing to a healthy turn of fertility and birth rate in Europe;
- with respect to employment, releasing women from excessive burdens in private life might lead to their higher willingness to integrate on labour market and to equal extent to become more productive by diminishing the frequency of absenteeism and career disruptions.

## **2. Persistence of wage differentials between genders.**

The wage differentials between men and women in Europe is one of the major concerns of the European Commission and of the social partners, and its two forms – adjusted/non-adjusted and the numerous factors inducing it, constitute to equal extent an objective of scientific inquiry at the level of the EU Member States and of the EU.

The idea on which are substantiated the adjustment studies regarding the wage gap is to bring corrections for the differences noticed with respect to the explanatory factors. Several factors are taken into consideration simultaneously.

The noticed characteristics are distributed into two categories: individual categories such as age, education level, number of children, professional and occupational statutes, and characteristics pertaining to the workplace, such as economic sector and employment field, or the existence of a collective working agreement. After eliminating the contribution of all these explanatory factors, the remaining part is interpreted as being of a discriminatory nature.

The EU-27 average of the gender pay gap decreases in the analysed interval by approximately one percentage point (table no.1).

**Table 1. Gender pay gap in unadjusted form in % - NACE Rev.2  
(structure of earnings' survey methodology)**

Country	2007	2008	2009	2010	2011
EU27	:	17,3	17,2	16,2	16,2
Belgium	10,1	10,2	10,1	10,2	10,2
Bulgaria	12,1	12,3	13,3	13,0	13,0
Czech Republic	23,6	26,2	25,9	21,6	21,0
Denmark	17,7	17,1	16,8	16,0	16,4
Germany	22,8	22,8	22,6	22,3	22,2
Estonia	30,9	27,6	26,6	27,7	27,3
Ireland	17,3	12,6	12,6	13,9	:
Greece	:	22,0	:	:	:
Spain	18,1	16,1	16,7	16,2	16,2
France	17,3	16,9	15,2	15,6	14,8
Croatia	:	:	:	15,5	17,6
Italy	5,1	4,9	5,5	5,3	5,8
Cyprus	22,0	19,5	17,8	16,8	16,4
Latvia	13,6	11,8	13,1	15,5	13,6
Lithuania	22,6	21,6	15,3	14,6	11,9
Luxemburg	10,2	9,7	9,2	8,7	8,7
Hungary	16,3	17,5	17,1	17,6	18,0
Malta	7,8	9,2	13,8	13,4	12,9
The Netherlands	19,3	18,9	18,5	17,8	17,9
Austria	25,5	25,1	24,3	24,0	23,7
Poland	14,9	11,4	8,0	4,5	4,5
Portugal	8,5	9,2	10,0	12,8	12,5
Romania	12,5	8,5	7,4	8,8	12,1
Slovenia	5,0	4,1	-0,9	0,9	2,3
Slovakia	23,6	20,9	21,9	19,6	20,5
Finland	20,2	20,5	20,8	20,3	18,2
Sweden	17,8	16,9	15,7	15,4	15,8
United Kingdom	20,8	21,4	20,6	19,5	20,1

Note: „:” = unavailable

Source: Eurostat Code: [earn\_gr\_gpgr2] Last update: 26-08-2013

Close values to this average level of the indicator are recorded in Denmark, Sweden and Spain, and Hungary oscillates around the average.

Estonia, Austria, the Czech Republic, Germany and Slovakia are registering some of the highest values of the gender pay gap, against Italy and Slovenia which have the lowest levels, in the latter the indicator being on significant decrease and recording a sign reversal for women disadvantage, in the context of the crisis. Levels that are also low but on significant increase are registered in Malta and Portugal.

A reversed evolution, with a significant decrease from high levels of the indicator is registered in Cyprus and Lithuania.



Wage differentials constitute perhaps the most important dimension of the gender gap induced by a multitude of factors, from among which we mention the most relevant with associated effects.

### ***2.1 Sectoral and occupational segregation (horizontal)***

Most studies on countries focus women segregation in poorly paid occupations – both at the level of the labour market, but also at company level – as main factor of wage differential. Many of these studies highlight horizontal segregation as the main reason of the gender pay gap.

### ***2.2 Vertical segregation***

When the recruitment and promotion mechanisms are automated and protected by collective agreements, when the career development systems are strictly regulated like in the public sector, the career models of women tend to be to a larger extent similar to those of men. By contrast, when recruitment and career development are at the managers' discretion, the stereotypes regarding gender still frequently influence the career dynamics of women. We mention a few of the most relevant conclusions of the survey undertaken in Member States regarding this form of segregation.

Vertical segregation seems to be the main factor of the wage imbalance in Romania and Slovakia, with a significantly lower representativeness of women in management positions. In Estonia, vertical segregation increased from the beginning of the nineties, deepening in favour of men, so that only a small part of the official clerks, those from the legislative body or in management positions are women. These facts are associated with the tendency to resort to career disruptions for ensuring the care function within the family, and for maternity leaves which, in turn, feed the stereotypes regarding gender. In Malta, these stereotypes refer to: persistence of the widely spread assumption that women are not breadwinners and, consequently, it is not necessary for them to earn as much as men; placing women on equal foot with men regarding remuneration is identified as potential threat for the traditional roles held by genders. In Lithuania, attributing different working behaviours and a different confidence degree to men and women explains, at least partially, the presence of the gender pay gap.

### ***2.3 Family care responsibilities***

According to the studies from several EU Member States (Eurofund, Addressing the gender pay gap), the different roles of the genders and the unequal distribution of family life responsibilities are highlighted as the main reason for the payment gap in Estonia, Lithuania, Hungary and the United Kingdom and as one of the most relevant in a series of other countries. Also, in Lithuania, employers tend to employ and maintain jobs for men considering that women prioritise family life. Family life commitments are perceived as a factor of limiting the potential of women on the job also in Poland. In turn, qualitative studies from Luxemburg underpin a change of women's behaviour with respect to career disruption, which tend to be less frequent and briefer.

In Germany a narrowing of the pay gap was highlighted up to the level of 6% for women returning from maternity leave in a 12 months period and who work full-time, but which remains at the level of 14% for those benefiting of an extended maternity leave of three years or even longer.

### ***2.4 Education and skills***

In Europe, the education level increased in particular among women. Still, the effect was not the one of a substantial narrowing of the gender pay gap, but rather the one of decline for its component which is explained by personal features.

In a number of countries is reported even the existence of an obvious form of discrimination: gender pay gap is higher for the groups of workers with a higher level of skills or education, such an experience being registered in Hungary.

Still, the increased education level generated recent effects on the gender pay gap in Cyprus and Portugal – in the latter the impact of the educational reform diminishing the level of the indicator, in particular among younger groups and with a higher skills' level.

The surveys from Germany and Estonia indicate different outcomes. While in Germany women benefit more than men from some forms of apprenticeship, in Estonia education has a higher impact on the wages of men.

### ***2.5 Work experience and length of service***

The difference between women and men regarding work experience is considered as the most relevant factor of the wage differentials between genders in Germany and Ireland. Length of service – both within the company, but also on the labour market – is perceived as one of the most relevant reasons in inducing higher wages for men in Belgium, Greece, the Netherlands, Poland and Romania. To equal extent, the gender pay gap increases with the length of service in Malta and Spain.

Still, in Germany and the UK the wage differentials are narrowing after a longer period in which women have the opportunity to show their motivation in working.

### ***2.6 Contractual characteristics***

Working in non-standard jobs – both temporary employment and in part-time – is associated with the gender pay gap in two ways: firstly, the higher frequency of women working part-time was identified as obvious determinant of the wage differentials. Secondly, in some countries such as Malta and Spain the pay gap level is higher for the population included in such employment alternatives.

In the Netherlands, to a lesser extent, part-time working and mostly working contracts on determined periods are regarded among the first determinants of the gender pay gap.

## **3. The European desiderate of attaining equality between men and women**

The wage differentials between men and women at the level of implementing the European policy represents one of the structural indicators of monitoring the “European Strategy for Growth and Jobs” under the heading of employment.

To equal extent, other significant dimensions of the gender gap that is participation and equal representation of all citizens in the process of substantiating the decision in the social, cultural and civil life are counted among the fundamental European values and a precondition for achieving sustainable development in the European area.

The equal treatment of genders is one of the principles of the EU Treaty already since 1957 and benefits of specific legislation, part of the *acquis communautaire*.

The more recent stages of the European policy approach about this direction are initiated in the nineties. We make reference to: Community commitment and subsequent actions after adopting the Action Platform on the occasion of the Fourth UN World Conference on Women in Beijing in 1995; medium-term Community Action Programme (1996-2000) regarding the insurance of some equal opportunities to both genders; the contribution of the Structural Funds during the years 1990 by specific actions; as well as of the European Employment Strategy as of 1997; the triggers originating in the European Parliament and Council.

In the year 2000, together with the elaboration by the Commission of the Community Framework Strategy on Gender Equality (2001-2005) marks a qualitative change in the European political approach: the shift from activities and programmes pertaining to some distinct compartments and financed by various “budget headings” to an integrated approach which aims to coordinate the various initiatives and programmes subjected to the same evaluation criteria and monitoring instruments.

This document provides for clear operational objectives circumscribed to the following areas: economic life; equal representation in the process of policy, economic and social decision substantiation; full and equal access to social rights.

The policy background of this important European challenge presupposes, further, the following stages:

As constitutive part of the European Employment Strategy, the Resolution of the European Council from 23<sup>rd</sup> July 2003, regarding the guidelines for employment policies of the Member States has stated as one important objective the considerable diminishment of the gender pay gap up to 2010, in each of the Member States. The recommendation to this end is one of multilateral approach, substantiated on the main responsible factors which were mentioned above.

The stage 2006-2007 presupposes two communications of the European Commission on this direction: “A Roadmap for equality between women and men 2006-2010”, followed in 2007 by the communication “Tackling the pay gap between women and men”.

These two documents recommend the following important ways of reaching this desiderate: legislation, employment policies, encouraging employers to comply with the principle of equal payment on genders and the exchange of good practices at Community level.

The Resolution of the European Parliament from November 2008 and the Decision of the European Council from July 2008 give the content for a new stage of this European policy approach.

The first mentioned document approaches recommendations of the European Commission for implementing the principle of equal payment on genders consisting, in essence, from a series of integrated initiatives, making reference to: resorting to analyses, satisfying the transparency demands, evaluating work and classification of jobs, the role of equality bodies and alignment to the European regulations and policies.

The second document, the Decision of the European Council regarding the directives for the employment policies of the Member-States places the payment gap among the monitoring indicators of the policies oriented on promoting a “lifecycle approach to work”. The directives draw attention to the necessity of decisive action for diminishing the following dimensions of gender gap: employment, unemployment and remuneration.

During the last years, the approach of promoting gender equality within the EU was marked mainly by the adoption by the Commission of the Equality Strategy between women and men (2010-2015) in September 2010 followed by the Resolution of the European Parliament in July 2011.

The first document contains three sections linked directly to the occupational statutes of the women: equal economic independence; equal payment for same work and equal labour value and, respectively position equality in substantiating decision.

From the contents of these three sections results that certain progress has been made in quantitative and qualitative terms: increased participation of women on labour market and an increase in their education and skills level with effects on expanding the human potential and diminishing pressure on public finances and social protection systems.

Still, the persistence of the main dimensions of gender gap is highlighted, as well as the different way in which women and men experience poverty and social exclusion with emphasis on the “third age” when the pay gap turns into pension gap.

The resolution of the European Parliament from 6 July 2011 takes into account the main programmatic documents with incidence within the European area, but also at international level (adopted during the UN sessions) which make reference to the fundamental human rights and eliminating any form of discrimination against women, and promoting equality between genders.

According the European Parliament recommendations, at employment level, equality between women and men should start with the full use of professional skills by the women and even with ensuring mentors for those endowed with special skills so as to make possible promotion of men and women without discrimination, both on the labour market, and also in management positions of all levels.

A firm substantiation of this equality requirement, highlighted in the document is the correlation proven in practice between the improved commercial and financial performance of companies where women are included in their bodies for decision-making.

Nevertheless, and despite of an good educational level with differences from country to country and between occupational sectors, women represent a very small share in the boards of directors of the biggest companies in the EU and yet even lower within the CEO category. Also, the growth rate of the number of women in the management departments of the corporations is just half of a percentage point per year, and at this decreased rate it shall take 50 years so that both genders would have a share of at least 40% in the respective departments.

This unintended state of affairs determines the European Parliament to address recommendations both to political decision factors at EU level and of the member-states, and to the private sector.

In the first instance, the European Parliament addresses the initiatives already undertaken in some of the member-states such as France, the Netherlands and Spain for establishing some thresholds to be reached by companies for women's representation in the management bodies and the undergoing debate in a series of other member-states such as Belgium, Germany and Italy.

In the second instance, it underpins the initiatives and proactive measures already taken by the private sector, consisting mainly in the development of human resources within the company, as priority, but also the creation of networks outside, the exchange of good practices all these being targeted towards supporting women's assertion. With respect to the future perspectives of their promotion, it requires from companies to reach the critical threshold of 30% women representation in the management bodies by 2015 and, respectively 40% by 2020.

### **Conclusions**

The individualisation of lifestyles, the models of low fertility in all Member States, in parallel with demographic ageing and the objectives of the European policy such as the ambitious European target of employment and the one of demographic renewal have turned the reconsideration of the work-life balance into an important debate topic in the European area.

On one hand, optimising this balance and increasing integration of women into the labour force trigger benefits at individual level due to the transition from the male breadwinner model to the dual earner model, and at social scale, due to an important contribution of women to economic growth and sustainable development.

On the other hand, it is regarded as an important way of combating segregation on the gender criterion, of diminishing the wage differential and promoting equality between women and men.

The individual and social benefits generated have conferred to this topic an incontestable importance, placing it at the centre of an actual European policy approach of this orientation.

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# THE RIGHT OF NOT BEING JUDGED OR PUNISHED TWICE FOR THE SAME DEED ACCORDING TO THE EUROPEAN CONVENTION ON HUMAN RIGHTS

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## Abstract:

*The principle of applying a single penalty for a single unlawful act is also provided by the European Convention on Human Rights.*

*This principle involves the application of a single sanction for a single illegal act; the one who disregarded by his behavior, the rule of law will be responsible only once for the wrongful act, for a breach of the law corresponds to only one legal sanction.*

*The principle does not exclude the possibility of the simultaneous existence of multiple forms of legal responsibility for the unlawful act committed by the same person, when by the same unlawful act are violated several rules of law.*

*Article 4 of Protocol no.7 of the European Convention for human rights devotes "the right of not being judged or punished twice", known under the traditional name of "ne bis in idem": "No one can be criminally prosecuted or punished by the jurisdiction of the same State for committing the offense for which he has already been acquitted or convicted by a final judgment according to the law and penal procedure of that State.(...)"*

*In this matter we will expose two situations that were solved by the European courts regarding the "ne bis in idem" principle*

**Keywords:** responsibility, unlawful act, contravention, offense, sentence, final decision.

**JEL Classification:** K00, K10

The legal order is not based solely on constraint but rather its essential feature is that it imposes primarily by voluntary compliance with the rules of law, and this aspect is related to legal responsibility.

In its general sense, responsibility is seen as an obligation to bear the consequences of the breach of rules of conduct, therefore when it violates or disregards responsibility.

Legal responsibility is also regarded as a constraint of state power over the individual, as a reaction to the breach of the rules of law, thus making it bear the predetermined consequences of his deed (to repair the damage caused, to submit to a criminal or contraventional penalty etc.) (Michael Eliescu, 1972).

In conclusion we can say that in the complex social relation that has an ending point in establishing responsibility, the reason being the deed by which a rule of law is violated, called illicit deed and the penalty is the instrument by which constraint is realized.

Legal responsibility is circumscribed to the branches of law and is related to the specifications of the subject of the regulation of each of these branches.

Therefore, specific to criminal liability is to commit an act considered to be a criminal offense with guilt as required by law and a penalty called punishment; characteristic to administrative responsibility is the administrative offense and the specific penalty; the material responsibility, generates an obligation for compensation, etc.

The principles of legal responsibility are those guiding ideas that find their expression in all the rules of law that regulate different forms under which this legal institution is presented.

They have the common features of all the legal rules that regulate cases, conditions, the ways in which different forms of legal responsibility intervene.

From these principles enshrined in the legal literature and resulting from the rules of law, are:

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a) The principle of commitment to legal responsibility based solely on the law.

The principle of legality is a fundamental principle of criminal law. In the criminal responsibility field, this principle expresses the rule, after which the whole activity of prosecuting those who violated the law by committing offenses, is solely based on the law. Legality of criminal responsibility involves the legality of criminal offenses and the legality of criminal sanctions: "nullum crimen sine lege" and "nulla poena sine lege".

However, we believe that the principle of legality applies to all forms of legal responsibility because in any branch of the law and in any of the forms of legal responsibility there may be applied legal sanctions only for illegal acts, whether it is crime, illicit civil or administrative misconduct.

b) The principle of responsibility for the deed committed with guilt.

This principle requires that any subject of the law to be sanctioned only when he is guilty and only in the limits of his guilt. Legal responsibility intervenes because a subject of the law did not follow the conduct prescribed by the rules of law and because out of more conduct possibilities he chose the one that violates the social interests protected by rules of law. Through law, the society condemns those members that have a behavior opposite to their interests, and the offenders know the fact that by their behavior they are opposite to these interests.

According to this principle, legal responsibility interferes only for material behavior deeds, meaning, by the legal deeds with illicit character. It does not have incidence over people's ideas, non materialized in conduct acts, according to the roman adage: : "*de internis non judiciat praetor*".

The idea of guilt implicates the offender's attitude to decide about his own behavior, as well as the conscience of violating the rule of law by his conduct act.

In principle, the responsibility occurs for the act committed with guilt, however, in the Romanian legal system operates the presumption of innocence of the offender, so that guilt must be proven by the injured party, or by the prosecution in case of criminal responsibility. However, in some cases the law regulates the presumption of guilt, by the responsibility of individuals, for example the presumption of guilt of parents for their minor children's actions, which may, however, protect themselves from liability if they prove that they could not prevent that injury.

c) The principle of personal responsibility

According to this principle sanctions effects occur only on the person who violated the rule of law , by committing the wrongful deed .

The extent of the liability is determined by the personal circumstances of the offender , which is appreciated by the opportunity of determining the penalty.

There are exceptional cases expressly provided by law, when the responsibility for someone else's crime intervenes- objective , indirect liability, such as the offenders' responsibility for acts of the suspected, of institutors and artisans for pupils and apprentices' deeds or parents for their minor children's actions (Gheorghe, Mihai, Radu Moțica, 1999).

In case of solidary responsibility , it operates in the person of more subjects , so that the injured can be compensated by any of them , thus recovering all the damage , after which the one that gave rise to full compensation for the damage to be able to recover through a recourse action against the other debtors everything he paid over what he owed himself, according to his degree of guilt.

d) The principle of accountability celerity

Achieving the goal of legal responsibility depends greatly on the implementation of the principle of celerity, which requires that the accountability is to be made appropriately so that the penalty to produce its suppressive and preventive- educational effects.

Sanction is society's reaction through state constraint force for the wrongful act , so it is necessary that the punishment to occur within a short period of time after the offense was committed, because if coercion does not occur promptly, there are no longer obtained the expected results, neither in relation to the offender, nor in relation to the society.

Undoubtedly, the delay of the perpetrator accountability causes a feeling of insecurity in interpersonal relationships and social ones, as well as a sense of distrust in the ability of the institutional factors required to ensure the rule of law ( Gheorghe Mihai, 1999).

As you know , accountability has not only an educational effect, but also leads to restoring law order, impaired by committing the illicit deed , and the passing of time can lead to the loss of some evidence or to determine real impediments in establishing the actual state. That is why, by law, there are often set prescription or time limits for the implementation of the penalty.

e) The “non bis in idem” principle

The principle of applying a single penalty for a single illegal act.

This principle involves applying a single sanction for a single illegal act; the one that has ignored the rule of law by his conduct will be responsible only once for the wrongful act, for a breach of the law is matched by only one legal sanction.

The principle does not preclude the simultaneous existence of multiple forms of legal liability for the misconduct of the same person, when by the same act there are violated several rules of law.

For example , according to Art.208 of the Penal code, taking a movable object from the possession or detention of another person without consent, is theft and is punishable by law , intervening criminal liability and on the other hand, civil law , which protects the right to property of the owner, is given the right to restitution and compensation for damage to property which constitutes a civil penalty.

So violation by same offense, of a rule of criminal law and a rule of civil, the penalties for each branch of law which were ignored, also accumulate this way several forms of legal responsibility.

Another example, by committing a road traffic offense, the author is criminally liable but also civilly liable, if he committed a civil wrongful act causing injury to another person. This way, violating by the same unlawful conduct both a rule of criminal law and a rule of civil law, the penalties for each branch of the law's rules which were ignored are to be cumulated.

Criminal liability may be combined with disciplinary responsibility when in the execution of the employment contract, the employee commits an unlawful act which at the same time means misconduct and crime, and therefore applying both the punishment provided by the criminal law, as well as a disciplinary sanction. In these cases the principle stated is not defeated ( non bis in idem ), as it accumulates two types of liability of a different nature , which involve different penalties.

Disciplinary liability can be also combined with administrative liability , if the unlawful act is at the same time misconduct and misbehavior , thereby implementing a disciplinary sanction and a contraventional sanction.

This principle excludes the possibility of applying to the same person for the same unlawful conduct of two or more sanctions, identical in nature: either criminal or civil , or administrative etc.; because restoring the violated order of law, demands for each violation of legal rules, the applying of a single penalty, the nature of which depends exclusively on the nature of the legal norm that was violated.

Therefore, when there is a multiple violation of the rule of law , covering different legal rules and there is no overlapping of two or more legal sanctions of the same kind, which would apply to the same person for a single illicit act, does not violate the principle of applying a single penalty for a single illegal act.

If a person commits an act that is qualified as criminal, he will not be held administratively responsible for the same act, because an offense can not constitute at the same time both a criminal act and an offense; the offense is defined as being an act with less danger than crime.

In conclusion overlapping criminal liability with administrative liability is excluded.

This principle is proclaimed both in civil procedural law but also the criminal procedural law, by the legal texts providing for the practical impossibility of overlapping penalties of the same kind.

One of the main effects of the courts' final judgments is extinction of the right to legal action in material sense and preventing prosecution of the same offense and the same person.

When the court finds that there is a final judgment and with a judged matter authority, it will accept the final solution and the prohibition to judge or decide a case completely solved. And thereby tends to respect this principle, because the final and various judgments, sanctions can not be different or the same kind by one or more courts.

We believe that the approach should take into account the rights under the European Convention on Human Rights as interpreted and applied in the solutions of the ECHR Court [Law no.30/1994 regarding the ratification of the Convention for the Protection of Human Rights and Fundamental Freedoms (signed in Rome on the 4th of November 1950) and of the Additional Protocols to this Convention, published in Of.M.no.135/31.05.1994].

Article 4 of Protocol 7 of the Convention enshrines the "right not to be judged or punished twice", known as traditional "non bis in idem": "No one may be pursued or punished again in criminal proceedings under the jurisdiction of the same State for committing the offense for which he has already been acquitted or convicted by a final judgment under the law and penal procedure of that State.( ... )"

In this matter we will expose two cases, solved by the European Courts on the non bis in idem principle.

In the first case, on the 11<sup>th</sup> of November 1999 the applicant was involved in an incident in which, according to the report filed by the police that was called on the spot, he broke the door of a neighbor, broke into his apartment and punched him.

Following the police report, the Mayor of Gabrovo, fined the applicant for disturbing public order, with 50 leva (25 euro). The sanction became final, not being challenged in court.

Subsequently, the prosecutor began prosecuting, and prosecuted him for trespassing, battery and other violence. Gabrovo District Court acquitted him for trespassing and sentenced him for assault and other violence to imprisonment for 18 months. The solution was maintained on appeal by the Gabrovo Court and on recourse by the Supreme Court of Justice of Bulgaria.

In the European Court, the applicant complained under Articles 6 of the Convention and 4 of Protocol no. 7 of the Convention (which guarantees the right not to be tried or convicted twice for the same offense - ne bis in idem).

The Court, in its judgment of 14<sup>th</sup> of January 2010, found the violation of both articles.

Regarding Article 4 of Protocol 7 at the Convention, the Court has shown that:

- sanctions imposed on the applicant by the Mayor of Gabrovo can be considered as having a "penal" character, for the autonomous purposes that the Convention accords to this notion, given that, on the one hand, the prohibition imposed by the violated legal text addresses all persons and that on the other hand, the purpose of the sanction is to punish and prevent committing similar acts in the future;

- there is identity between the facts that were at the origin of the sanction and the ones that generated the criminal case brought against the applicant, regardless of the legal definition of that law gives about the offense, respectively to the two offenses;

- there was a doubling of the proceedings against the applicant, given that criminal proceedings were preceded by its sanctioning, being final by not being appealed.



In conclusion, the applicant had been "condemned " in the administrative procedure (contraventional) that must be treated as a " criminal trial " in the autonomous sense of that term from the Convention. After this " conviction" became final, against the applicant had been filed another criminal charge which concerned the same behavior and essentially the same facts. Considering that art . 4 of Protocol 7 of the Convention prohibits both the prosecution and conviction of a person for acts that had already led to the application of definitive criminal sanctions , the Court found a violation of this Article by Bulgaria.

In the second case , by judgment of the 11<sup>th</sup> of December 2008 the Court of Justice (ECJ ) ruled in Case C-297/2007 Staatsanwaltschaft Regensburg / Klaus Bourquain , and set the ban to be tried twice for the same offense applies where a conviction could not ever be executed directly.

According to the ECJ, "this interpretation seeks to prevent a person from being prosecuted for the same acts in several Contracting States following the exercise by it of the freedom of movement".

In Case C 297 /07 , regarding a request for pronouncing a preliminary ruling under Article 35 EU from the Landgericht Regensburg (Germany), made by decision of 30<sup>th</sup> of May 2007, received by the Court on the 21<sup>st</sup> of June 2007, in the criminal proceedings against Klaus Bourquain [By decision of 11 December 2008 the Court of Justice (ECJ) ruled in Case C-297/2007 Staatsanwaltschaft Regensburg / Klaus Bourquain, and determined that the prohibition to be prosecuted twice for the same offense also applies for a conviction which could never be executed directly.

According to the ECJ, "this interpretation seeks to avoid that a person to be prosecuted for the same acts in several Contracting States resulting from the exercise by it of the right to free movement].

The reference application for a preliminary ruling concerning the interpretation of Article 54 of the Convention for implementing the Schengen Agreement of 14<sup>th</sup> of June 1985 between the Governments of the Benelux Economic Union , the Federal Republic of Germany and the French Republic on the gradual abolition of checks at common borders [JO 2000, L 239, p. 19, Special edition, 19/vol. 1, p. 183), signed in Schengen (Luxemburg) on the 19<sup>th</sup> of June 1990 (called „CAAS”)].

The request was made in the context of criminal proceedings in Germany on the 11<sup>th</sup> of December 2002 against Mr Bourquain, a German national, in terms of the crime of murder, while criminal proceedings for the same facts, by a judicial authority of another State against the person mentioned had already been solved on the 26<sup>th</sup> of January 1961 by a decision of conviction in absentia.

The legal framework

Under the first Article of the Protocol about integrating the essence of Schengen in the the European Union, annexed to the Treaty on European Union and to the Treaty for establishing the European Community by the Treaty of Amsterdam ('the Protocol'), 13 Member States of the European Union including Germany and the French Republic, are authorized to establish enhanced cooperation between themselves in the areas covered by the scope of the Schengen essence, as it is defined in the Annex to the Protocol.

From the Schengen essence, thus defined includes, in particular, the Agreement between the Governments of the Benelux Economic Union, the Federal Republic of Germany and the French Republic on the gradual abolition of checks at their common borders, signed in Schengen on June 14, 1985 [JO 2000, L 239, p. 13, Special edition, 19/vol. 1, p. 177] and CISA.

Under Article 2 second (1 ), second sentence, of the Protocol, the EU Council

adopted on May 20, 1999 Decision 1999/436/EC for determining , in accordance with the relevant provisions of the Treaty of establishment of the European Community of the Treaty on European Union, the legal basis for each of the provisions or decisions which

constitute the Schengen essence [JO L 176, p. 17, Special edition, 19/vol. 1, p. 107]. Article 2 of that decision in conjunction with Annex A to it, results that Articles 34 EU and 31 EU were designated by the Council as the legal basis of Articles 54-58 of the CISA.

Under Article 54 of the CISA, which is a part of Chapter 3, entitled "Application of the *ne bis in idem* " in Title III of the Convention, entitled "Police and security ": "A person whose trial has been finally disposed of in a trial by a Contracting Party may not be prosecuted by another Contracting Party for the same acts provided , where a sentence has been pronounced , it has been enforced, is being enforced or can no longer be enforced under the laws of the sentencing Contracting Party."

From the information concerning the date of entry into force of the Treaty of Amsterdam, published in the Official Journal of the European Communities of the 1<sup>st</sup> of May 1999 (OJ L 114 , p 56) , it appears that the Federal Republic of Germany has made a declaration under Article 35 (2 ) EU accepting the Court's jurisdiction to act in the manner laid down in Article 35 ( 3) letter( b ) EU.

The facts in criminal proceedings and the preliminary question

On the 26<sup>th</sup> of January 1961 in Bône ( Algeria ), Mr Bourquain , engaged the French Foreign Legion, was sentenced in absentia to death penalty by the Permanent Military Tribunal for the eastern zone of Constantinoise, guilty of desertion and intentional homicide.

In application of the French Code of Military Justice for the Army, the military court considered it proved that, on the 4<sup>th</sup> of May 1960, while trying to desert on the Algerian Tunisian border , Mr Bourquain shot dead another legionnaire, also of German nationality, who wanted to prevent desertion .

Mr Bourquain, a refugee in the German Democratic Republic would not have learned of the notification of the judgment in absentia, and the sentence imposed by the judgment considered to be given in adversarial proceedings could not be executed.

Mr Bourquain was afterwards not the subject of criminal proceedings nor in Algeria or in France. Moreover, in France, all offenses committed in connection with the war in Algeria was amnestied by the laws mentioned above. In contrast, Germany has been initiated an investigation against him for the same offense and , in 1962, an arrest warrant was sent to the authorities of the former German Democratic Republic , which rejected it.

In late 2001, it was discovered that Mr Bourquain lived in the area of Regensburg (Germany). On 11 December 2002 , Staatsanwaltschaft Regensburg (Regensburg floor) sent him to trial for murder, to the court, for the same acts under Article 211 of the German Criminal Code.

Accordingly, by letter dated 17 July 2003, the court requested information from the Ministry of Justice in France, in accordance with Article 57 (1 ) of the CISA, to determine whether the decision of the Permanent Military Court of the eastern zone of Constantinoise , pronounced on 26 January 1961 prevents the commencement of criminal proceedings for the same offense in Germany , given the prohibition on double prosecutions referred to in Article 54 of the CISA.

The Prosecutor's Office of the Military Tribunal in Paris responded to this request for information , stating in particular the following:

" The decision rendered in absentia on January 26, 1961 against [Mr Bourquain ] has the force of *res judicata*. The decision of death penalty conviction became final in 1981. Since in the French law , the prescription of the sentence execution in criminal cases is 20 years , the judgment can not be enforced in France."

The referring court asked the Max-Planck-Institut für ausländisches und internationales Strafrecht (Max Planck Institute of international criminal law and comparative criminal law) an advisory opinion concerning the interpretation of Article 54 of the CISA in the circumstances of the main proceedings. In the opinion of the 9<sup>th</sup> of May 2006 , the institute concludes that although enforcement of the conviction in absentia was excluded because of procedural peculiarities of the French law , however, in the main

proceedings , the conditions for applying Article 54 of CISA are met and therefore can not be released a new criminal proceeding against Mr Bourquain. The same institute, in response to the request for additional comments, maintained its position in the letter of the 14<sup>th</sup> of February 2007.

Landgericht Regensburg , considering that Article 54 of the CISA could be interpreted as meaning that , in order to prevent another criminal pursue in a Contracting State, the first conviction in a trial conducted in the territory of another Contracting State should have been executable at a certain moment in the past, decided to suspend proceedings and to refer the following question:

" A person whose trial has been finally disposed of in a trial by a Contracting Party may be prosecuted in another Contracting Party for the same acts, if the penalty imposed on him could not ever be executed according to the State legislation that he has been condemned in?"

It should be added that, in any event, Article 58 of the CISA authorizes the Federal Republic of Germany to apply broader national provisions on the *ne bis in idem* . Thus, it allows Member States to apply that principle to judicial decisions other than those covered by Article 54 [To be seen in this matter, the Decision from the 11th of February 2003, Gözütok şî Brügge, C-187/01 And C-385/01, Rec., p. I-1345, point 45].

With regard to the preliminary question

The preliminary question ruling under Article 35 EU - Schengen Agreement – the Convention for implementing the Schengen Agreement - Interpretation of Article 54 - *Ne bis in idem* - Conviction in absentia - *res judicata* - The condition of non-executing the punishment.

By this question , the national court asks , essentially, to establish if the *ne bis in idem* principle enshrined in Article 54 [The Court ruled on seven occasions this principle: Judgment of the 11th of February 2003, Gözütok and Brügge (C 187/01 and C 385/01, Rec., ECR I 1345), Judgment of the 10th of March 2005, Miraglia (C 469/03, Rec., ECR I 2009), judgment of the 9th of March 2006, van Esbroeck (C 436/04, Rec., I-2333), judgment of the 28th of September 2006, van Straaten (C 150/05, ECR ., ECR I 9327), judgment of the 28th of September 2006, Gasparini and others (C-467/04, Rec., p. I-9199), Judgment of the 18th of July 2007, Kretzinger (C-288/05, Rep., p. I-6441), and judgment of the 18th of July 2007, Kraaijenbrink (C-367/05, Rep., p. I-6619)] of the CISA can be applied to criminal proceedings instituted in a Contracting State for facts on which there has already been a final judgment against the defendant in a lawsuit in another Contracting State, even if the penalty imposed on him could not ever be enforced according to the laws of the state in which he was convicted.

It should be noted, on the one hand , as the Commission pointed out in its written observations that, in principle, a conviction in absentia may fall within the scope of Article 54 of the CISA and can therefore constitute a procedural impediment to the opening of new procedures.

First, the very wording of Article 54 of the CISA we can see that the judgments in absentia are not excluded from its scope , the precondition for the application of this Article 54 is only that there has been a final judgment in a trial by a Contracting Party.

Secondly, it should be noted that under Article 54 of the CISA is not subject to harmonization or approximation of the criminal laws of the Contracting States in matters of default judgment [The procedures for fighting criminal action, Gözütok and Brügge, cited above, paragraph 32].

In those circumstances, Article 54 of the CISA , applied either to a judgment in absentia delivered in accordance with the national law of a Contracting State or in an ordinary judgment, that necessarily implies the existence of a sense of mutual trust of the Contracting States in their criminal justice systems and the acceptance by each state to the

application of criminal law in force, in the other Contracting States even when the application of their national law would lead to a different solution (see , to that effect Gözütok and Brugge , cited above, paragraph 33).

As contended by several Member States and the Commission in their written observations there must be verified in what manner the conviction in absentia by the Permanent Military Tribunal for the eastern zone of Constantinoise is ' final' within the meaning of Article 54 of the CISA , given the impossibility of enforcement of the penalty determined by the requirement under French law to carry out , where failing to reappear , a new trial , this time in his presence.

It is clear that the Prosecutor's Office of Military Tribunal in Paris, without making any reference to the fact that the offenses committed by Mr Bourquain were amnestied in 1968, notes that the sentence against him became final in 1981, before the onset second criminal proceedings in 2002 in Germany.

It should be added that although French Law no. 68 697 of amnesty has as consequence the fact that, since the entry into force, the offenses committed by Mr Bourquain can not be sanctioned by effects of that law, as described in particular in Articles 9 and 15 of Law no. 66 396, they can not be interpreted as meaning that there is no longer an initial decision in the Article 54 of the CISA.

Judgment in the absence of the person concerned must be considered final for the purposes of Article 54 of the CISA, it must be established if the condition on the enforcement referred to in that Article, namely that the penalty can not be enforced , and where , in any time in the past , even before the amnesty or prescription , the sentence imposed by the first sentence could not be directly enforced.

In those circumstances, it must answer to the question that the ne bis in idem principle enshrined in Article 54 of the CISA applies to criminal proceedings instituted in a Contracting State for the facts on which a final decision has already ruled against the defendant in a process in another Contracting State, even if, under the laws of the state where he was convicted, the sentence that was imposed could not have been directly enforced because of some procedural features such as those in the main proceedings.

Therefore, the court said, the principle of ne bis in idem principle, enshrined in Article 54 of the Convention implementing the Schengen Agreement of the 14<sup>th</sup> of June 1985 between the Governments of the Benelux Economic Union, the Federal Republic of Germany and the French Republic on the gradual abolition of checks at common borders, signed in Schengen (Luxembourg) on the 19<sup>th</sup> of June 1990, applies to criminal proceedings instituted in a Contracting State for facts on which a final decision has already ruled against the defendant in a lawsuit in another Contracting State even if by the laws of the state in which he was convicted, the sentence was imposed not have been directly enforced, due to procedural features such as those in the main proceedings.

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# CERTAIN ASSESSMENTS RELATED TO THE IMPORTANCE OF EUROPEAN COURT OF HUMAN RIGHTS IN THE EUROPEAN LAW SYSTEM

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## Abstract:

*Being so intensely debated in the contemporary world, the human rights issues is acquiring a well defined contour through the human rights protection systems. The role of these systems is to establish a series of fundamental rights and freedoms, so that they can no longer be violated. The main systems of promotion and protection of human rights are: the Inter-American system of human rights protection, the African system and the European system.*

*Two years before the European Convention on Human Rights on 10 December 1948 the Universal Declaration of Human Rights was elaborated by the Constituent Assembly of the UN. It is not an international treaty. In the 30 articles the nobility of the human being was highlighted and man was praised. The text of the Declaration sets out a series of fundamental rights, "a common ideal to be fulfilled" for all people, regardless of race, sex, language, religion, political opinion, national or social origin, property, birth or material status.*

*The provisions of the Declaration caused a worldwide explosion in international law. Thanks to its generous provisions, it has spread rapidly throughout the world and began to be observed as a treaty. Today, the Declaration is cited in the preamble of international treaties, even in some judicial reasons or in the preamble of Constitutions, for instance in the Romanian Constitution from 1991 under Title II, fundamental rights, freedoms and duties, article 20 reference is made to the Universal Declaration of Human Rights.*

**Keywords:** *human rights, protection systems, European Convention, European Court of Human Rights, the European Social Charter, the Universal Declaration of Human Rights.*

**JEL classification:** K13, K39

## Introduction

Being so intensely debated in the contemporary world, the human rights issues is acquiring a well defined contour through the human rights protection systems. The role of these systems is to establish a series of fundamental rights and freedoms, so that they can no longer be violated. The main systems of promotion and protection of human rights are: the Inter-American system of human rights protection, the African system and the European system.

## I. The European system of human rights protection

Human rights in Europe have become more and more known, also influencing the states beyond the European borders. This process has also been strengthened by the trauma caused by two world wars, determining the need of the emergence of some international bodies and organizations to support the protection of these rights. The emergence of the international documents – starting from the Universal Declaration of Human Rights and the Pacts on human rights – were meant to mark in their provisions the fact that people are equal in rights and that they are born free and equal in dignity and rights regardless of race, language, sex, religion, national or ethnic origin or any other features. The first important step towards what did not bear the name of human rights protection was made at the end of World War I, but the strengthening of this protection was made after the Second World War (Gherghina, 2010).

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The emergence of the Council of Europe was a milestone in developing the protection of human rights. Within the Council of Europe the fundamental text is represented by the European Convention on Human Rights and Fundamental Freedoms protection. Romania ratified through Law no.30/1994 Law (Official Gazette of Romania, Part I, no. 135 of May 31, 1994) the Convention for the defense of Human Rights and Fundamental Freedoms and of the additional protocols to this Convention, and through Law no.79/1995 (Official Gazette of Romania, Part I, no. 147 of July 13, 1995) it also ratified Protocol no. 11 at the Convention for the defense of Human Rights and Fundamental Freedoms on restructuring the control mechanism established through Convention.

This is reinforced by a number of additional texts, such as: the European Convention for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (November 26, 1987) which very well completes article 3 of the European Convention on Human Rights, the Framework-Convention for the national minorities' protection (Convention November 10, 1994), the European Convention on cross border television (Convention April 5, 1989), the European Convention on the child's rights, adopted on January 25, 1986.

The European Social Charter, Signed at Turin on November 18, 1961, entered into force on February 25, 1965, and was amended by several additional protocols, also complements the European Convention on Human Rights, establishing the civil and political rights. The Charter stipulates a number of social rights, such as the right to work, the right to organize unions, the right to collective bargaining which includes the right to strike, and not least the right to social security, the right to social and medical assistance, the rights of the migrant workers and of their families to protection and assistance. The original text of the European Social Charter was completed with a revised European Charter, signed at Strasbourg on May 3, 1996 and entered into force on July 1, 1999, which brings together the rights established by the Charter of 1961 and the Protocol of 1988.

The European Union is a community of law having democratic vocation, a fact reflected in the principle according to which the observance of fundamental human rights is one of the essential elements of a state's belonging to the Union ( Renucci, 2009).

The totality of initiatives of the EU bodies on human rights observance were first represented by the Single European Act (1986), in whose preamble references are made to the fundamental rights recognized in the constitutions and laws of the Member States, in the European Convention on Human Rights and the European Social Charter, which thus becomes the first EU treaty in which the principle of respect for human rights is mentioned.

On December 7, 2000, the Nice European Council adopted the EU Charter of Fundamental Rights. Being considered a modern document, the renewal of the fundamental rights protection was launched "around six core values: dignity, liberty, equality, solidarity, citizenship, justice" (Sudre, 2006).

The content of the EU Charter of Fundamental Rights provides a series of rights, such as: the right to life, to human dignity, the right to bodily physical and mental integrity, being mentioned the banning of using the human body as a source of income, as well as of human cloning for reproduction purposes, the banning of torture and inhumane and inhuman treatments, of forced or compulsory labor, the prohibition of human trafficking, the right to liberty and security, etc.

In human rights there was a series of important documents adopted by the Organization for Security and Cooperation in Europe during the Budapest summit in December 1994: the Helsinki Final Act of August 1, 1975, the Vienna Document from 1986, the Charter of Paris for a New Europe of November 21, 1990, the Copenhagen Declaration of 1992, and so forth.

Through the Maastricht Treaty, signed on February 7, 1992 and entered into force on November 1, 1993 and the Amsterdam one, signed on October 2, 1997 and entered into

force on May 1, 1999 as well as the Nice Treaty and the Charter of Fundamental Rights, the Union got involved more in the sense of community protection of the human rights.

In the treaty establishing the European Union its preamble reiterates the importance of observing the human rights in the Community judicial order. Thus, article F explains the Union's commitment in this matter and this issue is inserted in the Treaty: "The Union shall observe the human rights as guaranteed by the European Convention of Human Rights and Fundamental Freedoms, signed in Rome on November 4, 1950, and as resulting from the joint constitutional traditions of the Member States, as general principles of Community law." Thus, the privileged position of the European Convention of Human Rights is emphasized, taking into account the constitutional provisions of the Member States. By article J.1 paragraph (2) final line, found in Title V – "Provisions on joint foreign and security policy", it is provided as objective of joint foreign and security policy the development and consolidation of democracy and of the rule of law, as well as the observance of human rights and fundamental freedoms.

The treaty amending the Treaty on the European Union, the treaties establishing the European Communities add a new paragraph to the preamble of the Treaty on the European Union, according to which the party States confirm their attachment to the fundamental social rights as defined in the European Social Charter signed at Turin October 18, 1961, and in the Community Charter of the fundamental social rights of workers from 1989. It also provides the expansion of powers of the European Communities Court of Justice in respect of protecting the fundamental rights and extending that power to the third pillar of the European Union.

The Amsterdam Treaty, reviewing the Treaty establishing the European Union, includes important provisions regarding the protection of human rights. The contents of the treaty establishes a general provision dealing with the non-discrimination based on sex, race or ethnic origin, religion or beliefs, disability, age or sexual orientation.

The Treaty of Nice (February 26, 2001) strengthens the protection of fundamental rights, intensifying the fight against discrimination.

The jurisprudence of the European Communities Court of Justice was an important factor in the development of the Community protection of human rights. The European Union has a lower activity in establishing the human rights and more extensive in defending them, through the work of the European Communities Court of Justice. Although there have been many initiatives, there are not yet law texts to specifically protect the human rights within the EU legal order.

In order to avoid conflicting interpretations and in order to unify the sources of inspiration of the European Communities Court of Justice the idea of drawing up a Charter of Fundamental Rights in the European Union (1999) was reached. The Charter represents a restatement of the general principles of Community law, including both the civil and political rights and the economic and social rights. At the same time, the Charter brings the issues of fundamental rights into the focus of the community's concerns, making them become essential. From an accessory of the construction of the Common Market, the protection of fundamental rights becomes the main interest of the whole legal document prepared under the Community law. This document could be regarded as fundamental European Act, a fact which results from its wording manner, which indicates that in the future the Charter will get such a value.

Although it was mentioned above, it should be stressed that one of the important documents on the protection of human rights in the European area is the European Convention of Human Rights and Fundamental Freedoms, being the first treaty concerning human rights (Gherghina, 2010).

The Convention has a special significance for international law of human rights and for the entire human rights movement, developed after the Second World War (Steiner, Alston, 2000; Leach, 2001; Pettiti, Decaux, Imbert, 1999):

- it was the world's first treaty on human rights;
- it established the first proceedings and international court where complaints can be made in the field of human rights (in article 33 of the Convention an interstate case is regulated, and in article 34 the individual claims procedure);
- it is the most developed of all human rights systems;
- jurisprudence is more extensive and richer compared to any other international system.

The legal literature lists three reasons that led to the development of such a European human rights treaty (Keon, 1999):

- it was a regional response to the atrocities committed during the Second World War and the hope that by respecting the human rights, governments will no longer trigger as easily wars against their neighbors;
- both the Council of Europe (founded in 1949) and the European Union (formerly the European Communities) were based on the idea that the best way for Germany to become one of peace forces, along with Great Britain, France and other Western countries, was that of the regional integration and the adherence to a set of common values;
- another reason was to bring together the non-communist European countries in a common framework that is based on the same fundamental values and their consolidation when facing the communist threat.

The European Convention on Human Rights was signed on November 4, 1950 at the Palazzo Barberini in Rome. Then nobody could have predicted how successful would the Convention be in the next 50 years. Today, the Convention includes more than 40 signatory states and a growing number of citizens resort to the Court; at the same time the importance of the Convention for the national legal order from the States of the High Contracting Parties is growing. Few are those who have foreseen the legal impact the Convention was to have on the traditions of their internal law.

But we also have to say that it was not immediately noticed what would be the legal relevance of the Convention in terms of the future development of the national law from the various countries involved. Over the first 25 years of existence the importance of the Convention was primarily theoretical. As a result of the direct confrontation with the systematic violation, on a large scale, of the most basic human rights by the Nazi regime, the European states were convinced that the effective protection of human rights could not only be entrusted to national authorities. It required the establishment of an international control mechanism. This political conviction strongly facilitated the introduction of a document, revolutionary at the time, a legally binding document concerning the human rights. For the first time in history an international monitoring mechanism was introduced, and the citizens could address complaints to an international tribunal concerning the human rights violations directed against their own states. It was an important step in the evolution of public international law, substantially altering the role assigned to the natural person in the classical international law.

Many states continued to consider the human rights issues as a matter of internal law, being one of the most delicate areas of political strategy. The atrocities committed in the Second World War emphasized the need for an international mechanism such as the European Convention on Human Rights, although the states continued to have concerns about the possible violations of such a treaty on human rights by certain elements even from within their societies. The Strasbourg institutions were aware of this ambivalent attitude, so that they acted with restraint and care in the first years of their existence. The fact that the states became accustomed in time with the existence of an international supervision mechanism (including the individual right of petition) proved to be a



reasonable approach. Only when both the necessary confidence in the cautious approach of the Commission and of the Court and the cooperation of the High Contracting Parties were provided, the emphasis moved on ensuring a more effective protection of the complainants.

Just as in the first 25 years of existence the importance of the Convention is primarily theoretical, in the next 25 years it becomes more practical. The Court is becoming increasingly a legislative body with impact on the national policy of law in the Member States. The emphasis of the jurisprudence of the European Court of Human Rights moves towards the idea of offering as much as possible an *effective* protection of the rights protected by the Convention.

The European Court offers a dynamic, teleological and extensive interpretation of the Convention. The legal protection provided by the Court thus attracts more applicants. But, at the same time, we can notice an interesting change in the national mentality. Lawyers have begun to understand the significance of the Convention for their clients, so they began to resort more often to the Convention (justified or not) and the national judges must therefore submit their views on the compatibility of the legal stipulations with the Convention requirements, while the legislative bodies systematically check if the legislative proposals are made “according to Strasbourg.”

## **II. The Inter-American system of human rights protection.**

Two years before the European Convention on Human Rights on 10 December 1948 the Universal Declaration of Human Rights was elaborated by the Constituent Assembly of the UN. It is not an international treaty. In the 30 articles the nobility of the human being was highlighted and man was praised. The text of the Declaration sets out a series of fundamental rights, “a common ideal to be fulfilled” for all people, regardless of race, sex, language, religion, political opinion, national or social origin, property, birth or material status (December, 10, 1948).

The Declaration stipulates numerous civil, political, economic, social and cultural rights.

From the category of civil and political rights the Declaration establishes among others: article 3 – the right to life, to liberty and the security of the person; article 4 - prohibition of slavery and of slave trafficking in all its forms; article 5 - prohibition of torture, of cruel, inhuman or degrading punishments or treatments; article 8 - the right of any person to effectively address a court to protect his/her rights; article 9 - prohibition of arrest, detention or arbitrary exile; article 10 - the right of any person to be equitably and publicly heard by an independent and impartial tribunal; article 13 section 1 - the right to move freely and to choose their residence within the borders of the state; article 15 – the right to citizenship, as well as the right of the person to change his/her nationality; article 17 section 1 – the right to property; article 21 – the right to elect and to be elected, etc.

The Declaration also sets out a series of economic, social and cultural rights, such as: article 23 – the right to work and to equal remuneration for equal work; article 27 – the right to education and to participate freely in the cultural life of the community, and so forth.

The provisions of the Declaration have caused a worldwide explosion in international law. Thanks to its generous provisions, it has spread rapidly throughout the world and began to be observed as a treaty. Today, the Declaration is cited in the preamble of international treaties, even in some judicial reasons or in the preamble of Constitutions, for instance in the Romanian Constitution from 1991 under Title II, fundamental rights, freedoms and duties, article 20 reference is made to the Universal Declaration of Human Rights. The Romanian Constitution was revised by Law no. 429/2003, approved by the national referendum of 18-19 October 2003, confirmed by the Constitutional Court Decision no. 3 of 22 October 2003. The revised text of the Constitution of Romania was published in the Official Gazette no. 767 of October 31, 2003.

By indicating the Declaration in the Romanian Constitution, its nature changes from a purely political document into a legal one, making it a moral rule in a rule of law (

Predescu, 2006). However, the elaboration a regional human rights treaty and some monitoring bodies was established only in 1969. The American Human Rights Convention was adopted in 1969 and entered into force in 1978.

### **III. The African human rights system.**

In 1981 the Heads of the State and Government Assembly of the African Unity Organization adopted the African Charter of Human and peoples Rights. It entered into force in 1986. In 2000, 53 African states have acceded to this Charter. Specific to this Charter is the fact that from its content certain fundamental rights are missing, such as: the right to citizenship (the lack of this right is justified by the fact that this quality of being a member of the African Community is based on the affiliation to the tribe, clan, family and nation); the right to free choice of marriage partner (explained by the existence of certain traditions of the African state concerning marriage), the right to rest, the right to leisure, the right to an adequate standard of living.

Another specific element of the African Charter of Human Rights is that it also includes the rights of peoples, such as the right to full sovereignty, the right to self-determination, the right to peace, the right to development, the right to dispose of wealth and natural resources.

In addition, next to the rights and freedoms, the Charter also stipulates the duties, both of individuals and of states.

It is considered one of the least developed systems in promoting and supporting human rights protection.

### **Conclusions**

Analyzing the evolution of the last 60 years one can only reach the conclusion that this Convention became one of the most important international documents relevant to the internal order of law in over 40 countries, providing legal protection to over 800 million people.

In the first 25 years of existence the European Court did not have a busy schedule. But since 1980 the number of cases has doubled, resulting in permanent confrontation with the increased workload.

The European Convention protects a series of fundamental rights and freedoms which do not lack the right to life – article 2, the prohibition of torture – article 3, prohibition of slavery and forced labor – article 4, the right to liberty and security - article 5, the right to a fair trial – article 6, the right to respect for private and family life – article 8, the freedom of thought, conscience and religion – article 9, freedom of speech – article 10, the right to an effective appeal – article 13, and so forth.

According to the European Convention stipulations much of these rights are not unlimited in a democratic society, sometimes their restriction being justified. According to article 15 paragraph 1 of this document, the states are allowed to derogate from their obligations in case of war or public emergency threatening the life of the nation. Even in these situations, the State must respect the right to life, except for death resulting from unlawful acts of war, as well as the obligation to ban torture, slavery and of the non-retroactivity of criminal law (article 15 paragraph 2).

In time the European Convention on Human Rights has undergone several modifications, but the most important of these was brought by the Protocol no. 11, which established a unique and compulsory jurisdiction (Bîrsan, 2006) in this field, represented by the European Court of Human Rights. This is the first time in the history of international judicial institutions when the jurisdiction competence of such a Court, created by a treaty signed by sovereign states, became mandatory.

Regarding the European Convention rank in relation to the Romanian legislation, linking the stipulations of article 11 and article 20 with those of article 1 paragraph (5) of

the Constitution of Romania, the supremacy of the Constitution is emphasized over other laws, this having a higher legal force to the European Convention.

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# THE EUROPEAN PARLIAMENT, MEANS OF PROMOTION AND PROTECTION OF HUMAN RIGHTS

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## Abstract:

*The European Parliament was established by the founding Treaties of the Communities, when, was felt the need for an Assembly that would supervise the activity of the High Authority, that was, at first called the Common Assembly; Council and the Government representatives of France used the name of the European Parliamentary Assembly which at March 30<sup>th</sup> 1962 received the name "of the European Parliament" □, designation formalized by the Single European Act of 1986.*

*In Romania, the political changes that occurred in December 1989 created the premise of a democratic regime based on free elections and political pluralism, respect for the principle of separation of powers in the state and the promotion and protection of human rights and joining the European Union has given rise to institutional changes in the EU, resulting in the election or appointment of Romanian citizens in EU institutions and bodies of The European Parliament, the Council, the European Commission, etc..*

**Keywords:** European administration, political pluralism, human rights.

**JEL Classification:** K0, K3

The European Coal and Steel Community, founded in the fall of 1952, provided for the establishment of a Joint Assembly, composed of 78 members representing the national parliaments of the six founding Member States, Italy, Germany, France, Belgium, Luxembourg and Netherlands. The Common Assembly at the time had more than an advisory role.

In 1957, by the Treaty of Rome founded the European Economic Community was (EEC) and the European Atomic Energy Community (EURATOM), an occasion with which was made a General Assembly composed of 142 deputies, which was responsible for all three communities. Keeping the same authority, the Assembly changed its name to the European Parliamentary Assembly. In 1962 the institution was renamed The European Parliament, this name only gaining formal recognition in 1986 by the Single European Act; in 1979 the first elections were held in the European Parliament by direct universal suffrage.

Over time, the powers of these institutions have increased significantly, so the Maastricht Treaty of 1992, this institution involved in the co-decision procedure and the Treaty of Amsterdam in 1997, expands the scope of this procedure, the European Parliament acquiring true legislative and budgetary authority, similar to those of the national parliaments.

The first direct elections to the European Parliament were held in 1979, only 34 years after the end of the Second World War, as a symbol of conciliation, direct universal suffrage, giving democratic legitimacy (Scăunaș, 2008) .

The European Parliament is currently the only EU institution in which the debates are public, and opinions resulting from these discussions are published in the Official Journal of the European Union.

In Romania, the political changes that occurred in December 1989 created the premise of a democratic regime based on free elections and political pluralism, respect for the principle of separation of powers and the promotion and protection of human rights and our country's accession to the European Union has given rise to institutional changes in the EU, resulting in the election or appointment of Romanian citizens in EU institutions and bodies European Parliament, the Council, the European Commission etc.

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Regarding the European Parliament elections, the Rules of Procedure provides in Article 1, para. (1) as "The European Parliament is the assembly elected in accordance with the Treaties, the Act of 20<sup>th</sup> of September 1976 for electing members of the European Parliament by direct universal suffrage and national adopted legislation in the application of the Treaties.

However, as we have shown, the first election held under this Act, have taken place only in 1979 and the only rules which were respected in a unitary way were those concerning the election date, the contents of the parliamentary mandate, the incompatibility causes and the way the mandates were checked. Besides, even Article 10 of the Act requires each Member State to choose the date and time set for the European Parliament elections, which has to be within the same period, starting Thursday morning and ending the following Sunday.

Regarding the age at which a person can vote for the representatives in the European Parliament, it is stipulated in the Act of 20<sup>th</sup> of September 1976, being considered the acceptable age of national legislation for the right to vote, in general, 16-18. In our country, the procedure for European elections is regulated by Law no. 33/2007, which requires that all Romanian citizens, who have 18 years until election day and all EU citizens resident or domiciled in Romania, which is in possession of the right to vote may vote in the European elections. Article 5 para. (6) of the Act also provides prohibitions: "have no voting rights the feebleminded and mentally alienated that are placed under interdiction and people who, on the reference day, are convicted by final judgment to electoral rights loss □.

The elections to fill the seats in the European Parliament are held every five years, simultaneously in all EU countries and in Romania, the first election for a full mandate in this European institution took place on the 7<sup>th</sup> of June 2009 when, our country held a number of 33 representatives.

Regarding the minimum age to be eligible, it varies from state to state, ranging from 18 to 25 years. For example, in Austria is 19 years, while in Belgium and Denmark is 21 years, in Italy is 25 years old and in Romania and France is 23 years old.

Membership in the European Parliament is not compatible with membership of national governments, member of the Commission or the quality of a judge or attorney general of the Court of Justice, Member of the Court of Auditors, the Economic and Social Council member. The Act concerning the introduction of direct elections to the European Parliament lists other incompatibilities (Rusu Gornig, 2009).

Starting with the June 2009 elections, in the European Parliament are 736 seats, each member state being assigned seats according to the demographic and democratic criteria, this European institution, remaining however, the only international parliamentary assembly, in which members are elected. After the sixth expansion, the number of Members was increased to 782 members.

Following the model of national parliaments, the European Parliament also constitutes, in parliamentary committees with permanent or temporary basis but also in commissions of inquiry. There are 20 committees. A committee consists of 24 to 76 deputies and has a president, a desk and a secretariat. The political composition of the committees reflects that of the plenary meeting (<http://www.europarl.europa.eu>).

Standing Committees are established at the proposal of the Conference of Presidents, and have as main task to research aspects of referral to Parliament. These committees are specialized on fields, such as Economic and Monetary Affairs, budget control, labor and social affairs, transport and tourism, petitions, women's rights, education and culture, etc..

Temporary Committees are constituted by the Parliament whenever necessary, at the proposal of the Conference of Presidents for a period that can not exceed 12 months.

Commissions of inquiry are constituted by Parliament at the request of a quarter of the deputies in order to conduct surveys about the charges against European organs or

institutions, mandated persons, public administration of a Member State or acts of maladministration in the implementation of European law.

The Committee of Inquiry submits a report of its findings, within a period not exceeding 12 months, which may be extended by the Parliament twice, with three months. At the request of the Commission, the Parliament will hold a debate on the presented report. The Commission may also submit for approval to the Parliament a project for recommendation addressed to the European institutions or bodies or Member States (Scăunaș, 2008). Being built for that activity, the committee is ceasing its activity, with the submission of its report.

Over time commissions of inquiry have investigated a number of issues and, through these committees those problems became known to the general public; Currently, commissions of inquiry are constituted also to fight against corruption in Europe.

The Foreign Affairs Committee and Subcommittee on Human Rights protects human rights even outside the European Union and promotes abolition of the death penalty worldwide. Weekly after each session in Strasbourg, the Parliament examines cases of flagrant violation of international human rights. This approach aims to determine national governments to review their legislation or actions and sometimes can even determine termination of works in national parliaments.

But low presence at the election for the European parliament, felt by all Member States, indicate a limited trust of citizens in the European Parliament, in democratic legitimacy of this institution, because of incomplete knowledge of how they act in the service of citizens.

The European Parliament meets in Strasbourg, France, monthly on plenary sessions, an opportunity with which all Members meet, and in Brussels, take place the parliamentary committee meetings as well as its additional plenary sessions.

About 5 000 officials drawn from all EU countries by foreign competition, open, organized by the European Personnel Selection Office (EPSO), operates in the General Secretariat. Most are permanent officials of the Parliament, with the European official status identical to that of officials in other organs or European institutions. It is important to note that any post can not be reserved for people of a particular Member State, even though there is the desideratum that the staff must be recruited from a geographic area as wide as possible (Fabian, 2010).

Treaty of Establishment concerning Communities, provided that any citizen of the Union, any natural or legal person residing or established in a Member State has the right to petition the European Parliament, on its own or in association with others, on any matter that affect them directly and which is related to the activities of the Parliament.

To achieve this fundamental objective, was established in 1992 by the Treaty of Maastricht, the institution of the European Mediator (European Ombudsman). He is elected after each election of the European Parliament, and therefore his term of 5 years and can be renewed.

European Ombudsman's main function, is to research European citizens' complaints by which they claim abuse from European institutions or bodies (for the national ones, is an institution with similar functions, e.g. People's Lawyer), which is independent in the exercise of its functions. He does not accept suggestions, recommendations from Member State governments or other entities, but once a year, presents the European Parliament a report on the entire activity, which does not mean that it is subordinated to it.

The Ombudsman is elected from among persons who are European citizens, have and exercise all civil and political rights, offer every guarantee of independence, and in the country of origin meet all the conditions set by law for the exercise of the highest judicial function, is competent and has experience in exercising their mediator duties.

Nikiforos Diamandouros, former People's Lawyer in Greece, was re-elected as European Ombudsman in January 2010 for another term of 5 years, he fulfilled this function since 2003. The Ombudsman has its headquarters in the same place with the European Parliament.

Throughout the term of office, the Ombudsman can not exercise any other public or private position or any professional activity whether gainful or not.

Cessation of the function may occur at the end of the mandate, by voluntary resignation or compulsory retirement. Compulsory retirement is determined by the situation in which the Ombudsman committed a serious offense or no longer qualifies to hold office, in which case, the Court of Justice at the request of Parliament, will declare him resigned.

Unlike the Parliamentary Committee that has in jurisdiction the analysis of complaints dealing with the irregularities noticed in the Member States, the Ombudsman has to analyze complaints regarding maladministration, abuse by institutions and bodies, offices and agencies of the European Union through which have been damaged rights of citizens, such as: the abuses committed through their unwarranted abstentions, abuse of power, discrimination, unlawful refusal to inform, abuse by delay, neglect, unfair practices, unfair procedures.

The Ombudsman may commence an investigation, following a complaint, but also on its own initiative.

Therefore, if a citizen is dissatisfied with the work of an institution, body, office, agency of the European Union, he will first provide the responsible body with the possibility to remedy the situation, and if this approach remains without a result, he will send a complaint to the European Ombudsman.

The complaint shall be in writing in one of the 24 official languages in not more than 2 years from the date of knowledge of abuse and only if in the case there is a lawsuit pending before the national court or a judicial decision on this abuse. After receiving the petition, the Ombudsman performs certain research after which times to reach a friendly solution, or to dismiss the petition, or on recommendation to the body concerned. If the notified body does not solve the problem in 3 months, the Ombudsman shall submit a special report to the European Parliament (Fabian, 2010).

The ombudsman has the duty to inform as soon as the person who made the complaint about the steps they intend to carry out and perform any investigation they deem necessary in order to detect cases of maladministration. In case it is possible, he can seek with the institution of concern, a solution to eliminate the bad administration.

If, in conducting an investigation, he learns of facts from criminal law, he shall at once inform the competent national authorities.

Ombudsman informs the Parliament about the cases of maladministration which he discovers, and the committee may draw up a report about them. At the end of each annual session the Ombudsman submits to the Parliament a report on the results of his inquiries. The committee responsible shall prepare a report that is presented to the Parliament in order to debate (Fabian, 2010).

The Ombudsman has decisively contributed to legislative changes in several areas: following an investigation conducted by him the European Commission repealed the rule that allowed discrimination of gender; equally, the European Parliament and the European Commission repealed the provisions relating to the retirement age up to 65 years that was necessary to employ Conference Interpreter Agents due to the pressure exerted by the European Ombudsman. This last one argued that the limitation due to age is assimilated to discrimination, which is contrary to Art. 21 of the Charter.

The European Ombudsman is still the one that has the merit of being proposed, so that every citizen has the right to a quality, open and flexible administration, and this right is provided for in the Charter. Detailed regulation of this right, was also done by the Ombudsman in 2001 by adopting the European Code of Good Administrative Behaviour, a document that all institutions and bodies must respect and national administrations have had it adapted to be applied in each Member State. This code is used, by the mediator in the investigations he conducts, after complaints made by citizens on cases of maladministration.

The Ombudsman was also involved in investigations regarding the procedures by which the EU institutions and bodies, are recruiting staff and as a result of these investigations, currently the lists of successful candidates are made public and candidates have the opportunity to know the composition of the selection panel and the sheets for the contest; this fact aims to increase transparency, public confidence in employment procedures and, ultimately, to increase confidence in public institutions.

The results of investigations undertaken by the Ombudsman can be illustrated with an example: The European Parliament agreed to reclassify the positions of some Portuguese officials, the applicable matter of from the time of their appointment, after the Ombudsman found that they were victims of discrimination. Other candidates who have been admitted from the same competition for employment, had been employed in a senior position (Ivanof, 2008).

Therefore, by the institutions and its actions, the Parliament gave constantly particular attention to, the respect for the rights and freedoms of citizens within the European Union, but also beyond it, which is why, from 1993 to the present, annually organizes debates and adopts resolutions on the subject.

Throughout its existence, the European Parliament has progressively diversified functions, during the changes introduced by the founding Treaties, starting initially only from advisory positions and control and reaching, currently to legislative and budgetary positions. Therefore, this European institution currently has three essential functions: holding legislative power, democratic control and meets the budgetary function.

Treaty of Community Establishment provides that any citizen of the European Union, any person or legal person residing or established in a Member State has the right to petition the European Parliament, on its own or in association with others, on any topic that affect them directly and is related to the fields of activity of this institution. These petitions may concern only areas covered by the activities of the Union, and the petitioner must have a direct interest.

The petition is drawn in the form of complaints and can address issues of public or private interest, such as: rights of European citizens established by treaties, aspects of the right to a healthy environment, consumer protection, free movement of persons, services, goods, employment, professional qualifications or issues relating to misapplication of EU law. The petition shall be submitted to the Petitions Committee which, as noted, works in the Parliament and can be written in any of the official languages of the European Union.

Therefore if the petition is related to the areas listed above, it will be declared admissible by the Committee on Petitions, taking into account the Rules of Procedure will decide the category of measures to be laid out and will inform the petitioner as soon as possible on following the decision to be taken, whatever will it be.

Petitions Committee may decide:

- to require the European Commission to conduct a preliminary investigation and to provide information with reference to respecting the EU legislation in the field;
- to submit the petition to other committees of the European Parliament for information or for them to take action;
- to develop and submit a complete report to the European Parliament, in exceptional cases, for it to submit it to the plenary vote, or to make an informative visit to the country or region concerned and issue a committee report that would contain its observations and recommendations;
- take any other action deemed appropriate to try to solve the problem or to provide an appropriate response to the petitioner (<http://www.europarl.europa.eu>).

The Petitions Committee meets monthly except for August when the Parliament is on holiday. This is assisted by a Secretariat which has the role to monitor the process of petitioning, but also has advisory role. To solve in an optimal way and timely manner petitions the Committee on Petitions may try to cooperate with the national authorities of



the Member States. For this purpose, the Commission may cooperate with these authorities they may communicate to each other details that lead to a better handling of the petition, (except where the petitioner explicitly opposes), but does not have the right to pass over the decisions taken by national authorities and can not revoke the decision of the courts of the Member States. Petitions that are sent for this purpose will be declared inadmissible.

In case the petition does not fall within the scope of activity of the European Union it will be declared inadmissible by the The Petitions Committee, which will however, send the petitioner, the response to the decision of inadmissibility and, depending on the subject of the petition, the Commission may recommend to the petitioner to appeal to another body which may belong to the European Union or not.

The European Parliament has in each Member State one information desk, which has the role of making people know the institution of Parliament, of its importance as well as of encouraging to vote.

These information offices, provide complete answers to the citizens about the European Parliament's institution and its policies, provide public material information, organizes symposiums, debates on major European issues, provide information to the media on the work of the Parliament in press conferences and at the same time, working with higher education institutions in order to promote through their institutions. At the same time, shaping and developing links with NGOs, professional organizations, societies, associations that have an interest in developing European businesses and get to know the role of the European Parliament. In our country the information office is located in Bucharest. An institution of information for the media and the general public, it informs the Romanian citizens regarding the decisions adopted by the European Parliament, promotes their activities, works with the media to ensure the accuracy of the information related to the functioning of the European Parliament.

Also, according to art. 15 of the Treaty on the Functioning of the European Union, citizens and residents have the right to access the European Parliament's documents, this right being a key element of the transparency policy that must be applied at the level of the European institutions.

To facilitate access to documents as provided for in Regulation (EC) no. 1049/2001, the European Parliament has created an electronic register of documents. Designed as a tool to assist in the search, it contains references to the produced documents, but also of those received by the European Parliament since 2001 (<http://www.europarl.europa.eu>).

Therefore, the institution of the European Parliament, is concerned to conduct the entire activity on the principle of transparency, and its works enjoy a high degree of visibility, especially since, it operates in the service of the citizens who elected them directly.

Starting from on April 1st 2012, EU citizens possess a tool that is new and allows them to participate in shaping EU policy. Established by the Treaty of Lisbon, the European Citizens' Initiative enables a number of one million citizens from at least one quarter of the Member States to request the European Commission and the European Parliament to present legislative proposals in areas falling within their scope of competence. The organizers of a citizens' initiative (which should be a citizens' committee composed of at least seven EU citizens residing in at least seven different Member States) have one year to gain the necessary support. Collected signatures must be authenticated by the competent authorities in each Member State. The organizers of successful initiatives will participate in a hearing organized by the European Parliament. The Commission shall have three months to examine the initiative and decide how to act[The Bureau decision of the 2nd of July 2012 for laying down rules on document management in the European Parliament states "ensuring document accessibility, especially for researchers and historians" [Article 8 (c)].

So, there were already formulated legislative initiatives regarding matters such as: exploring the possibilities of emancipation of living conditions, a single tax, all-inclusive services, to make phone calls from anywhere in Europe to another place Europe at the same price, setting a speed limit of 30 km / h at EU level for urban areas, environmental protection tools, quality education for all European citizens, legal protection of dignity and the right to life, and the integrity of the human being from the date of conception etc..

The parliament as the only institution democratically elected, proved to have a special vocation to promote human rights - even before the first direct elections in 1978 - and over the years has developed its own approach in this area. Because in the first stages of European Community, human rights were not of primary importance, the opportunity arose for the Parliament to bring the issue of human rights within its sphere of influence, because it concerned the protection of human rights as an essential part of EU activity (<http://www.acuz.net/html>).

Moreover, another reason for Parliament's activities to be focused on the protection of human rights is that by involving this European institution in the field of human rights, it will be able to expand its powers on other aspects that typically, did not fall within its competence.

One of the most important achievements of the European Parliament was that human rights are now considered in many spheres of activity of the European Union (<http://www.europarl.europa.eu>).

Therefore, the list of human rights in Europe was the basis for many discussions and the European legislation that resulted from these discussions has exerted a major direct influence on European citizens.

Today, the European Union through its protective tools, guarantees a level of protection of the human rights that has not been reached by many parts of the world and the European Parliament has always promoted these rights, making this approach a fundamental goal of his.

In its approach to the human rights, the European Parliament is based on principles such as:

- the indivisibility of human rights implies that it is forbidden to have different treatment between civil and political rights or between social, economic or cultural rights;
- the universality of the human rights which requires that human rights must be respected and protected equally in every corner of the world and no national legislation is should not provide rights below the minimum level established by the Universal Declaration of Human Rights;
- the human rights unit which requires a close connection and an increasing interdependence between the development policy and democratic principles in the field of human rights.

The Parliament, through its actions has shown that principles that do not interfere with human rights have a relative nature, since they are not seen as part of the internal affairs of a state and that they are the most important and legitimate motivation for dialogue between states.

The Treaty on the European Union states that the principles that should be taken into account are to develop and consolidate democracy and respect for human rights and fundamental freedoms. The European Parliament has played a very important role in the agreements with other countries and the development, cooperation and humanitarian aid policy has not been excluded from this requirement (Reinhard, Laussegger, 2009).

And in the matter of humanitarian rights, the European Parliament has an important contribution; so in the early 90s, in the context of a humanitarian aid reform, The parliament helped found a body in the Commission to coordinate aid, creating on the 1st of April 1992, the European Humanitarian Community Office that has significantly improved the efficiency and transparency of the measures of the Union in the field of humanitarian aid. As a result of its duties in budgetary matters, The parliament tried each year, a resizing of funds for humanitarian aid in the purpose of increasing them.

In the matter of the cooperation development policy, since 1991 the Parliament has established a link between the promotion of democracy, respect for human rights and the development policy, underlining the need to coordinate and complement between the internal measures taken by Member States and those ordered by the European Union emphasizing repeatedly that foreign policy outcomes that the states are leading, depend heavily on political cooperation between them.

Since at the moment it is directly elected the Parliament enjoys democratic legitimacy can argue that it truly represents all the citizens of EU Member States. However, the mere existence of a parliament elected by direct suffrage can not answer the fundamental requirement of a democratic constitution, according to which the whole public authority emanates from the people. This not only means that the decision making process should be transparent but also representative decision-making institutions. Parliamentary oversight is necessary and the Parliament must give legitimacy to EU institutions in the decision-making process (Borchardt, 2011).

In recent years, this field has achieved a significant progress. Not only the rights of the Parliament were continuously extended but by the Treaty of Lisbon, it was explicitly stated that EU initiatives must respect the principle of representative democracy. As a result, all EU citizens are directly represented in the Parliament and have the right to actively participate in the democratic life of the EU. The main objective is that EU decisions to be taken as openly and as closely as possible to the citizen as possible (Borchardt, 2011).

The European Parliament supervises and controls the implementation of European policies based on information received from the European Court of Accounts through the reports. Through its functions, the Parliament should determine the emergence of new opportunities for European citizens and seek solutions to their questions and concerns.

The parliament now has a range of tools and skills designed to help him achieve his goal; we must not forget that, in the legislative field, he has acted even before the Lisbon Treaty, as co-legislator in the co-decision procedure.

It also has powers, on the possibility to bring an action of annulment before the Union's Court of Justice, has the political initiative materialized in the adoption of resolutions and reports on any field of action under its competence, has the option to send delegates in EU Member States in order to identify problems and control how European legislation is implemented.

And in the future, the European Parliament's main priority will be to continue the respect and promotion of human rights, in any action of his, but this goal will be in the foreground.

The European Parliament always has been the most active European institution in the field of human rights not only in Europe but worldwide. It holds a unique position at the European level which allows and even compels - through its policies, by having the ability to have a dialogue with the citizens - to promote and protect the rights of European citizens and beyond. The parliament positions human rights in the center of European policies by putting individual cases on the political agenda, and the creation and implementation of mechanisms to promote and protect human rights at national, European and international level.

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# EUROPEAN ENVIRONMENTAL POLICY

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## Abstract:

*European integration implies a transfer of powers and responsibilities from the national to the community level, transfer that allows the development of public policy and common, respectively, of provisions, common rules across the EU.*

*Environmental Policy in the European Union is seen as a horizontal policy, based on the principle of integrating the environment into sectoral policies of the Community and the Member States.*

*The Sustainable Development Strategy adopted by the European Council in Göteborg in 2001 was formalized model of sustainable development with its three axes: economic growth that provides the prerequisites of social progress and environmental protection, social policy for stimulating economic growth policy environment focused on specific instruments market economy.*

*The establishment of a European environmental policy came on the agenda of the Communities in 1971 and has experienced many moments of evolution, marked by the objectives contained in the six Environmental Action Program (WFP) conducted from 1973 to 2010.*

*The 7th Environment Action Programme (EAP 7 called "Better implementation of EU environmental legislation" designed for 2014-2020 comprising the Europe 2020 objectives of sustainable, smart and inclusive growth and a vision of the direction that should be oriented EU environmental policy term.*

**Keywords:** *public policy, European environmental policy, environmental policy frameworks, instruments of environmental policy, European institutions*

**JEL Classification:** K00, K3

## 1. The introduction of the environmental policy in the area of community public policies

Actuality and relevance of environmental problems both nationally and internationally and community can not be ignored. But their diversity and complexity as well as costs involved, do not allow an efficient management, than in an integrated approach in conjunction with economic policies, financial administrative and legislative public policies (Dye Thomas, p. 4, Anderson, James, p. 5. Miroiu, A., p. 9. Profiroiu M.C Iorga,E, .17)<sup>3</sup> in the matrix of protective nature (Birkland, Th A., cit după Profiroiu,M.C Iorga, E, p.32)<sup>4</sup>.

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<sup>3</sup> The concept of public policy experiences a series of definitions starting from the most simplistic - what governments choose to do or not to do - ( Thomas Dye , Understanding Public Policy ( 7th ed.) , Englewood Cliffs , NJ, Prentice Hall, 1992 , p.4 ) to the instrumentalist one : a course of action for a particular purpose , followed by an actor or group of actors in addressing a problem ( James Anderson , Public Policy Making (2nd ed.) , Princeton , NJ , Houghton Mifflin , 1994, p 5 . ) the Romanian sense of the term policy refers to a policy network of interrelated decisions on the choice of objectives, of the means and the resources allocated to achieve the objectives in specific situations " ( Miroiu , A., Introduction to policy analysis, Paideia Publishing House , Bucharest, 2001 , p 9) from the point of view of other authors, public policy is a set of measures taken by a legal and responsible authority to improve the living conditions of citizens or design measures to stimulate economic growth . Marius Constantin PROFIROIU Elena Iorga : Manual for Public Policy, Public Policy Institute Bucharest, October 2009, page 17 ) .

Protective regulatory policies are those that seek to protect the general public from the adverse effects of private activities, such as pollution, consumption of counterfeit products, fraud of business transactions. Thomas A. Birkland, An Introduction to the Policy Process: Theories, Concepts and Models of Public Policy Making, Second Edition, 2005, ME Sharpe Inc., As well as Profiroiu, Iorga, op.cit. page 32

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The transfer of competences and attributions from the national level to the communitarian level in the sphere of the environmental protection, implicit the inclusion of this area in the European public policy<sup>1</sup> was fully realized only in the last decade of the last century, after a period of about thirty years. The determining factor of the transfer of competencies (according to the subsidiary principle) is the assumption of the EU of the sustainable development model.

But the process was not founded for ecological reasons, as we would be tempted to believe, but started from the preoccupation to correct certain distortions of the common market generated by the national environmental policies. This type of approach is justified by the neoliberal philosophy that was the base for the Treaties, according to which the intervention of the community in a certain area was conditioned by the necessity for keeping market balance. It generated for a long period of time, multiple difficulties in the process of conciliation of the economical objectives with the environmental ones.

We could say that the transfer of competences and attributions from the national level to the communitarian level in the sphere of environment protection, had a rough start also because of the significant differences between environmental standards of the member states (countries such as Austria, Denmark, Finland and the Netherlands have always had much higher environmental standards compared to others such as Greece, Portugal and Spain), but we must not omit that in that specific stage, environmental standards mattered only as non-tariff trade protection instruments.

## **2. Strategies and programs that define the objectives of the environmental communitarian policy**

If today environmental protection represents a policy of the European Union, based on the principle of integrating the environment in the sectorial policies of the community and of the member states, this is due to graduate renunciation of the functionalist conception and replacing it with another approach, imposed mainly by the new realities with which the communitarian construction has confronted in time (Pascariu, G.C, p.27)<sup>2</sup>.

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<sup>1</sup> Community Public policies are performed by various methods, procedures, mechanisms, depending on the following aspects: a) the powers it holds in various areas (exclusive, shared or complementary) b) regulatory nature areas (hard or soft) c) the nature of relations between the EU and the Member States in various policies (policies intergovernmental or supranational policies) d) the impact on European integration. As had written to some authors, Union there is no standardized procedure for achieving public policy, one of the main existing frameworks in relation to public policy being the White Paper on Governance.

The first step is to determine whether or not the EU has powers to intervene in solving a particular problem. We recall that the EU has competence in a particular field under the following conditions:

- Firstly, it must be possible to make a connection between the subject in question and at least one item of the EU Treaty, as the EU can only act within the powers conferred on them;
- Second, if a particular problem is so competences of the European Union and the Member States, it is necessary to demonstrate that the problem can not be handled adequately by the Member States (ie the first condition set subsidiary principle, known as the "necessity test").

<sup>2</sup> The Treaties establishing the European Communities (Paris, 1951, Rome 1957) were not included Community environmental skills. Following the more obvious signals of environmental pollution occurred in

The idea of instituting an articulated European environmental policy, started defining at the Ministry Council from the 9<sup>th</sup> of February 1971, when they agreed for the first time, on the idea that the economical policy of the Communities can not be limited only to the economical growth objective. At the 22<sup>nd</sup> of July 1971 the European Committee formulated the first Communication regarding the environmental policy of the European Communities.

In 1972, on the occasion of top meeting in the European Council in Paris, state leaders and member states' governments, boosted also by the duties taken by their countries at the UN conference for the Human Environment at Stockholm(1972)<sup>1</sup>, (Stockholm Conference on Human Environment) requested the Committee to elaborate an environmental program and to adopt the necessary measures for its implementation. In realizing this action there can be distinguished two stages:

2.a. The first starts with the adoption in 1973 of the First Environment Action Program for the (EAP), program with an mainly sectorial approach, of the environment problems, for the period 1973-1977. Two other programs followed for the periods 1978-1982 and 1982-1986, that circumscribe the same characteristics. (Dogaru, L. p.16)

EAP 4 was launched in 1987 for the period 1987-1992 and has the merit of having enunciated the principle of integrating the environmental communitarian policy with other policies at the communitarian level, but its approach remained mostly sectorial.

The legal prerequisites for linking the environment policy with economical dynamics and social cohesion in a long-term vision are offered by the Treaty of Amsterdam. In this context at the European Council in Luxembourg in 1997, the question of amplifying the integration arose, both vertically (between levels of decision) and horizontally (between policies) and also was launched the idea of developing a sustainable development strategy.

From that moment on, the principle of environmental integration horizontally and vertically, became key principle.

Applying the principle was not consistent until the program's sixth environmental action. However we can say that in the first stage (of the four EAP programs) are structured its major components of EU environmental policy, principles, objectives, instruments and institutional structures, and that the environment policy is raised at the status of Community policy.

The delay time of the integration of the environmental policy with other EU policies in the first stage was due to some legal and institutional impediments, such as:

- the treaty limits and application limits of the subsidiary principle which did not allow community involvement in the management of environmental issues in member countries, except to the extent necessary to ensure the functioning of the Community market;

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the 60 Member States agreed joint action at EU level, but these measures have long been limited to issues off and were implemented only if they are necessary to establish and functioning of the common market. See: Carmen Gabriela Pascariu: European Policy Support Univ AI course Cuza Iasi, 2011

<sup>1</sup> At the first UN Conference in Stockholm, 1972 on the Human Environment (Stockholm Conference on Human Environment) have been addressed a number of issues of common humanity, such as pollution, destruction of resources, damaging the environment, extinction of species, etc.. It was then also discussed and the increase of the gap between rich and poor and finding solutions to increase the standard of living, ensuring full access to vital resources and creating equal opportunities for development. After the conference resulted:

- Stockholm Declaration containing 26 principles;-Action Plan for the Human Environment, with three components: global environmental assessment program (Earthwatch) environmental management activities, support measures.

- United Nations Environment Program (United Nations Environment Program - UNEP), whose board of directors and the Secretariat were established in December 1972 the UN General Assembly

- Voluntary Fund for the Environment (Environment Voluntary Fund) established in January 1973 in accordance with UN financial procedures.

All these are considered to be the cornerstone of the first international framework for handling environmental issues.

These issues were taken up by the World Commission on Environment and Development, established by UN in 1985.

- the reduced impact of the guidelines on national laws considering that they represented a predominant legislative community instrument of the essence of the environmental law, but also the procedure for unanimous voting to adopt environmental legislation;

- the lack of a precise identification of environmental issues and the lack of studies on the long-term impact of environmental degradation, of the intensive use of resources and the reduction of biodiversity;

- the classical opposition between the economic and the environmental objectives (the idea that the establishment of strict criteria regarding environmental protection, limits the access to resources, determines the increase of costs and affects competitiveness);

- the high costs for implementing an environmental policy: eco-technologies, extensive agriculture the sustainable type, involve high costs that some member countries could not afford;

- the low level of results in the environmental research field and of the development of eco technologies; not coincidentally, one of the measures adopted by the Committee later, towards sustainable growth is consisted by the research and technological development.

2.b. The second stage of the development of EU environmental policy begins with the application of the Fifth Environmental Action Program, EAP 5 (1993 - 1999), adopted in 1992 and the development of the European Sustainable Development Strategy.

EPA 5 (1993 - 1999) makes the transition from the command and control based approach, to a proactive approach consisting in the use of economic and fiscal instruments and consulting the parties that are interested in the decision process. During the course of this program there have been significant changes in community decision making process, the role of the European Parliament being expanded and becomes a factor of co-decision, therefore gaining an important role in the communitarian environmental policy.

On the occasion of analyzing the Commission's environmental report and evaluating the progress in the implementation of the Fifth Action Program at the European Council in Helsinki(1999) the Commission was invited to develop a long term strategy for sustainable development and to ensure immediate takeover of the principle of integration of the European environmental policy in the integration strategies adopted once they have been defined.

There were targeted nine key areas, rated as having a high level of complementarity with the environmental protection policies: energy, transport, agriculture, industry, internal market, development, fishing, general business, economic and financial affairs.

The adoption of the Convention in Aarhus in June 1998 (Denmark) concerning the access to information and public's participation in the decision-making process and environmental justice, was meant to create a favorable environment for a better transparency of the environmental policies and improved access to information on the environment.

As a result of the received mandate the Committee designed a program that aimed towards developing a strategy for integrating the environment in sectors with significant environmental impact, identification of performance indicators and implementation of procedures for evaluating the strategies in the idea of sustainable development.

In 2001 European Council from Göteborg adopted the Sustainable Development Strategy of the European Union. In its essence, this strategy meets the objectives enshrined in Article 2 of the Treaty of Maastricht (1992), according to which member countries aim "to promote a harmonious and balanced development of economic activities throughout the Community, a sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, and increase quality of life, economic and social cohesion and solidarity among Member States"<sup>1</sup>. The strategy has gotten improvements over time in relation to emerging issues.

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<sup>1</sup> It is actually an addition to the specific objectives of sustainable development , social protection model , convergence of economic performance , environmental, economic and social cohesion , solidarity



Currently there are two lines of development of this strategy:

- first, with an European dimension corresponding to the Cardiff Process and aims the integration of environmental policies into other Community policies;
- second, with a global dimension, represented by the Declaration of Göteborg -also called "A Sustainable Europe for a Better World: a European Union Strategy for Sustainable Development" - expressing the need for activation of the external dimension of sustainable development by the Union's contribution in sustainable development worldwide.

EU Sustainable Development Strategy "adopted at the Göteborg European Council confirmed the central scheme of Communitarian action: the environment as the third pillar alongside the economic and social one.

It also defines some reference objectives for the development of EU environmental policy on the long term, such as:

- climate change and 'clean' energy use
- public health;
- the responsible management of natural resources;
- improving transport and land-use;
- improving communication, by emphasizing the importance of a systematic dialogue with consumers.

We can say that the time of 2001 marks the start of a new approach to developing the communitarian policies, consisting first of all, in more coherence by the horizontal application of some principles, the principle of integration of environmental considerations as a primary principle and secondly by the flexibility of their implementation by enshrining the idea of a regular review of the sustainable development strategy<sup>1</sup>.

The new approach to the environmental policy is making changes in the characteristic style of accomplishing EU public policies in terms of their orientation towards consensus and anticipation of problems instead of style of reacting and imposing decisions. In this matter, it is to be noted that since 2001 the EU has developed an interactive system of policy development (Interactive Policy Making - IPM)<sup>2</sup> in order to facilitate the process of consultation with interested parties in the implementation of Communitarian policies including the bonding of institutions<sup>3</sup>.

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contribution model promoted by the World Commission on Environment and Development ( Brundtland Commission ) in 1987, and essentially means " to meet current needs without compromising future generations a chance to meet their own needs " . In subsequent years, the concept of sustainability has been embraced by environmentalists , economists, sociologists differently , specific without an effort to integrate the principles and objectives . Including the institutional aspects of sustainable development were often reduced environmental issues in a unilateral approach . It's World Commission on Environment and Development , headed by Gro Harlem Brundtland , former Prime Minister of Norway , whose findings led to the convening of the United Nations Conference on Environment and Development in Rio in 1992.

<sup>1</sup> In this regard it is noted the adoption in 2005 of a declaration on sustainable development and publication by the Commission in 2005, the list of indicators for assessing of the sustainable development (155 indicators grouped in 3 levels, depending on the objectives and measures for the application) , structured in 10 priority themes: economic development, poverty and social exclusion, aging, public health, climate change and energy production and consumption patterns, natural resource management, transport, good governance, global partnership

<sup>2</sup> IPM is intended to contribute to policy development, providing faster responses and better suited to questions and new problems, improving impact assessment policies (or lack thereof) and ensuring greater accountability to cetățenilor. Acest sistem was introduced to facilitate stakeholder consultation process through the use of online questionnaires clear and very affordable, which makes it both participation in the consultation and analysis of results. IPM is financed by the ISA (Interoperability Solutions for European Public Administrations), which was implemented to improve electronic cooperation among public administrations of the Member States. See [http://ec.europa.eu/yourvoice/ipm//index\\_ro.htm](http://ec.europa.eu/yourvoice/ipm//index_ro.htm)

<sup>3</sup> Although, until now, there has been developed a common model for public administration - co-existing within the Union several administrative culture, the role of twinning programs was to provide learning

In accordance with the directions of action and objectives contained in the strategy, was developed the 6th Action Program - 6th EAP (2001-2010), which in turn defines four priority areas of environmental policy in the next decade:

- climate change and global warming;
- protection of nature and biodiversity;
- health in report to the environment;
- conservation of natural resources and waste management.

These priority areas are completed by a set of measures that lead to the achievement of their objectives and aim to: improving enforcement of existing legislation; the integration of environmental concerns into other policies; collaboration with business fields; citizen involvement and modification of their behavior; ensuring that the environment is taken into account in decisions regarding the management and planning of the territory.

Also EPA 6 requires the development of 7 thematic strategies which correspond to important aspects of the environment, such as: soil protection, protection and preservation of the marine environment; use of pesticides in the context of sustainable development; air pollution; urban environment; recycling waste; management and use of resources for sustainable development<sup>1</sup>.

The approach of these strategies is a gradual one, being structured in two phases: first, the description of the situation and identification of problems; the second one, of presentation of the proposed measures to solve these problems.

Another innovative aspect of the 6th EAP is adoption of an "Integrated Policy of Products (Integrated Product Policy - PIP)", aimed at reducing environmental degradation by various products throughout their life cycle and facilitating the development of a market for organic products. The program was subject to an intermediary evaluation in 2005, in order to review and update itself according to the latest information and developments in the field.

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solutions and sources of joint practice of exchanging experience in solving problematic issues inherent in finalizing reforms initiated.

<sup>1</sup> Until the moment the first six strategies were initiated, as follows: Air Quality - Strategy initiated by the "Clean Air for Europe" (Clean Air for Europe - CAFE), launched in March 2001 and has the development of an integrated set of strategic recommendations in order to combat the negative effects of air pollution on the environment and human health, they must be submitted to the Commission in late 2004 or early 2005 and will be based strategy combat Air Pollutants. Protection of soil - the first step in this direction was made in April 2002, with the publication by the European Commission of a communication entitled "Towards a Thematic Strategy for Soil Protection" (Towards a Thematic Strategy for Soil Protection) in its, problem soil protection is first treated separately and are existing problems, functions and distinctive features of an environmental policy in this direction

*Pesticide use in the context of sustainable development - a strategy that starts in June 2002, the Commission Communication "Towards a Thematic Strategy on pesticides in the context of sustainable development" (Towards a Thematic Strategy on the Sustainable Use of Pesticides) - communication are established following objectives: to minimize health and environmental risks from the use of pesticides, improve control over the use and distribution of pesticides, reduction of harmful active substances by replacing them with safer alternatives, encouraging obtain crops without using pesticides, establishing a transparent system for reporting and monitoring progress, including the development of appropriate indicators; Protection and preservation of the marine environment: this strategy is initiated by the communication homonymous Commission (October 2002), in order to promote the use of the seas in the context of sustainability and conservation of marine ecosystems, including the bottoms of the oceans, estuaries and coastal areas, paying special attention areas with high biodiversity. Recycling and waste prevention - launched in May 2003, this is the first treatment strategy separate aspects of waste prevention and recycling, and the accompanying communication are investigated ways to promote recycling products (where applicable) and are analyzed the most appropriate options in terms of cost-effectiveness. Urban areas - this strategy has already identified four priority themes within the meaning of the sustainable development through their influence on the evolution of the urban environment: urban transport, sustainable urban management, construction and urban planning / urban architecture. and by the end of 2003 will be released accompanying communication, followed environmental strategies to be completed by July 2005.*

The 7th Environment Action Program (EPA 7 also called "Better implementation of EU environmental legislation") sets goals for 2014-2020, and a vision of the direction that the EU environmental long-term policy should be oriented to, in accordance with the Europe 2020 Strategy's objectives of a sustainable, favorable to inclusion and smart growth.

This Environmental Action Program should guarantee the achievement of the following commitments: better implementation and compliance with EU environmental standards; ensuring that other EU policies also meet their objectives on climate and environment; providing access to solid evidence also in latest scientific knowledge and completion of significant strategic gaps.

### **3. Tools used for the implementation of EU environmental policy**

The evolution of EU environmental policy, as well as its progress over time is reflected not only by its goals and priorities, but also the number - still growing - of the tools for its implementation.

Thus, we can speak of the development of three types of instruments: legislative, technical and economic-financial instruments, at which is added a set of "supporting tools" rather responding to new trends and strategies for environmental protection.

A. Legislative instruments are those that create the legal framework of EU environmental policy, namely the existing legislation in this area, which includes more than 200 acts (directives, regulations and decisions) adopted since 1970.

B. The technical tools are designed to ensure compliance with quality standards of environmental factors and the use of best available technologies. In the category of technical tools, there are:

B.1. Standards and emission limits set out in the specific legislation which aim to limit the environmental pollution level and identify the big polluters.

B.2. The best available technologies (BAT- Best Available Technologies), assessed according to the criteria laid down in Directive 2008/1/EC - IPPC Integrated Pollution Prevention and Control (International Plant Protection Conversion)<sup>1</sup>. Exchange of information regarding BAT Best Available Technology is made by the European Bureau IPPC, a body appointed by the European Commission, based in Seville.

B.3. The term 'eco' - a tool to promote products with a reduced environmental impact compared to other products in the same group and provides consumers clear information and scientifically based on the nature of the products, directing them with options. The criteria on which the eco denomination is made, established and reviewed by the European Union for Eco Denomination (European Union Eco-Labeling Board - EUEB) -. Products that met the criteria for the award of this denomination can be recognized by the "daisy" (specific logo).

B.4. The applicable criteria for environmental inspections in the Member States designed to ensure compliance with EU environmental law and its uniform application. In practice these

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<sup>1</sup> Directive provides for the application of 'best available techniques' (BAT ) in all new plants and existing plants since 2007 . It defines the best available techniques as " ... the most effective and advanced stage in the development of activities and their methods of operation, the specific techniques being considered appropriate and practical, mainly as a basis for emission limit values generally to prevent emissions and impact on the whole environment or , if not possible , then be reduced " • " techniques " and applied technology and the way and manner the planned facility , constructed, operated and decommissioned ; • "available" - techniques developed on a scale which , considering the relationship cost / benefit , they facilitate the economic and technically feasible under the relevant industrial sector , whether these techniques are used or manufactured in the Member State concerned , as are available for operator on reasonable terms ; • "best " - most effective in achieving a high general level of environmental protection as a whole . " Each bat is not material resulted in the IPPC Directive . the purpose of harmonization at European level best available techniques (BAT ) IPPC Directive provides for an exchange of information on best available techniques. results of this exchange of information will be included in the so-called BAT documents that will be published by the European Commission, is taken into account in setting permit conditions.

criteria have minimal character and relate to organization, deployment, monitoring and dissemination of results of environmental inspections in the Member States.

- Measuring and control networks of air pollution, ground water, etc.. and databases on the pollution level, alert limits, pollutant emission inventory, etc.. These are technical tools which help to continuously monitor the environmental situation and provide necessary information for the initiation of restorative and preventive actions.

#### C. Financial Instruments of the European environmental policy

The main financial instruments used to achieve the objectives of EU environmental policy are the LIFE program + and the Cohesion Fund.

C.1. The LIFE+ program is the financial instrument for the implementation, updating and development of the environmental policy and legislation by co-financing projects that add value to the European space.

The LIFE program started in 1992 and now it has completed three phases: LIFE I (1992-1995), LIFE II (1996-1999) LIFE III (2000-2006). Between 1992 and 2006, LIFE has co-financed 3,104 projects across the EU, with a contribution of approximately 2.2 billion euro for environmental protection.

The current phase of the program is LIFE + (2007-2013) has a budget of 2.143 billion euro and its performance is provided by Regulation (EC) no. 614/2007 of the European Parliament and the EU Council regarding the Financial Instrument for the Environment (LIFE +)<sup>1</sup>. Romania has received substantial financing on this program<sup>2</sup>. At this stage it develops two new components:

- Governance and Environmental Policy by which co-finances projects that have innovative policy approaches, technologies, methods and tools, basic knowledge on the environmental policy and legislation, monitoring of the pressure on the environment (eg long term monitoring of forests and environmental interactions). Maximum co-financing rate will be 50%.

- Information and Communication: designed to co-finance projects that run communication and awareness campaigns (including trainings) nature protection and biodiversity conservation as well as projects relating to forest fire prevention. The maximum co-financing rate will be 50%.

C.2. The Cohesion Fund as a financial instrument has been designed to provide financial support for Member States whose GDP per number of inhabitants is below 90% of the Community average. The establishment of the Cohesion Fund was determined by the Treaty of Maastricht (1992) and became operational in 1994.

In the case of environmental projects, financial support is limited to co-financing those in the fields of environmental protection and the development of trans-European transport networks.

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<sup>1</sup> published in the Official Journal of the European Union no. L149 of 9 June 2007

<sup>2</sup> The first projects where Romania has achieved LIFE co- funding was in 1999. Up to now , our country is the recipient of 65 of LIFE . In session 2010 Romanian six projects were selected for co- financing under LIFE + . Applications must be eligible on one of the three components of the program LIFE + : Nature and Biodiversity : Nature and Biodiversity component continues and extends the original program LIFE- Nature . This component co- finances projects that promote best practices , demonstration projects, which contribute to the implementation of the Birds and Habitats Directives. Will co -finance innovative or demonstration projects that contribute to the objectives DEPLOYMENT Commission Communication ( COM (2006 ) 216 final ) " Halting the loss of biodiversity by 2010 - and beyond" . At least 50 % of Biodiversity . 9LIFE + Nature co- finances projects that promote best practices , demonstration projects, which contribute to the implementation of the Birds and Habitats Directives. Maximum co-financing rate is 50 % , but can be and 75 % for projects focused on species and / or priority habitats . 9LIFE + Biodiversity co- finance innovative or demonstration projects that contribute to the objectives DEPLOYMENT Commission Communication ( COM (2006 ) 216 final ) " Halting the loss of biodiversity by 2010 - and beyond" . Maximum co-financing rate will be 50 % . In Romania , the Ministry of Environment and Forests National Authority acts as LIFE + .

In the political agreement of the Member States on MFF 2014-2020, conducted at the European Council of 7 to 8<sup>th</sup> of February 2013 provides the allocation for the cohesion policy approx. 325 billion euro (down by approx. 35 billion from the current programming period) representing 34.24% of total EU spending volume for the next 7 years. The amount Romania deserves for the cohesion policy is 21.8 billion (in 2011 prices), up to 10% from the 2007-2013 allocation (located in the 19.8 billion euro). At this European Council have also been validated some changes in the procedure for accessing<sup>1</sup>.

## Conclusions

The European environment policy is a part of public policies of a protective nature.

Before reaching a level of development and at a significant impact it has traveled and experienced different stages and different formulas.

The moments after the adoption of the European Strategy for Sustainable Development, at European Council in Göteborg 2001 transformed European environmental policy into a key policy, particularly because of the consecration of the principle of integrating it with other policies, both horizontally and vertically, allowing insurance of economic convergence, social and political in any project.

It also brings a reconsideration of the decision-making process to enable a wider participation of the civil society and decision factors at various levels; creating and developing an information system on the consequences of policies and actions in order to facilitate reversing the current, non- sustainable trends; development of public market's goods and environmental goods and services ; development of research towards technologies using less natural resources , less polluting , with a low risk to the environment and the individual; the development of a system of education and training /

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<sup>1</sup> The main changes agreed under the Cohesion Policy / PC:

- Creating a common strategic framework for all structural funds, which provides for the conclusion of partnership agreements with each Member State
- Create a category of intermediate regions " transition regions " , with between 75 % and 90% of the average GDP of the EU is phasing -out regions in ( towards convergence , which will complement the two existing categories already - regions of convergence and competitiveness regions )
- Capping cohesion allocations ( " capping " ) to 2.35 % of GDP ( 2.59% differential capping for HU and Baltics ) allocation by Member State / SM but can not be less than 110 % of the total allocation for current period;
- Improve the quality of spending and benchmarks against which funds will be awarded ;
- The principle of conditionality ( ex -ante and macro ) and implementing rules align cohesion policy with the Stability and Growth Pact and the excessive deficit procedure . Results will be defining incentives to implement reforms , enabling COM to suspend part or all of the payments when the Council decides that a MS has not taken the necessary measures .
- Applying the un-commitment rule - n +3 for all Member States.
- Maintain co -financing rate of 85 % for cohesion policy .
- It is provided as a general rule , a pre -financing rate of 3% . However, for countries that have received financial assistance since 2010 (Romania ) pre -financing rate is 4% .
- *Keep on top -up provisions, the increase by 10 percentage points in the rate of co - financing for countries that receive financial assistance programs under Article 136 and 143 TFEU.*
- *Introduce provisions on additional allocations for regions where there is youth unemployment.*
- *The new EU financial perspective 2014-2020 provides a new approach to strategic planning for the cohesion policy under the Europe 2020 objectives , approach involving :*
- *Common Strategic Framework ( CSF ) adopted by the Commission ( Cohesion Fund , European Regional Development Fund , European Social Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund);*
- *Contract / Agreement for Development and Investment Partnership applied to the cohesion policy , which is a national strategic document prepared by each MS and negotiated with the Comity, and sets the thematic objectives underlying the development and indicative allocation of EU funds in 2014-2020 ;*
- Subsequent programs that will transpose elements set out in the Contract / Partnership Agreement which will contain firm commitments of MS regarding the fulfillment of EU objectives by programming funds.

communication to create premises for social dialogue , of a transparent decision-making process under the conditions of individual and collective responsibility and a move towards sustainability in consumer behavior and production; the horizontal application of sustainability criteria, on all economic policies; the development of a system of indicators that allow a regular and effective evaluation of the sustainability policies and actions .

For this, the European environmental policy has developed a number of legislative instruments (over 200 community papers), and technical tools such as: standards and emission limits, the best available technology (BAT-BAT Best Available Technologies) the "eco" denomination, the applicable criteria for environmental inspections in the Member States; networks for measuring air pollution, ground water, etc.. and databases on the pollution alert levels, emission inventory, and financial instruments: LIFE + Program and the Cohesion Fund.

They are designed to ensure the fulfillment of the internal objectives which the Union took by the Sustainable Development Strategy adopted by the European Council in Göteborg in 2001, and the external dimension of sustainable development of the Union's commitment to contribute to sustainable development worldwide.

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# REGIONALIZATION AND DECENTRALIZATION, NECESSARY MEASURES FOR LOCAL DEVELOPMENT

Ion, Popescu<sup>1</sup>  
Cosmin-Ionuț, Enescu<sup>2</sup>

## Abstract:

*The European framework provides a comprehensive, general, complex but clear definition of the concept of territorial cohesion, with a highlighter as clear as the objectives that need to be pursued, through convergence with promoting economic and social cohesion, and a detailing of the principles to follow for good commissioning practice of the desideratum of harmonious and homogeneous development of the territory.*

*In Romania, the territorial administrative reorganization by creating the institutional framework for the functioning of territorial administrative regions and continuing the reform in public administration with an emphasis on growth of local collectivity's autonomy by really triggering the decentralization process by respecting the subsidiary principle can be implemented by a series of supported measures.*

*Along with the preparation and implementation of a regional development policy and starting with outlining the developing regions, there will be created the necessary institutions to coordinate this policy. Their main role, besides designing and implementing a regional development strategy, will become the management of European grant funds.*

**Keywords:** regionalization, decentralization, local development.

**JEL Classification:** K0, K3

Romania's Integration in the European Union represents a great challenge for local public administration. She is the one who has to implement the socially successful models of Western democracies: public services, reduce bureaucracy, transparency and efficiency in spending public funds, high standards of performance for public institutions.

But it is local public administration in Romania prepared to face all these challenges? Here is an issue that should concern us.

The shift from "the democratic centralism" the specific way of organizing of the administration of the totalitarian state, to decentralization and autonomy of decision for local communities, was the touchstone for the Romanian administration in the past 23 years. Are these 23 years of accumulations sufficient for the Local Administration, so that it might rise to the level of local democracy from the West?

In the past, "the democratic centralism" was the the process called to ensure the dominance of the Communist Party through a strict centralized organization, capable to enable it to impose itself to the masses through elections, in which only its members could run.

As a political principle, the democratic centralism was defined as being "one of the basic structural principles of party organization, comprised in the statute, capable to ensure one-party bodies and organizations, a wide opening for action and initiative, for the accomplishment of their leading role for the popular masses. The affirmation the principle of the democratic centralism in state activity means combining unitary leadership, social and economic life, with the autonomy and initiative of the county people's councils, municipal, township and commune, of economic enterprises and of the other social units, with the active participation of the masses in running the society"<sup>3</sup>.

Time doctrine considers that "organizational autonomy of the administration is consistent with the principle of the democratic centralism, with subordination of local organs of state administration of those of the central government. Organizational autonomy of state administration is carried out, under the unified organization system of the country (Oroveanu, 1975)."

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<sup>3</sup> Little Encyclopedia of Political studies, Scientific and Encyclopedic Publishing House, Bucharest, 1977, p 67

The so-called autonomy acquired formal content, being resumed to the implementation of the "indications of the party." This situation was actually ensured by the system of dual functions of party and state. Being promoted to a public position was not possible unless the person was a member of the party, while having at the same time an important position in the party hierarchy.

Uniformity of local life, was a first consequence of this system, as local authorities were state bodies that were part of a hierarchy, established to promote with priority the general interest. There could be no question of local autonomy, given that local authorities were state representatives in the territory and managed its assets.

Therefore, it was hardly possible to conceive a local development plan that promote local interests as a priority, whereas the unique national plan itself for socio-economic development, was a driving mechanism strictly reflecting material and human resources and their use in accordance to national interests.

Although the cities had their own budget, it was part of the state budget as the basis of this over centralized system was the property socialist of the state.

Administrative-territorial units lacked a territory intended for their own needs, but as organs of the state, managed its property. The circulation of things which formed state property was strictly regulated by law, local authorities having only competence to transfer from one economic agent to another, the right to direct management.

The other side of "democratic" centralism, respectively the democratic, was conceived as a means of citizen participation in public affairs, offsetting the unilateral aspect of the management of the company by the single party's bodies. After all the forms of organization and functioning of citizen participation, although they did not have the nature of party formations were strictly guided and led by local party bodies, thus providing a limited and formalist framework of the initiatives promoted during the debate of some important projects .

We can state that the principle of "democratic centralism", although it had two heterogeneous elements, one centralized and one decentralized was conceived by the socialist ideology as having a unitary content, as shown above.

In fact, the centralized side, was the dominant side, and the effective application of the principle of the democratic centralism, at the level local public administration authorities meant recognition of territorial administrative units as having exclusively state functions, which involves promoting through excellence of the national interest, the local, although declared not to have asserting conditions.

In conclusion, the so-called democratic centralism, ensured at the local government level, a strictly centralized system of organization and functioning of public authorities and the declared idea of "local autonomy" was nothing more than an application of the single party leadership role, locally.

These are the patterns in which the public administration functioned in Romania until the early 90s. The crisis of the totalitarian communist regimes in Eastern Europe, led to a reorientation of the administrative systems towards the Western model of local government's success: regionalization and decisional autonomy for local communities through decentralization.

The solution within the reach for solving the crisis situations was that of regionalization and decentralization of authority and hierarchical bureaucracies, accompanied by a wide autonomy granted to administrative - territorial units. The government must encourage competition and quality of service; it will behave more like a manager who seeks for his company to become more flexible to requirements, more competitive, more innovative.

In order to exist as administrative reality, the regionalization and decentralization should be viewed as conceptual changes of the entire administrative system to reassure a rational distribution of skills at decision-making levels as close to where they are executed (Alexander, 1997).



Post-revolutionary period was characterized by the desire to strengthen the institutional and legal local autonomy. It must become the engine of local development, such as in EU countries.

Among all the actors of Romanian scene, which assume specific responsibilities in the process of European integration, public administration, represents the most involved segment in the process of European integration, with multiple obligations, from the moment of opening negotiations, to the signing of the Accession Treaty to the European Union, to the full integration.

Romania must solve the gap that it has towards Europe, to bring public services and decisions closer to citizens and to use existing resources more wisely.

European requirement essential for the future organization and functioning of public administration is that of its connection to the democratic principles, characteristic to the state of law, and putting it at the service of the citizen by eliminating the centralist mechanisms of state administration, specific to the totalitarian period.

Country Reports, assessing the degree of administrative decentralization, have shown that in recent years there has been a steady transfer of responsibilities from the center to local authorities in many fields, such as: social assistance, health, education, transport, emergency services, public utilities, but the existence of the unclear legal framework, and the lack of strategy for the coordination of the decentralization process in a transparent and stable manner, were the factors that limited the strengthening of local autonomy.

In this context there were identified as causes of malfunctions that occurred during the transfer of responsibilities from the central level, reduced local authorities consultation regarding the legislative projects that have a high degree of impact at the local level, as the absence of the transfer of adequate resources that would have had to accompany the decentralization of public services.

That is why governments that have followed in power, have provided further measures regarding the public administration reform, with emphasis on increasing with emphasis on increasing local communities autonomy by really triggering the decentralization process by respecting the subsidiarity principle.

European Charter of spatial land use planning<sup>1</sup>, known as the Charter of Torremolinos (Spain), adopted in 1983, by the European Ministers responsible for territorial planning defined the concept of territorial-spatial as „a geographical expression of the economic, social, cultural and environmental policies of society “.

The objectives of good-spatial Territorial Planning are balanced socio-economic development of the regions, improving quality of life, responsible management of natural resources, environmental protection and rational use of the land.

To achieve its goals, the territorial spatial planning should be: democratic, comprehensive, functional, long-term oriented.

According to the Nomenclature of Territorial Statistical Units(NTSU)<sup>2</sup> that identifies administrative territorial units depending on the size of the territory, there are: the level of village, the level of department / county and regional level.

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<sup>1</sup> Torremolinos Charter, adopted on 20 May 1983 in Torremolinos (Spain), European Conference of Ministers responsible for spatial planning, the Council of Europe, pg.11-16

<sup>2</sup> Regulation (EC) no. 1059/2003 of 26<sup>th</sup> of May 2003 on the establishment of a common classification of territorial units for statistics (NTSU) published in the Official Journal no. L 154/2003, p 1-41. That regulation was amended by Regulation (EC) no. 1888/2005 of the European Parliament and of the Council of 26<sup>th</sup> of October 2005, published in Official Journal no. L 309 1, 25<sup>th</sup> of November 2005, by Regulation (EC) no. 105/2007 of 1<sup>st</sup> of February 2007 of the Commission published in the Official Journal no. L 39 1 10<sup>th</sup> of February 2007 and by Regulation (EC) no. 176/2008 of the European Parliament and of the Council of 20<sup>th</sup> of February 2008 published in the Official Journal no. L 61 1 5<sup>th</sup> of March 2008

NTSU classification is hierarchical in the sense that it divides each member state into three levels: NTSU 1, NTSU 2 and NTSU 3. The second and third levels are subdivisions of the first, and that of the second level. A Member State may decide to extend the hierarchical levels of detail, also dividing NTSU 3 level.

The appropriate level of NTSU, in which have to register a certain class of administrative units from a Member State shall be determined on the basis of demographic thresholds listed below, in which lies the average size of this class of administrative units in the Member State in question:

- NTSU 1 - 3 million minimum level, maximum level 7 million inhabitants;
- NTSU 2 - 800 000 minimum level, maximum level 3 million inhabitants;
- NTSU 3 - at least 150 000 maximum level 800 000 inhabitants.

The population of a territorial unit consists of persons residing in the area concerned.

If, in a Member State for a certain level of NTSU there is no administrative units of sufficient size according to the criteria mentioned, this NTSU level is constituted by the union of the appropriate number of existing administrative adjacent units, smaller in size. The union is based on appropriate criteria such as the geographical, socio-economic, historical, cultural or environmental situation.

In 2008, the European Committee adopted the Green Paper on Territorial Cohesion<sup>1</sup>, a complementary document that establishes the objectives of economic and social cohesion, the need to promote the harmonious and homogenous development of the territory.

This common goal of the Union on the territorial cohesion is reaffirmed by, the EU Territorial Agenda 2020 –“ Towards a smart Europe, sustainable and inclusive growth of Diverse Regions ", adopted on 19 May 2011.

In that agenda it is stated that "the EU targets set in the Europe 2020 strategy for smart, sustainable and inclusive growth can only be achieved if one takes into account the territorial dimension of the strategy, as development opportunities vary from one region to another"<sup>2</sup>.

Therefore, the EU provides a comprehensive definition, general, complex but a clear concept of territorial cohesion with a highlighter just as clear of the objectives that need to be pursued through convergence with promoting economic and social cohesion, and a breakdown of the principles to be followed for proper implementation harmonious and homogeneous development of the desideratum of the territory.

On the matter of defining the framework, the final target, and optimal direction to be followed by European Union, each Member State had and has complete freedom to decide its concrete method for implementing its own plan for Territorial Planning.

Trying to define the term 'regionalization' from the perspective of the European Union, we must resort to the phenomena that marked these terms over time.

In search of regional reality, it lists four such events (Alexandru, Popescu Slăniceanu, Cărauşan, Enescu & Dincă, 2003)

- regional imbalances represent one of the problems whose existence does not require long demonstrations, almost all European countries differ in land development;

- ethno-cultural alienations have been acknowledged at the regional level by the communities who consider linguistic and cultural dependencies, unwarranted, compared with other regions. At the same time they do not agree with the assertion 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 its scope, is taken at the central level of state;

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<sup>1</sup> The European Commission, [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri= COM:2008:0616:FIN:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0616:FIN:EN:PDF)

<sup>2</sup> [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).

- "socialization" of the European policy (Tourraine, 1965) has a direct impact on the regional phenomenon, representing the growing importance of the state in all sectors of individual and even social life.

These regional phenomena are the causes of regional dynamics that can be felt in Europe, regional dynamics, that meet three phases in their evolution:

- the emergence of regional consciousness;
- regional movements or regionalist actions;
- development of institutions or regional powers (Alexander & Badescu, 1997).

The term of regionalization and the term of region, covers political and administrative realities that are extremely different in the European countries.

Therefore regionalization can be (Popescu 1999):

- political regionalization (Spain, Italy);
- incorporated regionalization, a result of the creation of the unitary state by joining several states that retain a certain individuality (UK);
- diversified regionalization, with established regional frameworks not only by territorial and political criteria, but also on other criteria, such as language and culture (Belgium);
- classical administrative regionalization, by decentralization, creating regions as autonomous local regional authority from the administrative point of view (France);
- Regionalization through cooperation, creating regions as institutionalized forms of cooperation between local territorial collectivities (Romania).

Regarding decentralization in the CoR opinion regarding the decentralization in the European Union and the role of local and regional autonomy in the development and implementation of EU policies show that there is no obligation for Member States to opt for a particular model of institutional structure, or for the decentralization, transferring or sharing of competencies between the different governance models, but in many policy areas, the decentralized level of execution is considerably more efficient, both in terms of costs and in terms of quality and closeness to the citizens of the Service.

Decentralization and local and regional institutions that underpin it contributes significantly to reducing economic and social disparities between European regions can thus be reduce the negative impact of rural exodus from the poorer regions to the urban area and the migration from one Member State to another, which weakens the labor market.

Decentralization, with its economic effects, is one of the ways which seek European economic overcoming the crisis, considering that the approximation of the central leadership, to the economic decision, to enterprises and local resources involves a better knowledge of their potential. An inefficiency of centralized organization was represented by the difficulty decisions were made on issues vital locally. The need to obtain information directly from the source, to make it follow a certain way, to process at a high level, to take decisions, to translate into operational categories and then forward them on, inevitably multiplies the risks of information distortion, increases the delays in making a decision generates a maladjustment about the transformation itself of the terms of a problem, the time between the decision and its implementation.

Thus, we could observe which are the EU recommendations on regionalization and decentralization, and the fact that the Union or in EU countries there is no unified approach to the manner of their implementation.

In our country, the institutional framework, objectives, competencies and instruments of regional development policy were established by Law no. 315/2004 on regional development in Romania<sup>1</sup>, and in terms of the decentralization, by Law no. 195/2006<sup>2</sup>.

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<sup>1</sup> Law no. 315/2004 was published in the Official Gazette of Romania, Part I no. 577 of 29<sup>th</sup> of June 2004.

<sup>2</sup> Published in the Official Gazette of Romania, Part I no. 453 25<sup>th</sup> of May 2006

Governing Programme 2013-2016<sup>1</sup>, devotes chapter "Development and Management" particular importance regionalization process start and continuation of administrative and financial decentralization.

The two objectives, namely "administrative-territorial reorganization by creating the institutional framework for the functioning of the administrative-territorial regions" and "Further reform of public administration, with emphasis on local communities autonomy by really triggering the decentralization process while respecting the principle of subsidiarity" can be implemented by a number of supported measures<sup>2</sup>.

Principles that should underpin the process of regionalization and decentralization are:

- the principle of subsidiarity, which is the exercising the powers by the local public authority located at the administrative level closest to the citizen and who has the necessary administrative capacity;
- the principle of ensuring full resources for the exercising of the transferred competences;
- the principle of responsibility the local and regional public authorities in relation to their powers, which imposes an obligation to achieve the quality standards in providing public services and public utility;
- the principle of ensuring a stable, gradual, predictable, transparent decentralization process, based on objective rules and criteria, that do not constrain the activity of the public, local or regional administration, where applicable, or limit local financial autonomy;
- the principle of fairness, which involves providing all citizens access to public services and public utility;
- the principle of participatory democracy, which requires community involvement and civil society structures in defining and implementing regional decentralization policies;
- the principle of efficient spending of public funds.

Advantages of regionalization could be: management of European funds at regional level; management and modernization of the infrastructure of regional interest regarding road, rail, inland waterway, sea, air transportation- each region will have at least one international airport; infrastructure management of health and care at regional level - in each region will be at least one regional hospital (with high performance medicine); promotion of regional tourism objectives, spatial planning at regional level; development of technical and vocational school education at regional level as well as higher education - in each region will be at least one internationally recognized university; development of regional programs for agricultural development to encourage access of Romanian products on the domestic and foreign markets, including the creation of regional brands; the management of social protection programs at regional level; environmental protection at regional level; emergency situations management at regional level by creating a regional intervention system; promoting performance sports - in each region will be at least one regional sports center polyvalent internationally; cultural development at regional level - in each region will be at least one cultural center of European level.

Regarding the decentralization, the central public authorities may exercise its role of developing, implementing and monitoring national policies in the areas of business and regulatory skills, coordination and methodological guidance and control, but the division of responsibilities between the central government on the one hand, and the other ,regional and

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<sup>1</sup> The Parliament Decision no. 45 of 21<sup>st</sup> of December 2012 for granting trust to the Government, published in the Official Gazette of Romania, Part I, nt. 877 of 21<sup>st</sup> of December 2012

<sup>2</sup> The Memorandum of 19<sup>th</sup> of February 2013 regarding the measures needed to start the process of regionalization, decentralization in Romania published on [www.mdrt.ro/userfiles/Regionalizare\\_memorandum\\_1902\\_13.doc](http://www.mdrt.ro/userfiles/Regionalizare_memorandum_1902_13.doc)

local to be made rigorous. Also, the transfer of skills to achieve within a stable and transparent process with avoiding financial imbalances and to ensure continuity of service delivery.

The existence of regions as administrative units functional presupposes going through, if possible, simultaneous three appropriate regulatory administrative processes correlated and that are in a close interdependent relationship. On this matter it is necessary to revise the Constitution, develop the necessary legal framework for the organization and functioning of regions and the development of the normative framework needed for decentralization of competences to regions, counties, cities, towns and villages.

In the context of public administration reform issues such as rethinking Romania's administrative-territorial structure, are brought increasingly more into question, especially when it comes to an effective process for of financial decentralization and public services. The current division of the territory into 42 counties not only does it not meet the necessary efficiency criteria, but also does not encourage the existence of an insubordination ratio between the central and local authorities (as required by law) and does not constitute adequate support for local economic development . An argument for this last claim is that the EU felt the need for the construction of larger administrative territorial units (development regions) that have the responsibility for the management of pre-accession funds allocated for economic and social development.

With the preparation and implementation of a regional development policy in Romania, and starting with, shaping the development regions, there will be created the necessary institutions for managing this policy.

Their primary role, in addition to the design and implementation of a of regional development strategies, will become the management of EU funds.

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## Section IV

# STRATEGIC MANAGEMENT AND ENTREPRENEURSHIP

## SOCIAL ECONOMY - A SOLUTION FOR ENTREPRENEURSHIP DEVELOPMENT

**Elena, Enache<sup>1</sup>**  
**Cristian, Moroza<sup>2</sup>**

### **Abstract:**

*The social economy has emerged from the need to offer fresh, innovative solutions to older social, economic and environmental problems. Known as the "solidarity economy" or "third sector of the economy", it can help meet the needs of certain categories of people that are either ignored or inadequately resolved by public and private sectors, who do not find effective solutions.*

*Compared with the market economy, whose main goal is the profit, social economy aims to improve the living conditions of disadvantaged people or belonging to vulnerable groups, to provide opportunities for a decent living. Compared with the public sector, this occurs through reciprocity and solidarity to help resolve situations that the government can't effectively manage: poverty, exclusion, inequality and differentiation between people and so on, problems generated and deepened by this inability.*

*The paper aims to highlight the achievements made so far in Romania, also proposing many models to increase the concern of the authorities and entrepreneurs.*

**Keywords:** *social economy, enterprises, life conditions, business, economic sector.*

The social economy has emerged from the need to offer fresh, innovative solutions to older social, economic and environmental problems. Known as the "solidarity economy" or "third sector of the economy", it can help meet the needs of certain categories of people that are either ignored or inadequately resolved by public and private sectors, who do not find effective solutions.

With more than a decade ago, in 2002, at the Permanent European Conference of Cooperatives, Mutuality, Associations and Foundations has been suggested the following definition of the social economy: „Social economy organizations are economic and social players actives in all areas which are mainly characterized by their goals and specific form of entrepreneurship. The social economy includes organizations such as cooperatives, mutual societies, associations and foundations. These enterprises 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 Prize winner, addresses this issue and shows that: „The definition of social enterprise is very wide. A social enterprise can be any initiative to help people. The initiative could be economic, non-economic, that aims profitable or not. Distribution of free medicines to the poor people can be a form of social enterprise. On the other hand, a social business is a very special kind of deal. It is a business with a social purpose, not a monetary one. It can be said that social affairs are a subset of social enterprises”. (<http://economie-sociala.org>).

### **1. History**

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### ***1.1. The origins of the social economy concept***

The contemporary social economy has roots into socio-philosophical concepts specific to the 19<sup>th</sup> century, with reference to three directions of ideological thinking: socialism, liberalism and Christian solidarity.

The concept is reflected in the pursuits of French and English thinkers of that period, when the economies of the two countries were the most advanced. We can mention Charles Fourier, „the utopian socialist” known for the „falansteres idea” and Robert Owen who considered that the main aim of all social actions were „the new man” from „Owen’s villages”, created through a total reconstruction of human consciousness and cooperation of all individuals in economic and social life areas.

The liberals promoted the idea that sustainable economic cooperation development between individuals is more advantageous than conflicts. An organization created for this purpose was the cooperative, its founder being F.W. Raiffeisen. The goal was saving and credit for the population of the poorest rural areas, based on a strong solidarity between members, on mutual trust, on mutual self-help ideas and voluntary work in the benefit of all.

The church, in turn, appreciated the cooperative as an entity based on Christian solidarity, which involved physical and spiritual aspects of the human and the family as the fundamental unit of social organization.

These three concepts that lead to the same social purposes are presented in contemporary European cooperative movement.

### ***1.2. Meanings***

Buying decision has mostly remained based on price, loyalty, habit etc. But the specialists detect a growing consumer shift towards to products of those companies that prove socially responsible, however noting that there is not a general trend. And not just the consumers are concerned about this issue but, also, the investors. The origin of responsible investment was in the 19<sup>th</sup> century, related to religious movements.

For example, the 1900’ American Methodist Church made investments on the stock market, but intentionally avoiding the companies involved in the production of alcohol, weapons, tobacco, pornography and gambling. Specific to the 20<sup>th</sup> century, when decided on an investment, the organizations (companies, universities, hospitals, foundations, private or public investment funds, non-profit organizations, religious institutions, etc.) and also the individuals increasingly appreciated the criteria of an ethical, social and environmental aspect. According to statistics, currently in the USA, the most advanced state in this regard, responsible investments are worth about \$ 3 trillion of the 25 trillion of the capital market (<http://www.actionamresponsabil.ro/responsabilitatea-sociala-a-investitiilor-rsi/8043>). The most investment versions are: **screening** - evaluation of a portfolio or a mutual fund based on social, environmental and good corporate governance criteria, together with researches of experts in the field; **advocacy among shareholders** - the responsible investor initiates a dialogue with companies on issues related to social, environmental and corporate governance, by obtaining the views of others on these issues and subjecting them to vote. Such an initiative draws media attention and educates the public on social, environmental and working conditions; **community investments** - the capital, to which under normal circumstances would not have access, is directed to disadvantaged communities.

Compared with the market economy, whose essence is profit and efficiency, the social economy aimed to improve the living conditions of disadvantaged individuals or belonging to vulnerable groups, providing opportunities for a decent living. Compared with the public sector, the social economy intervenes through reciprocity and solidarity to help solving the situations that it can not effectively manage: poverty, exclusion, inequality and differentiation between people and so on, in fact, the problems generated and deepened precisely by that inability.

The social economy gives priority to the model called **social economy enterprise**, whose main characteristics are not related to the size or the sector in which they operate, but to the respect for the common values of Europe.

Among these are:

- the activity is based on the principles of solidarity and responsibility;
- the interests of the staff, users members and the general interest are convergent, help solving some local problems;
- the capital is harnessed in the interest of social actors, people with various problems and social objectives;
- the most part of the surplus is dedicated to achieving the above objectives, in accordance with the general interest and the sustainable development of the local economy;
- there are respected management autonomy and independence from public authorities; even if it solves social problems, however, there are private initiatives;
- participation is voluntary and open;
- the enterprise members can exercise democratic control;
- it contributes to increase the productivity and competitiveness, the living standards, to implement the European concepts of inclusion, cohesion and participation in co-operation;
- it provides jobs;
- it aims to fight against poverty;
- new formed mentality contributes to a higher social consciousness.

From the point of view of legal forms it may take, there are differences from one country to another. It seems that practical aspects overtook the theoretical, scientific and even the legislative ones. In real terms, the social economy exists in fact but not in law, the enactments being more of a fiscal or public policy nature. There are a variety of national and regional approaches, both within the EU and beyond, and however, the field is booming, takes a growing scale.

## **2. The social economy today**

According to information published in particular in the online environment, the social economy consists of about two million enterprises, currently holds about 10% of the total of the national economies and provides 11 million jobs, 6% respectively of total employment in EU. Pierre Delsax, Deputy Director for Internal Market General Directorate of the European Commission believes that „around one in four business started in Europe, is a social enterprise” (<http://economie-sociala.org>).

Promoting social economy is an objective of the United Nations through UNDP (United Nations Development Programme). Together with developing the concept of CSR (Corporate Social Responsibility) it wants to change the attitude of private sector actors towards social public institutions, regarded as inefficient and transparency lacking.

In turn, the EU pays greater attention to this kind of business - social enterprises, considering that in a world based on the gain, but who does not solve the acute problems of society, should be promoted, supported, strengthened and encouraged the model of a pluralist and inclusive economy, because such businesses will be involved in building a new society, more „friendly” and socially responsible, more democratic, where the man is really the most important capital. In this context, it has been developed the legal and administrative framework, specific to the social economy, it has been improved the quality of legal structures regarding foundations, mutual societies and cooperatives which operates in a European context, they have been proposed “social business initiatives” and it was facilitated the access to relevant Union financial programs. The “Europe 2020” Strategy aims among others, to combat poverty and to create jobs, therefore the European Commission focuses on



the role that can be played by the social economy in providing mechanisms generating jobs, products, services and satisfaction. In turn, The European Parliament supports social economy model and adopted specific documents in this regard, such as the Resolution of February, 19<sup>th</sup> 2009. The Governments of some member states (e.g. the UK) included the social economy in their crisis programs or government programs.

Why this great interest? Explanations are offered right by the activities of social enterprises:

- provide construction of the infrastructure and services necessary for the establishment of small companies or initiate income generating projects for local communities;
- offer community and commercial services that satisfy the local needs;
- are engaged in trade activities abandoned by the private sector because there were not quite profitable;
- provide some of the services that were formerly provided by the public sector;
- create direct jobs, indirect jobs (in companies or entities that depend on the social economy) and induced jobs (outside of social economy enterprises, by using the services provided by them);
- create jobs especially for the low skilled or disabled persons;
- use locally available human resources to develop local projects;
- provide good practice models in social responsibility and social auditing of enterprises;
- provide a more stable environment than the traditional enterprise, employees have greater security of employment and share their resources, skills, competencies and even the capital etc.

There is a better regulation of the social economy in Europe, which reinforces concerns for this type of activity. The newest legislative initiative at EU level dates from April 2013 and this is the Regulation (EU) no. 346/2013 of the European Parliament and of the Council on social entrepreneurship European funds. The document intended to raise capital called “EuSEF” and is designed to facilitate the activity of the investors interested in achieving social objectives and which does not only seeking a financial profit. (<http://www.ies.org.ro/info-stiri/vrs/IDstire/624/t/eusef-sub-aceasta-denumire-vom-intalni>).

### **3. Social economy in Romania**

#### **3.1. Legislation**

The social economy has made great steps in the national economy, but the results are not sufficiently known. Analyzing different statistical sources, it is noted the progress. In 2009 (<http://www.ies.org.ro/economia-sociala-in-romania>), the social economy became a major employer, providing 159,847 jobs, up from 3% in 2007 to 3.3% of all employees in Romania. Since 2011, experts appreciate it as an important sector of the national economic and social environment, which can not and must not be neglected. The latest information about the social economy, income, staff, functional entities and their fields of activity in Romania, the positive dynamics of the recent years can be found in the Social Economy Atlas, the 2012 edition, which can be accessed on the website of the Institute of Social Economy (<http://www.ies.org.ro/resurse/cercetari/cercetari-ies/atlasul-economiei-sociale-1>).

Romania has no legislation dedicated especially to this third sector, but there is a regulatory framework and public policies defined by a series of regulations governing the establishment and operation of the social economy (cooperatives, associations and foundations, credit unions); regulations governing enterprises activity in general (Tax Code, the Public Procurement Law etc.); regulations governing specific fields as social and employment services - insertion into employment of people with disabilities or, more generally, of disadvantaged groups (sub-contracting, outsourcing procedures); measures specified in regulations dedicated to the social economy or to the new types of social enterprises (insertion businesses, social cooperatives etc.).

Yet, we can mention two failed initiatives, namely The Social Entrepreneur Law adopted by the Senate on May 16<sup>th</sup>, 2011, but rejected by the Chamber of Deputies, as decisional forum on March 12<sup>th</sup>, 2013 and The Framework of the Social Economy Law initiated by the Ministry of Labour since 2011, whereof we can do not find updated references.

Moreover, we appreciate that the same Ministry introduced in 2011 a new occupation appropriate to the social economy in the Classification of Occupations in Romania. It is about **entrepreneur in the social economy - 112 032 code**, and in 2012, supplemented with **social enterprise manager - code 112 036** and **specialist in social economy - 341 206 code**.

The Social Assistance Law No 292/2011 contains the first legal definition of the social economy in Romania. Thus, „*social economy*” is a sector that includes economic activities which, in subsidiary and if it is maintained economic performance, include on their turn, social objectives. In the 53(4) Article the law mentions the social economy among integrated social assistance measures: „In the multidimensional actions of the social inclusion process enroll the activities from the social economy field, geared towards generating and providing employment for persons referred to in para. (1). Organizing and functioning of the social economy sector is regulated by a special law.”

Since 2012, Romania has started training programs that will receive EU funding in 2014-2020. While respecting the European partnership principle, there have been involved in consultations the representatives of all responsible. Were established consultative partnership structures: Inter-institutional Committee for drafting the partnership agreement (CIAP) and 12 advisory committees organized as sections of the CIAP, the Technical Working Group “Entrepreneurship and the social economy” of the thematic Committee (CCT) “Employment, social inclusion and social services”.

### **3.2. The Knowledge needs**

The social economy needs support and a lot of information. If at international level stands out among other CIRIEC International - International Centre for Research and Information on the Public, Social and Cooperative Economy, from Liege, Belgium, in Romania the most important organizations with relevant activities in this regard are:

- **Institute of Social Economy**, center of excellence and training in this area, which is the most important result of the “PROMETEUS Project - Promoting social economy in Romania through research, education and training at European standards”. Other activities of the project are: development of eight national studies based on field research with comparable data at European level on the various types of organizations and fields, publication of “The Social Economy in Romania” volume; development of higher professional education by preparing teachers and developing some dedicated course materials, adapted to the European and national context; eight public debates with leaders from the social economy, specialists, political and administrative decision-makers at local and central; training program for 20 trainers - consultants for social enterprises; editing of the social enterprise “Manager's Guide”; organization of ten regional and national fairs for social enterprises and two editions of the Annual National Conference of Social Economy in Romania in 2011 and 2012.

- **Resources Center for Social Economy (CERES)** (<http://www.economiesociala.net/m1-130-0-ro-Concept-CERES>), part of the Project named „Social Economy - a new challenge in the labor market insertion of prisoners”. It has online resources platform [www.economiesociala.net](http://www.economiesociala.net), the first one in Romania dedicated to active organizations in the social economy and beneficiaries of this project.

- NGOs, among which we mention **Social Alternatives**, created in 1997 (<http://www.alternativesociale.ro>), **Europa Association for Human Development (EADU)**, founded in 2009 which has achieved **RIES Project - Network of Social Economy Incubators - Strategic Approach for Human Resource Development** (<http://economie-sociala.org/despre-ries>).

- **RIES – Project** which has the objective to create the **Network of Social Economy Incubators in four Development Regions**, namely South-Muntenia, South-East, Bucharest-Ilfov and South-West Oltenia. These structures provide facilities both “hard” and “soft”, i.e. infrastructure and know-how for the benefit of vulnerable/disadvantaged people target group. For the development and coordination of the practice community type interregional network (SPC) and the Social Economy Incubators (IES), under the project was established the **Interregional Social Economy Centre** (Centre for Human Resource Development and Social Entrepreneurship) and **Interregional Network “Practice Community”** type, a virtual space for communication, information and debate.

Dissemination of information is achieved by:

- **Social Economy Academic Review** (<http://revistadeeconomiesociala.ro>), which aims to promote and support on the public, academic and political agenda the concept of social economy, in order to identify “that socioeconomic antidote against perverse effects of neoliberalism, being particularly concerned about the needs of individuals and the community interests rather than maximization and distribution of the profit among a small number of shareholders.”

- **Social Economy Review** (<http://profitpentruoameni.ro/revista-de-economie-sociala>) under the Project “Profit for the People” has the same purpose as the previous one being a promotional, reflection and debate topics of interest to the social economy framework. It supports those inter and transdisciplinary innovative approaches to social economy development, bringing together theoretical perspectives from academia and research with practical perspectives of the organizations, experts in social enterprises and government.

Organizations and reviews listed above are parts of **projects financed by the European Social Fund and national contribution**. Such examples are numerous, of which mention: “**Social and on the labor market inclusion through social enterprises**” held in Alba County, or “**Well Factory**”, developed in five of eight development regions from our country and which ends with providing jobs for 150 persons with disabilities or who have the minimum guaranteed income.

The involved institutions organize and support:

- **Events** organized to disseminate news in the field and exchange best practices. As recognized initiators we mention Intercommunity Development Associations, cooperative structures with legal personality, under private law, created in legal conditions by the territorial administrative units for the joint development of projects of regional or local interest or joint offering of public services (The local public administration Law no. 215/2001). Their efforts are numerous; we only mention the type of empowerment and involvement of local communities on social inclusion seminars, waste management and social economy. There are all over the country, from Tulcea - in April 2013, organized within the project „Social Economy, a solution for the environment”, initiated and coordinated by the „Save the Danube Delta” Association, in partnership with Eco-Rom Ambalaje, until Pitești - June 2013 for documenting all those interested in the project of common public interest „Integrated Management of solid waste in Argeș” development etc.

- Creation of the **protected units** by the Ministry of Labour, in collaboration with the National Association of People with Disabilities, aimed to integrate people with disabilities into the labor market from our country.

- **Ideas of social affairs**, financed by competition, initiated by different organizations. The latest initiative well known by the public is the project „Made in Andrei's Country” ([www.taraluiandrei.ro](http://www.taraluiandrei.ro)) dedicated to local communities, with total financing of 350,000 euro, with two major objectives: creating jobs and solving local social problems. Examples of good practice tend to be known more and more in Romania.

All the initiatives listed above have spaces in the traditional and on-line media, dedicated to promote the results, which can become a source of inspiration for future business. An example is **AMURTEL Garden** from Poieni Village, Buzău County. Local consumers pay a subscription fee of 1,600 lei for 2013 season and receive a weekly basket of organic vegetables grown transparently, 36 times during the season (April to December); The first edition of the **Easter Fair of Social Affairs – „Gifts from the Good”**, held in Bucharest in March 2013, with the participation of social enterprises across the country, that offered a wide range of products, from cakes, gifts and hand-made jewelry, or even leather goods and decorations etc.

#### **4. The future of the social economy**

The Global crisis requires more effective economic solutions, including the labor market insertion.

The traditional solutions designed to increase employment for the disadvantaged are no more viable, they have only short-time effect and they are no longer attractive to employers. Reintegration or insertion of the vulnerable persons in the labor market is more difficult, even less possible, with a higher probability of remaining trapped in the social assistance system. Thus, arises the opportunity that the social economy to respond more viable for reducing social exclusion, including Romania. In our country, the number of private organizations that can activate in the social economy has grown considerably during the transition period: 2,000 cooperatives, 3,000 employees and pensioners credit unions and other 20,000 non-governmental organizations active in all areas of the national economy. Of these, according to experts, more than 3,000 performed in steady economic activities, accomplishing the criteria to be classified as social economy enterprises, many of them have created workshops or protected units for employment of persons with disabilities and around 2,000 provide employment and social services, including the employment integration of disadvantaged people in Romania.

The future belongs, also, to the idea of corporate social responsibility – CSR, which refers to the economic success of a business as a result of incorporating the social and environmental issues in its work, to the simultaneously solve of several aspects about customer satisfaction, on one hand, and about the expectations of other groups: employees, suppliers and community residents in general, on the other hand.

Our country European Funds Ministry sent, since June this year, to the European Commission, the first version of the consultative document to develop the Partnership Advisory 2014-2020, during the preparation for the using of funds allocated to Romania ([www.fonduri-ue.ro](http://www.fonduri-ue.ro)). It proposes 11 thematic objectives and the social economy can be found as one of the four priorities in Objective 9: Promoting social inclusion and combating poverty. Under this objective Romania has set a target to reduce by 580,000 the number of people in poverty in the 2008-2020 period. Indicative financial allocation for this purpose amounts to 2.74 billion euros, of which 0.7 from ERDF, 0.78 from ESF and 1.26 from EAFRD. It has the following priorities: Development of social assistance system; Integration of vulnerable groups and communities, including gypsies; Support the social economy and social enterprises; Promote and support the national health system reform.

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# THE MANAGEMENT OF THE PSYCHOLOGICAL CONTRACT, IS IT POSSIBLE? THE EXPERIENCE OF AUTOMOTIVE INDUSTRY IN ROMANIA

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## Abstract:

*Defined as being all the promises which play a role of obligations between the employee and the employer (Rousseau, 1995), the psychological contract (PC) became in the last two decades an essential instrument of employment relation analysis. However, the management of the psychological contract idea is recent and became important under the pressure of the economic crisis which has shaken especially Europe in the last five years.*

*This presentation reveals the 2010 qualitative research results conducted in Romania, in two companies of the automotive industry in Sibiu area.*

*Based on 31 interviews with employees and managers, we analyzed how the change in the Romanian economic and social environment changed the employment relationship in automotive industry. We noticed that, to avoid the employee's breach feeling, the participating companies implemented a rigorous psychological contract follow-up which is an expression of a preventive behavior or PC rupture avoidance.*

*This prevention behavior is based on the promise's level reduction, on the open discussion of PC terms at the recruiting time and on a permanent organizational communication. This is also based on the several PC terms arrangements in order to encounter several types of the employee's preferences.*

*Our presentation is completed by proposing various lines of reflection in order to use these results in the current management practice.*

**Key words:** *employment relationship, psychological contract, change, breach, preventive behavior*

**JEL Classification** JEL: M1

## 1. Introduction

Defined as «the set of promises which play the role of obligations between the employee and his employer» (Rousseau: 1995:5), the psychological contract has become in the last three decades a strong instrument of employment analysis».

Numerous researches made in the area of the psychological contract proved its influence on the behaviours and attitudes at work. Thus, the perception of the employees that the organization kept its promises by offering what it had promised (e.g. *fulfillment of the psychological contract*) resulted in the work satisfaction (Turnley&Feldman: 2000), in the productivity and in the intention of continuing the collaboration with the same employer (Dabos & Rousseau: 2004) and in the performance (Bal, Chiaburu & Jansen, 2010; Wilkens & Nermerich, 2012). The respect of the promises of the psychological contract has also important effects on the mood of the employees, on their motivation at work, on their well-being (Guerrero & Herbach, 2008; Parzefall & Hakanen, 2010) and on their personal identity (Henderson et O'Leary-Kelly, 2012). On the contrary, as the meta analysis of Zhao *et al.*, (2007) shows, a perception of the employees that the organization failed in keeping its promise (e.g. *the break of the psychological contract*) was related to a decrease of the satisfaction at work, of the work involvement and to an increase of the intention of leaving the organization. The break may as well lead to counter-productive behaviours for the organization from the part of the employees (Bordia, Restubog & Tang, 2008; Jensen, Opland & Ryan, 2010).

The core of the psychological contract theory contains the analysis of the psychological contract process. This process begins with the judgment of the employee regarding the relation between his own work contribution and the reward of these

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contributions by the organization. Following this comparison process, the employee may conclude that his employer kept his promises or not. In the latter situation, the employee could experience a feeling of breach or, later on, of violation of the psychological contract. It is on this aspect that most part of the literature on the psychological contract is concentrated.

Even though some researches mentioned the importance of getting interest in the formation of the psychological contract (for instance Rousseau, 1995; Dulac, 2005), this view remains descriptive and theoretical, without trying to study the practical side of this stage which is, however, very important for the later development of the psychological contract process.

Within the frame of this communication, following the example of Coyle-Shapiro & Parzefall (2005), we forward the idea that enterprises could administer the psychological contract that they develop with their employees. Thus, we are trying to answer the following research question:

**“Is it possible that the organizations learn how to efficiently manage the psychological contract which develops between them and their employees and which would be the means to do it?”**

## **2. Theoretical background**

Researches on the psychological contract have proved that the psychological contract represents a perception which evolves in time according to the life of the individual, which makes us believe that the organization could interfere in this evolution by changing it with a view to meet the employees' expectations.

Thus, according to Dulac (2005), there are several stages in the development of the psychological contract. The first one starts even before the individual enters the organization. This is called “the stage of the anticipatory socialization” (Dulac: 2005: p. 78). In this stage, the employee possesses an “anticipatory psychological contract”, based on expectations and suppositions engendered by experiences which were previous to the organizational entrance. The experience comes from family-related, professional or even society-related socialization (Dulac: 2005).

In this approach, the anticipatory psychological contract would represent an incomplete schema which a person possesses with regard to a possible future workplace and with regard to the obligations that he/she and the organization could assume in a mutual relationship. This schema starts to be completed by the interactions that the new employee has with the recruitment and selection agents. This information exchange facilitates the formation of the anticipatory expectations regarding the level of obligations and promises included in the psychological contract.

Subsequently, the employee will be in the stage of “meeting” which starts once he has entered the organization and lasts for a few months (Nelson *et al.*, 1991). During this stage, the employee has the opportunity to relate with several organizational agents (e.g. colleagues or managers) and to submit his psychological contract schema to the organizational reality. Thus, the schema changes in order to become more stable.

According to Tomprou et Nikolau (2011), several intervention factors play roles in the creation of the psychological contract after the organizational entry. The first factor is represented by the “contract makers” (p.345), the people who has the power in the organization, like the supervisors and the directors. They represent sources of promises which the new employee finds worthy of confidence, sources which outdo the other source of information, the colleagues. However, the colleagues play the role of “facilitators” helping the newly arrived to understand the values and the social relations which are promoted by the organization.

Finally, during the “change and acquisition” stage, the schema of the psychological contract of the employee changes itself, following the environmental information and the behaviour of the organization towards him, in order to become more structured and more stable (Dulac: 2005). According to some opinions, once finished, this schema would become rigid and little open to change (Rousseau: 2001). On the contrary, according to other opinions, the psychological contract schema may be adjusted, following a process of fitting/adjustment between the employees and the organizational agents (Schalk: 2004).

Based on this view, we proceeded to the analysis of the psychological contract in the automobile area in Romania. Our hypothesis is that the psychological contract represents a stable but flexible schema which can be modified if adequate interventions are done by the enterprises.

### **3. Research methodology**

This paper presents some of the results that we obtained after making a qualitative research in 2010 in two automobile industry enterprises situated in the region of Sibiu, in Romania.

Within the frame of the research, we went to interrogate 31 people, 15 managers and 16 employees regarding their perception on the psychological contract in their enterprise and on the way in which the changes that Romania has been going through for more than two decades influences this perception.

More approaches were developed in the qualitative research (Creswell: 2013). In order to make the research, we appealed to the Grounded Theory (Charmaz: 2006). According to this theory, the researchers try to find information to identify a model which would be able to complete the existing theory.

Within the frame of this theory, after the transcription of the interviews, we analyze the data according to the coding level. The first level, the Open Coding reports of the results called “first coding level”. Consequently, the researcher chooses some codes which he considers to be more encompassing and synthetic with respect to the analyzed subject. It is the Axial Coding. In the last stage of coding the theoretical or Selective Coding, the elements composing the new model are revealed by the researcher.

### **4. The results of the research**

The objective of the research which we made in 2010 in the two enterprises of the automobile sector in Romania was to see which the perceptions of the psychological contract were at that time and which were the mechanisms that have supported its transformation in the last two decades. Thus, we appealed to a cross study in order to answer this question.

As the design of our research does not have a longitudinal character, we were not able to make an analysis which could cover all the stages of transformation of the psychological contract, the way there were treated in the literature and presented in the methodology of this research.

On the contrary, this design of research let us understand the way in which the psychological contract was modeled and adapted by the enterprises which participated in the study, to the new environmental circumstances of the Romanian auto industry. These enterprises were obliged to adapt their politics and procedures concerning the human resource management to the high demands of an industry which is based on quality and performance.

We concluded that, in the case of the sample which we analyzed, there was an activity of the management of the employees’ psychological contract by the enterprises, management which was realized on more plans. It is to be noted that the research was made during the economic crisis which still affects almost the whole Europe, including Romania.

The data analysis gave us the possibility to observe that the psychological contract had a great importance for the two studied enterprises and that they paid much attention to the promises they had made with respect to the relation with their employees. To make sure that



the employees are satisfied with the relation they have with their employer and that they do not intend to leave their workplace, several behaviours were developed by the enterprises which took part in the research in order to manage the psychological contract of the employees.

The first thing that we noticed was the decrease of the level of obligations which the enterprises had with respect to their employees. For instance, for the majority, these obligations were focused on the tasks they had to fulfill and on the salary they would get. This is an observation which does not validate the previous studies on the psychological contract, which considered that success at work and the balance between the professional life and the private life are promises/obligations included in the contents of the psychological contract. This precautionary behaviour manifested by the enterprises could be explained by the fear of assuming too important responsibilities in times of trouble and lack of certainties. It could also be explained by the usual behaviours which exist in the automobile industry which are also focused on the task and performance achievement.

We also noticed that the enterprises mentioned in our study made efforts to “formalize” the terms of the psychological contract so that they become clearer and more visible to the employees. One of the traits of the psychological contract is its non-written and non-formal character (Rousseau, 1989, 1995). By means of this “formalization” the psychological contract becomes easier to manage since each of the parties of the employment relationship knows its obligations better and, consequently, the risk of incongruence will be much diminished.

The clarification of terms of the psychological contract begins in the analyzed enterprises with the hiring process. During the interview of employment, the recruiting agent makes known to the candidates the list of obligations that they must fulfill, as future employees. After being hired, the chief of the new employee makes sure that he understood exactly the tasks he must fulfill and that he performs them the way it was established when he was hired.

Another factor of the management process of the psychological factor issued from the research is the permanent interest of the enterprises in communicating all the changes that come up in the employment relation terms. This communication is done at all levels of hierarchical levels. It is also bidirectional, which means that the communication which starts from the bottom to the top is also encouraged.

We also noticed closeness regarding the categories of terms of the psychological contract in the two enterprises where we made the research. This similarity of terms of the psychological contract makes us believe that the enterprises we studied appealed to a “common” psychological contract which is specific to the Romanian auto industry. We called it “shared psychological contract”. This type of psychological contract assures once again the enterprises in this uncertain situation, in the sense that they do not offer worse working conditions than their competitors, thus chances that their employees do not leave their workplace increase.

## **5. Conclusions**

Studying the results presented before, we can see that the psychological contract can and must be managed by the enterprises which wished to become more successful in a more and more competitive world economy.

A management of the employees’ psychological contract by the enterprises has advantages both for his employee and for his employer. First of all, each of the parts is reassured with respect to the contributions which the other part expects to receive. This open discussion concerning the obligations of the psychological contract makes that the terms of the employment relation become clearer, more open, so, suddenly, the risk of a misunderstanding also diminishes significantly and consequently the risk of the psychological contract breach occurrence.

The standardization of terms of the psychological contract may contribute to the decrease of the expenses related to the employment process and to the staff turnover. In the specialized literature of human resources this state of things is well known: the highest staff expenses are engendered by endowment funds (St-Onge *et al.*, 2013). By exactly knowing what the obligations at work are and by accepting them, the employee assumes the task achievement and his intention to leave the organization diminishes.

With respect to the organizational communication, we can say it is essential for the efficient functioning of the organizations (Dessler: 2009). For example, the detailed communication of a change leads to an adjustment of the task in a quick manner while the production process does not undergo any change and the employee does not experience the feeling of incapacity or the lack of self-value. Thus, if the organization cares about communicating its intentions to the employees, they will be more aware of a possible change at their workplace and will be more cooperative. Moreover, sharing the information will have a positive impact on the mood of the workers who will feel more appreciated by the organization. Consequently, the organizational climate will improve.

To conclude, we can assert that the management of the psychological contract by the enterprises may be an efficient tool in increasing both the organizational performance and the employees' satisfaction. Other studies would be, however, necessary to analyze in a better way the psychological contract formation stage after the organizational entry of the employee as well as his adapting behaviour to the changes that might occur in his developing relationship with a certain employer.

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# ROMANIAN VEGETABLE GROWING – PRESENT AND PROSPECTIVE FOR 2020-2025

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## Abstract:

*Actually, Romanian vegetable crops field has some difficulties such are: most of farmers have small area with vegetables, where is not possible to have a good level of mechanization. Provide with necessary water is in many places very difficult or too expensive. Some farmers do not have enough money to buy the best seeds of varieties, fertilizers, crop protection chemicals, or they have not information about all of these. In addition, price of vegetables from farm are small, though quality is very good.*

*Researchers in vegetable field recommend for the next years a choice of proper land for vegetable, use of best varieties or hybrids, good extension network. In order to provide necessary quantity of vegetable for 19 million habitants in Romania, researchers recommend increase of area with plastic tunnels and extension of results of national and international research in the farms.*

**Key words:** *vegetable farms; area with vegetable species; yield of vegetable in Romania and in European countries; target for 2020-2025 years in vegetable yield; crop protection; plastic tunnels.*

## 1. Present State of Romanian Vegetable Field

Because at present Romanian vegetable growing field has some difficulties, sometimes there are not Romanian vegetable on the market. In some periods, usually in winter period, we may find in supermarket vegetables from Turkey or from others countries, instead of Romanian products. On the other hand, the small vegetable farms in Romania have small productivity because their level of mechanization.

The main problems of vegetable farm in Romania are:

- Organization: there are too many small farms and few big farms;
- Most of farms produce their seeds of vegetables, which are not very competitive and sometimes are damaged at pest and diseases;
- In some farms there are problems with water supply;
- Most of farmers do not apply the best technology in vegetables;
- In many cases, farmers apply fertilizations and plant diseases and pest control without a scientific base;
- some of farmers have not knowledge about new varieties and they do not choose the best variety for local conditions;
- Level of mechanization is poor;
- yield of vegetable per hectare is rather small, although quality is good;
- price of vegetable products at farm door, are in many cases rather small.

In the table 1 is presented number and area of vegetable farms in the years 2007 and 2010. The data were obtained from Structural Investigation in Agriculture 2007 and General Census in Agriculture 2010.

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**Table 1. Number and area of vegetable farms**

Tipul exploatației	Area	Number of farms		
		2007	2010	2025
Individual farmers	under 1 ha	141.742	44.605	25.000
	1 – 5 ha	233.284	54.773	12.000
	More than 5 ha	64.502	16.373	5.000
Associations or partnerships of farmers	under 50 ha	631 (>10 ha)	1.300	2.000
	50 – 100 ha		700	900
	More than 100 ha		400	600

Romanian official statistics show a cultivated area with vegetable more than 270,000 ha, but with a small mean yield, about 14 t/ha. Researchers from Research Institute for Vegetable and Flower Growing Vidra and from Romanian Society of Horticulture estimate „real” cultivated area with vegetable at about 85,000 ha and a mean yield at 32.5 t/ha. According with these estimations the „real” situation of romanian vegetable field and struture of vegetable species is:

- Cabbage: 23,000 ha x 37 t/ha = 851,000 t
- Tomatoes: 12,250 ha x 45 t/ha = 551,250 t
- Onion: 8,000 ha x 33 t/ha = 264,000 t
- Pepper: 9,500 ha x 30 t/ha = 285,000 t
- Vegetable for roots: 10,000 ha x 27 t/ha = 270,000 t
- CucumberS: 4,500 ha x 50 t/ha = 225.000 t
- Eggplants: 5,000 ha x 36 t/ha = 180.000 t
- Green pea: 1,000 ha x 3 t/ha = 3.000 t
- Green bean: 3,000 ha x 5 t/ha = 15,000 t
- Garlic: 500 ha x 10 t/ha = 5,000 t
- Other vegetables: 5,700 x 6 t/ha = 34,200 t
- Total vegetables: 82,450 ha x 32,5463 t/ha = 2,683,450 t

We can observe a great difference between official statistics and estimations of some specialists in this field. In their opinion, cultivated area is smaller with 187,000 ha and total annual yield is smaller with 1 million t. In the same time, the mean of yield per ha is greater, and touch 32.5 t/ha instead of 14.6 t/ha.

In this estimation, the differences between mean of yield in vegetable in Romania and some developed countries are not so great, but are still importante.

In the table 2 is presented means of yield of vegetable in some countries of European Union.

**Table 2. Means of vegetable yield in some countries of European Union-2012 (t/ha)**

Country	Yield, t/ha
Netherlands	48
Spain	34
Italy	32
Romania	32, official 15!
Germany	31
Belgium	30
France	26
Hungary	19
Bulgaria	19

Between 2007-2010 years, the import of vegetable in Romania oscillates between 150,000-200,000 t/year and the export was very small, only in some years being 25-30,000 t. In these conditions, import of vegetable cost is about 80 million euro every year, while export brings only about 20 million euro.

## 2. Providing with Necessary Vegetable for Consumption in Romania

Providing with necessary vegetable for population consumption in Romania and a possible surplus for export, pay attention both agricultural ministry and researchers. At the level of year 2012, we have the next reference data :

Consumul mediu pe cap de locuitor: 150 kg/an;

Necessary vegetable for total population (19,043 mil. inhabitants): 2.856.450 t/an;

Export: 45.000 t (this quantity is already exported in 2011);

TOTAL necessary vegetables: 2.901.450 t/year;

From domestic farms: 2.683.450 t/year;

From import: 218.000 t/year; (official statistics is 203.430 t in 2010).

The data presented here confirm as we calculated, in comparison with about 4 million tones reported in statistics.

We must underline that Romanian export of vegetables in 1985 was about 600.000 t; that confirms a certain potential that can be renewed.

### Targets for 2020-2025 are:

✓ Population: about 19.100.000 inhabitants;

✓ Mean vegetables consumption: about 190 kg/year;

✓ Total fresh vegetable for consumption: about 3.629.000 t/year;

✓ From import : about 200.000 t/year (fresh vegetable in the winter time);

✓ From domestic farms: about 4.400.000 t/year, from which:

- vegetables from open field: 100.000 ha x 24 t/ha = 2.400.000 t/year

- vegetables from plastic tunnels and glasshouses: 20.000 ha x 100 t/ha = 2.000.000 t/an;

Excedent for export: cca 971.000 t/year.

### What we can do for touch these targets ?

In order to increase both vegetable yield and quality of products, is important to make a good choice of varieties and hybrids, like that to satisfy both the farmers and consumers expectations. First of them want to obtain good yield at low cost and good profit, and the secondes want quality products at low prices. Scientific research from România obtained and spreades in production many valuable varieties and hybrids, most of them cultivated nowadays on the large area, sometimes more than imported cultivars. In table 3 is done the weight of Romanian cultivars (% , 2012).

**Table 3. Weight of Romanian cultivars (% , 2012)**

Crop	Romanian	From other countries
Tomatoes (open field)	90	10
Pepper (green, long, tomato-pepper, chilli)	90	10
Eggplants	95	5
Early cabbage	0	100
Summer and autumn cabbage	85	15
Cucumbers (open field)	20	80
Bush squash (open field)	20	80
Vegetables for roots (carrot, celery, red beet, parsley, parsnip, radish)	50	50
Onion	50	50

Crop	Romanian	From other countries
Garlic	100	0
Garden pea	30	70
Garden bean	15	85
Other vegetables for open field	92	8
Total vegetables for open field	60	40
Early tomatoes (in glasshouse or plastic tunnels)	5	95
Others vegetables cultivated in glasshouse or plastic tunnels (cucumbers, pepper, eggplants , lettuce, squash, snap bean)	5	95

In order to touch these targets, we must introduce in the vegetable field the main results of research activity. Nowadays, in Romania there is a Research Institute (Vidra-Ilfov) and three research stations (Bacau, Buzau, and Iernut-Mures). Other three research stations stopped their activity after 1990 year. Romanian researchers from institutes, research stations and universities obtained new varieties of vegetable with *Romanian taste* (at tomato, pepper, eggplants, cabbage, carrot, onion, lettuce, garden pea, garden bean, radish, celery), many of them well known and appreciate by the farmers and consumers. But now it is necessary new varieties for new demands of the market, with better quality and with new characteristics.

In order to satisfy the demands of consumers, vegetable products must be:

- more healthy and sure for consumption;
- to have a Romanian traditional taste;
- the price must to be accessible, not too high;
- something new, with new quality characteristics;
- new products for Romania, but which are well known in other countries;
- new cultivars which come from wild vegetable species;
- new vegetable which are cultivated in the originate countries of some emigrants.

Despite many difficults (small number of researchers, laboratories weak equipped, few funds), romanian researchers obtained many vegetable varieties, as we show in the table 4.

**Table 4. Number of vegetable varieties and hybrids obtained and entered in National list between 1990-2012**

Crop	Number of cultivars	Observation
Brussels chicory	2	-
Pepper	37	Tomato-pepper – 13 Bell pepper – 12 Long pepper – 11 Chili pepper – 1
Okra	2	-
Basilique	1	-
Cucumber	20	Hybrids– 7
Onion	17	Hybrids- 2 Red onion – 3
Chicory	2	-
Savory	3	

Crop	Number of cultivars	Observation
Cauliflower	2	For autumn
Bush squash	6	Hybrids- 2
Tomato	28	Hybrids- 3 Cherry type – 2 For processing – 8 For fresh consumption – 15
White cabbage	12	Hybrids – 2 For autumn – 9 For summer – 1
Dwarf bean	17	

At others vegetable species, romanian researchers obtained varieties and hybrids which are already in the farms or they are in multiplication for introduction in production. We may count: climbing bean (5 varieties), garden peas (10), carrot (5, from which 2 hybrids), water melon (2) melon (3), eggplants (11, from which one variety with white colour and two hybrids), radish (6), lettuce (8) and so on. There are many romanian vegetable varieties which are agreed both farmers and consumers. In the table 5, we selected a part of these cultivars.

**Table 5. Example of vegetable varieties and hybrids which are agreed both farmers and consumers**

Crop	Cultivar
Tomato	Siriana F1*, Pontica 102, Viorica, Darsirius, Buzău 47, Kristinica, Carisma*, Coralina*;
Tomato-pepper	Cornel 209, Asteroid 204
Bell pepper	Bârsan, Galben Superior, Ceres, Arum, Buzău 10*, Vidra 9*
Long pepper	Siret
Chilly pepper	Iute Delicios
Eggplants	Andra F1*, Luiza, Contesa, Daniela, Belona* Drăgaica* Și Ultimele Creații, Buzău H1* Și Eleonora;
Carrot	Triumf F1, Bucovina F1
Celery	Bistrița
Onion	De Buzău
Autumn cabbage	Buzoiana, Mocira, Poiana;
Garden bean	Auria Bacăului*, Menuet, Ioana*;
Garden peas	Vidra 187, Armonia, Diana, Ișalnița 60;
Cucumber	Sirius F1*, Ierprem*;
Bush squash	Compact F1*, Perfect;
Melon	Fondant*;

\*The cultivars marked with a little star are recommended for open field and for plastic tunnels, too

The network of vegetable research institute and stations produce every year important quantity of base and certificate seeds from their own varieties, despite limitation of area of network. Together with private farms, vegetable research units can assure integral all the necessary quantity of



certificate seeds. In the year 2013, vegetable research network will produce about 20,5 tones, and prospects for the future are 52 t in 2020 and over 60 t in 2025.

One other important field of vegetable research is dedicated to new techniques in crop production and testing of level of soil fertility in the vegetable cultivated areas. On this basis, an establishment fertilisation programme. Researchers worked a great number of tests and they established best limits of some soil parameters (organic matter, pH, field capacity for water, soluble salts, phosphorus, potassium and magnesium soluble in water, ammonium and nitric forms of nitrogen, and so on) in order to obtain a great yield with a good quality. Vegetable farmers can ask for testing soil quality and plant analysis at agrochemical laboratory from Institute and research stations. In the same time, researchers can offer recipe of fertilisation for any vegetable crop and any crop type: open field, plastic tunnels or glasshouse; production for fresh consumption or for canning, surgelation, and so on.

Integrate control of pathogens and pests is also very important because there are many vegetable species and each of them can be damaged by many pathogens and pests. Vegetable farmers must know that are the best solutions for control pathogens and pests. Most of these solutions are studied by Romanian researchers and a few solutions come from abroad. Every solution is based by chemical or biological methods of control, but the methods frequently are integrated. In the last two decades are multiplied methods of control pathogens and pests by utilisation of some parasites and predators which exclude or limit use of chemical products.

Romanian vegetable researchers establish:

- Modern technologies for most important vegetable crops in the open field;
- Technologies for cultivation of vegetables, in glasshouse and plastic tunnels on active and inert substratum;
- Calculation software for establishment and distribution in the different periods of organic and mineral fertilizers for the main vegetable species;
- Software optimization for nutritional mixture in seedlings production;
- Technologies for seedlings production;
- Ecological technologies for open field crops and for crops in covered spaces;

### **3. Development of Policy for Vegetable Crops**

In order to vegetable crops to reach the parameters as has been stated above, they must be elaborated a set of policies what to keep in mind:

- climate change at regional and global level;
- real state of irrigation systems;
- current level of organisation of farmers and their economic power;
- farmers low or medium level of information and consulting;
- Low consumption of fertilizers and pesticides.

**- Sustainable development of vegetable crops grown in covered spaces is a real alternative for Romanian vegetable branch.** Researchers suggest increasing of occupied surface with solariums from 7.500 ha nowadays, up to **20.000 ha in 2020, with a growth rate of 1.500 – 1.700 ha/year.**

***“Vegetables grown in protected area is the best and the cheapest solution in order to insure production against climate damage”*** –said repeatedly the researcher in vegetable field V. Lăcătuș.

The proposal of growth rate of protected area cultivated with vegetable is presented in table 6.

**Table 6. Developing of vegetable crops in covered spaces (ha)**

VEGETABLE CROP	YEAR		
	2013	2017	2020
Tomato first cycle	4.000	8.000	12.000
Tomato second cycle	2.500	5.000	7.500
Cucumbers first cycle	500	1.000	1.500
Cucumbers second cycle	1750	3.500	5.250
Bush squash first cycle	500	1.000	1.500
Snap bean first cycle	500	1.000	1.500
Bell pepper extended cycle	750	1.500	2.250
Eggplant extended cycle	750	1.500	2.250
Cabbage and cauliflower first cycle	500	1.000	1.500
Varză și conopidă second cycle	750	1.500	2.250
Others vegetable crops extended cycle	500	1.000	1.500
<b>TOTAL, from which</b>	<b>13.000</b>	<b>25.500</b>	<b>39.000</b>
Vegetable first cycle	8.000	15.500	24.100
Legume second cycle	5.000	10.000	14.900

The specific buildings and modern technologies in protected vegetable crops can ensure:

- fresh vegetable throughout the year;
- increase early production (100-300%) and the total yield (100%);
- one can obtain the good quality of products;
- improvement of thermal and hydric regime;
- low loss of water and soil nutrients;
- low pressure of disease and pests;
- there are more possibilities to introduce new vegetable species in order to diversify production;
- energy consumption is reduced with 30-50%;
- is easier to put in the practice industrial machines for sorting, sizing, packing, cooling and competitive delivery of products;

We need also other facilities (tax and customs arrangements, purchases contracts, improvement of marketing, stimulating producers association, trade promotion, and so on). In order to stimulate producers association, one estimates it would be necessary about 125.000 €/3 years for each new cooperative (association).

It is necessary to renew the work of zonation and microzonation of areas suitable to vegetable production and concentration of production, too. In the same time it is necessary to introduce new cultivars, which to answer better to climate changes. Other measures are also necessary: ensuring water supplies for irrigation together with increasing of coefficient of water use; new irrigation systems and restoring of some old systems; extending of drip irrigation.

But progress of growing vegetable depends also on other measures:

- choosing the best area of land for growing vegetables and leaving the land that is not suitable for;
- the use of mulch for covering soil;

- increasing of protective curtains with trees;
- new software for daily irrigation programme for the main vegetable species;
- allocation of funds for research in this field;
- specialized warehouse;
- ensure of free consultancy for fertilization and control of diseases and pests.

#### **4. Conclusions on Developing Romanian Growing Vegetable Field during the Period 2020-2025**

As a result of the application of government agricultural policies and increase the role of scientific research, Romanian growing vegetable will have the following dynamic:

- the surface with vegetables grown in covered spaces will increase by 286%;
- the surface with vegetables in open field will remain constant, at about 100.000 ha;
- number of Romanian cultivars will increase;
- total vegetable yield will increase with 64%;
- import of vegetable will decrease by 8%;
- export of vegetable will increase by 20 times, and will be compared to the average of past years and exceed 500.000 t;
- vegetable consumption per capita will increase by 27 %;

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# NATIONAL CULTURE AND INTELLECTUAL CAPITAL: COMPARATIVE ANALYSIS ROMANIA - SLOVENIA

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## Abstract:

*The purpose of this scientific endeavour is to identify the possible relationships between the dimensions of national culture and intellectual capital. As such, we have directed our research towards making an analysis at the level of EU countries, on six dimensions of the national culture based on Geert Hofstede's approach, as well as towards the analysis of the performance of the three dimensions of intellectual capital, namely: structural, human and relational capital. We also aimed at conducting a comparative analysis of the national culture and intellectual capital between Romania and Slovenia. To meet the purpose of the paper we used the following research techniques: investigating secondary data, content analysis, as well as statistical methods for data analysis and interpretation of results. For our research resources we also considered chief models and methodologies of national culture and intellectual capital, publications and reports of international organisations. The main results of the research highlight the influence of national culture on intellectual capital. We demonstrated that some dimensions of national culture, such as Individualism versus collectivism and Indulgence versus restraint positively influence intellectual capital, while other dimensions, namely Distance versus power and Uncertainty avoidance negatively influence intellectual capital.*

**Keywords:** national culture, dimensions of national culture, intellectual capital: structural, relational and human capital, comparative analysis Romania – Slovenia.

**JEL classification:** M16, O11, O32

## 1. Introduction

Broadly speaking, the notion of culture covers the spiritual, material, intellectual whole and that of emotional features of society or of a social group (Moldoveanu, Ioan-Franc, 2011, p.76), as mentioned in The Declaration of Cultural Policies (Mexico, 1995), thus: culture includes “not only arts and literature, but also ways of living, systems of values, traditions and beliefs”. Identifying its applicability, since the ‘79s and at organisational level (Pettigrew, 1979), organisational culture represents “a structured set of the organisation’s material and spiritual results, integrating a system of values and beliefs that is cultivated and sent systematically among its members and outside the respective unit” (Puiu, 2004). The studies and researches undertaken have demonstrated the importance of studying organisational culture because of the practical valences it presents and because it contributes to increasing the organisation’s performance (Mărăcine, 2012, pp.99-106).

Given that *the purpose of this study is to identify the possible relationships between the dimensions of national culture and intellectual capital*, we shall present in the following, the six dimensions of national culture based on Geert Hofstede’s approach.

These are:

- *Power distance (PDI)*. This dimension expresses the degree to which the less powerful people in a society accept that power is distributed unequally. People from the societies in which there is a high distance versus power accept hierarchical order, in which everybody has a place of his/her own, without asking for and needing justifications or explanations. In the societies with a low distance versus power, people try to equalise the distribution of power and demand justifications for the power inequalities (Hofstede, 1980, pp. 65-109).

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• *Individualism versus collectivism (IDV)*. The high level of this dimension called individualism expresses the extent to which society encourages interpersonal relationships and personal achievement, as well as the individuals' tendency to take care only of themselves and their families. In contrast, collectivism expresses the preference for the tightly - knit framework in society, being very close ties between the members (Hofstede, 1980, pp. 148-175).

• *Masculinity versus femininity (MAS)*. Societies that are characterised by a high degree of masculinity focus on outputs, on achieving goals, they can be defined by heroism, assertiveness, self-affirmation and prefer material rewards for success. Masculinity does not mean disadvantaging women; it means inequality, regardless of its meaning (Mihuț, Lungescu, 2006, pp. 5-26). Conversely, femininity is the preference for cooperation, modesty and it is concerned with the life quality of the weak (Hofstede, 1996, p. 99).

• *Uncertainty avoidance (UAI)*. This dimension expresses the degree to which the members of a society feel uncomfortable under conditions of uncertainty and ambiguity. The high values of this dimension mean that the society does not tolerate uncertainty and ambiguity and that is why it is oriented towards rules, laws and control measures which are designed to reduce the degree of uncertainty. The societies with a weak dimension of uncertainty avoidance maintain a more relaxed attitude in which the practices count more than the principles (Hofstede, 1980, pp. 110-147).

• *Long-term versus short-term orientation (ITOWVS)*. Added by Bond M. in 1991 and extended on a sample of 93 countries by Minkov M., this dimension deals with seeking social virtues. The societies with a *short-term orientation* do not seem to value the concepts of long-term and traditional orientation, they have a relatively low tendency for saving for the future and focus on getting quick results. In the societies with *long-term orientation*, people believe that truth depends heavily on context and time. In these cultures people are characterised by perseverance, thrift and having the feeling of shame.

• *Indulgence versus restraint (IVR)*. A recently added dimension, based on the empirical analysis performed by Minkov M., respectively of the survey conducted in 93 countries, indulgence, according to this dimension, expresses that society in which people are having fun and enjoy life. Constraint is specific to the society that suppresses the meeting of needs and regulates them through strict social norms.

Given that we aimed in this research to analyse the interrelation between national culture – intellectual capital, we find it necessary to briefly present the determinants and the variables of intellectual capital, as well as the state of knowledge of research in this area. The analysis of intellectual capital and of knowledge society used to appear mainly within private companies in the recent decades, currently there is a strong interest in all fields of activity (Parpandel, 2013, pp. 53-58). The continuous development of intellectual capital, of the knowledge basis will generate success to any organisation in the knowledge economy. The intangible assets such as education, technological knowledge, innovations, information etc. are the main drivers of growth in the knowledge economy (Parpandel, Voiculeț and Belu, 2012). Special attention should be paid in this context to the phenomenon of brain drain which is very present today (Voicu and Talmaciu, 2011, pp. 2084).

Reporting and measurement of intellectual capital are controversial issues on which there are not generally accepted views by the scientific theory and practice, probably precisely because of the fact that reporting is rather voluntary than mandatory. After a review of the various methods and models for assessing, reporting and measuring intellectual capital (Dumbravă, Dindire, 2012, pp. 160-171), we consider that the most important are: The Intangible Assets Monitor, which assesses the internal structure, the external structure of the company and the employees' skills (Sveby, 1997), Balanced Scorecard which assesses the financial perspectives, the customer relationship, the business processes, learning and development (Kaplan, Norton, 1996), Edvinsson and Malone's

intellectual capital approach (1997): Scandia Business Navigator that integrates financial matters, renewal and development, customer, process and human resources, Intellectual Capital Index (the IC – Index) (Roos et al, 1997), the Performance Prism model (Neely, Adams and Kennerley, 2003), the Meritum guidelines method (Canibano et al. 2002), as well as the Danish guideline (Mouritsen et al., 2003).

However, although measurement and assessment are difficult, the state of knowledge of research in this area has enabled us to identify the main component variables of intellectual capital. After an analysis of the most important conceptualisations of intellectual capital and of its variables, Suci, M.C. (2008, pp. 25-26) identifies the following dimensions and variables. *Human Capital* includes: competence, qualifications and intellectual agility of the employees; *Structural Capital* includes: the processes, systems, structures, trademarks, intellectual property and other intangible assets owned by the company but which are not in the balance sheet and *Relational capital* reflects the relationships with the customers, with the suppliers and other key partners.

## 2. Scientific research methodology, operationalisation of variables and data collection

The objectives of this work are:

O1: making an analysis in the EU countries, on the six dimensions of national culture, namely: *Power distance*, *Individualism versus collectivism*, *Masculinity versus femininity*, *Uncertainty avoidance*, *Long-term versus short-term orientation*, *Indulgence versus restraint*, as well as between the three dimensions of intellectual capital, namely: *structural capital*, *relational capital* and *human capital*.

O2: developing a comparative analysis: Romania-Slovenia, based on the dimensions of the national culture, namely of the intellectual capital performance indices.

For the data corresponding to the six dimensions of national culture we had as a landmark the work *Cultures and Organisations* (Hofstede, Hofstede and Minkov, 2010). To complete this research we collected the data from the data matrix of the 6 dimensions, respectively Dimensions Data Matrix (Hofstede and Hofstede, 2012). The matrix includes the scores corresponding to the dimensions of the national culture for 110 countries worldwide. From this matrix, we selected the values corresponding to the EU countries. Since for Cyprus the data are available only for the Indulgence versus Constraint dimension (IVR), so, because of the lack of data, we proceeded to its elimination from the matrix.

To achieve the analysis concerning the intellectual capital performance, we used an assessment model of intellectual capital for the companies in the EU countries that we proposed and tested in a previous research (Dindire, 2012, pp. 33 -39). Thus, we used the results of the assessment of the companies' performance in the EU countries on the determinants of an organisational behaviour oriented towards knowledge intensive development and identification of critical items with values below the average of the performance index for each dimension of the intellectual capital, respectively structural, human and relational capital.

The performance index was calculated using the formula: 
$$I_{pi} = \frac{V_i - V_{i \min}}{V_{i \max} - V_{i \min}}, \quad (1)$$

where:

$V_i$  – the value of the criterion  $p_i$ . In our case, the value of the score per item;

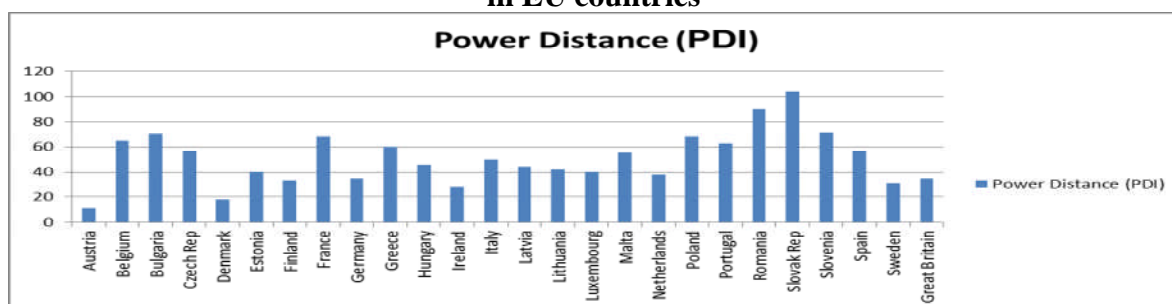
$V_{i \min}$  – the minimum value of the criterion “ $i$ ”. In our case, the minimum value of the score per item ;

$V_{i \max}$  – the maximum value of the criterion “ $i$ ”. In our case, the maximum value of the score per item.

### 3. Research results

➤ Analysing the **Power distance** dimension, in the EU countries, we can draw the following conclusions. The highest values of the dimension of the national culture are recorded, in descending order of the scores, by Slovakia (104), Romania (90), Slovenia (71), Bulgaria (70), France (68), Poland (68) which expresses the fact that in these countries individuals accept hierarchical order in which everybody has a place of his/her own, without asking for and needing justifications or explanations. At the opposite pole, with the lowest scores, in ascending order, are the following countries: Austria (11), Denmark (18), Ireland (28), Sweden (31), Finland (33) and Germany (35). This means that in those countries, which have a low power distance, people try to equalise the distribution of power and demand justifications for the power inequalities. Based on the data, we can see that both Romania and Slovenia recorded high values of this dimension, so they are characterised by a high power distance (Fig. no. 1).

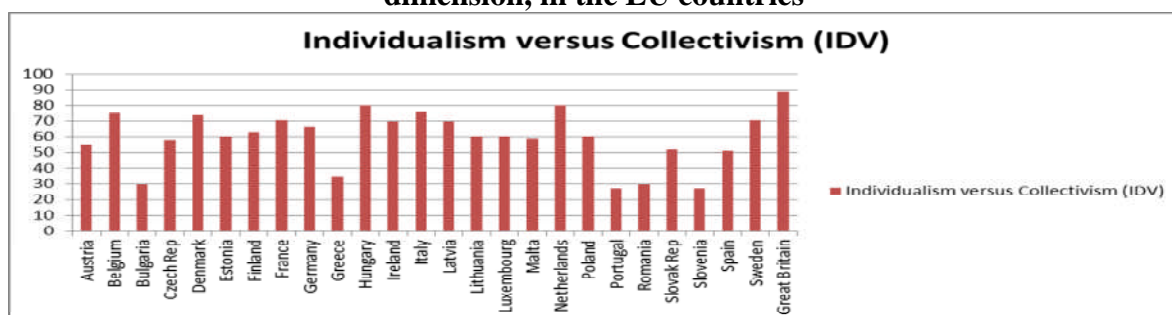
**Figure no. 1. The scores corresponding to the power distance dimension, in EU countries**



Source: processed after Hofstede, G. and Hofstede, G.J., 2012. Dimension Data Matrix, available online at: <http://www.geerthofstede.com/dimension-data-matrix>

➤ Concerning the **Individualism versus collectivism dimension**, one notices the supremacy of the following countries: The United Kingdom (89), The Netherlands (80), Hungary (80), Italy (76), Belgium (75), Denmark (74), Sweden (71), and France (71). The high scores of this dimension mean a high degree of individualism, so, in these cultures one notices the individuals' preference of taking care only of themselves and their families, people being very little united. On the other hand, the small values of this dimension express a high level of collectivism. The countries that fall into this category are: Slovenia (27), Portugal (27), Romania (30), Bulgaria (30), and Greece (35). The intermediate values of this dimension, reflecting a state of equilibrium, are shown in the following figure (Figure no. 2). Related to this dimension too we can notice a similarity between Romania and Slovenia, in the sense that both countries have a high level of collectivism.

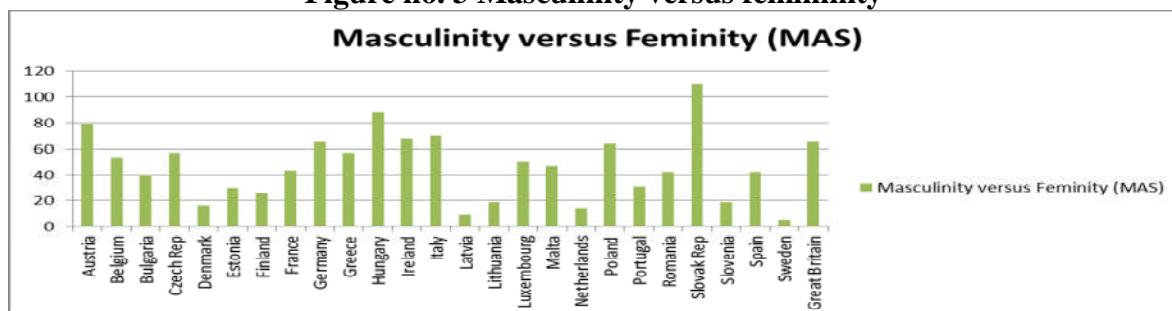
**Figure no. 2 Values corresponding to the Individualism versus collectivism dimension, in the EU countries**



Source: processed after Hofstede, G. and Hofstede, G.J., 2012. Dimension Data Matrix, available online at: <http://www.geerthofstede.com/dimension-data-matrix>

➤ **Masculinity versus femininity dimension** polarises at the two extreme the countries with a high degree of masculinity, namely: Slovakia (110), Hungary (88), Austria (79), Italy (70), Ireland (68), the United Kingdom (66) and, at the other extreme, countries with a high degree of femininity, namely: Sweden (5), Latvia (9), The Netherlands (14), Denmark (16), Lithuania (19), Slovenia (19). Romania, with a score of (42), is situated approximately halfway between the two extremes. In a comparative analysis of Romania and Slovenia, we can say that this dimension differentiates the two countries, in the sense that, while in Romania there is a situation of equilibrium, Slovenia has a high degree of femininity, the society being, as a whole, more oriented towards consensus, prevailing the preference for cooperation, modesty and being largely preoccupied with the life quality of the weak (Figure no. 3).

**Figure no. 3 Masculinity versus femininity**

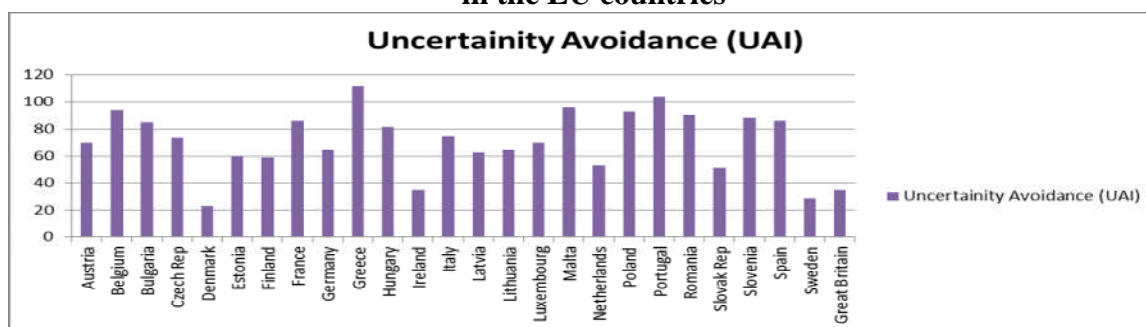


Source: processed by Hofstede, G. and Hofstede, G.J., 2012. Dimension Data Matrix, available online at: <http://www.geerthofstede.com/dimension-data-matrix>

➤ **The third dimension of the national culture, namely Uncertainty avoidance** creates significant differences between some of the EU countries, respectively between Greece (112), Portugal (104), Malta (96), Belgium (94), Romania (90), on the one hand, countries in which people feel uncomfortable under uncertainty and ambiguity condition, in which rigid codes of faith and behaviour are maintained and, on the other hand: Denmark (23), Sweden (29), Ireland (35), the United Kingdom (35), countries in which a more relaxed attitude is maintained, in which practices matter more than principles (Figure no. 4).

Slovenia recorded a higher value of this dimension, namely a score of 88, which make it fall, just as Romania, in the category of countries that prefer to avoid uncertainty.

**Figure no. 4 The values corresponding to the Uncertainty avoidance dimension, in the EU countries**



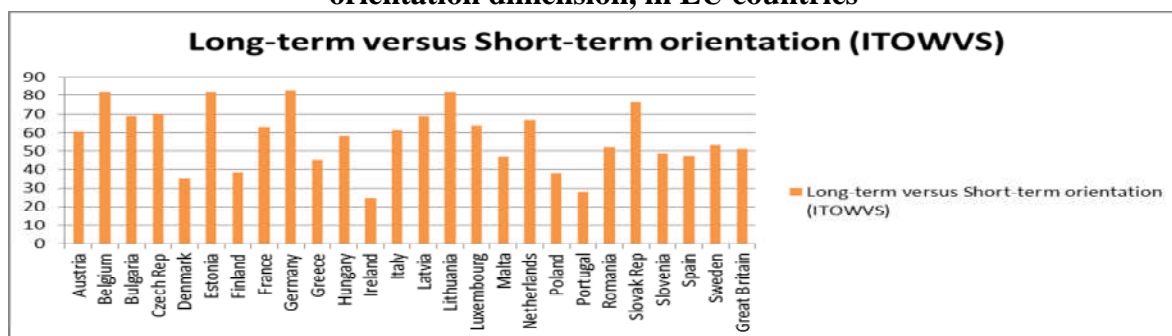
Source: processed by Hofstede, G. and Hofstede, G.J., 2012. Dimension Data Matrix, available online at: <http://www.geerthofstede.com/dimension-data-matrix>

➤ **Regarding the national culture dimension: Long-term versus short-term orientation**, we can extract the following remarks: the highest scores of this dimension, which means long-term orientation, were recorded by: Germany (83), Belgium (82), Estonia (82), and Lithuania (82). These countries have a strong propensity to save and



invest and have the perseverance to achieve these results. The countries with short-term orientation, such as Ireland (24) and Portugal (28), in addition to having a relatively small tendency to save for the future and focus on getting quick results, also have normative thinking and have a great respect for traditions. Romania recorded a score of 52, close to that of Slovenia (49). Both countries, therefore, are approximately halfway the ranking, which shows an equilibrium situation related to this dimension (Figure no. 5).

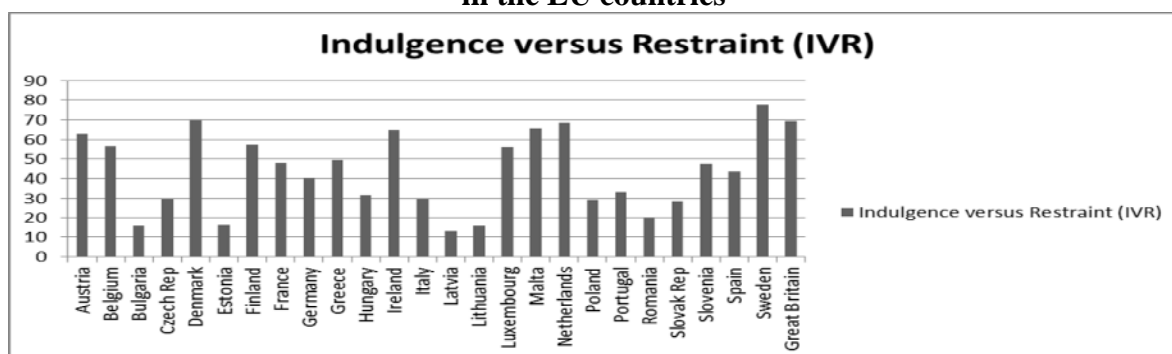
**Figure no. 5 The scores corresponding to the Long- term versus short -term orientation dimension, in EU countries**



Source: processed by Hofstede, G. and Hofstede, G.J., 2012. Dimension Data Matrix, available online at: <http://www.geerthofstede.com/dimension-data-matrix>

➤ **Indulgence versus restraint.** According to this dimension, indulgence, seen as a relaxation of the rules and constraints, records the highest values in countries like Sweden (78), Denmark (70), the United Kingdom (69), the Netherlands (68), Malta (66), Ireland (65), and Austria (63). The constraint specific to those societies that suppress the meeting of needs and regulate them through strict social norms, is best represented in: Latvia (13), Bulgaria (16), Lithuania (16), Estonia (16), Romania (20). Making a comparative analysis between Romania and Slovenia, based on this dimension, we can notice the following difference: while Romania falls in the category of countries in which constraint is predominant, Slovenia, with a score of 48, is in the upper half of the ranking, characterised rather by a higher level of indulgence than by coercion (Figure no. 6).

**Figure no. 6 The scores corresponding to the Indulgence versus restraint dimension, in the EU countries**

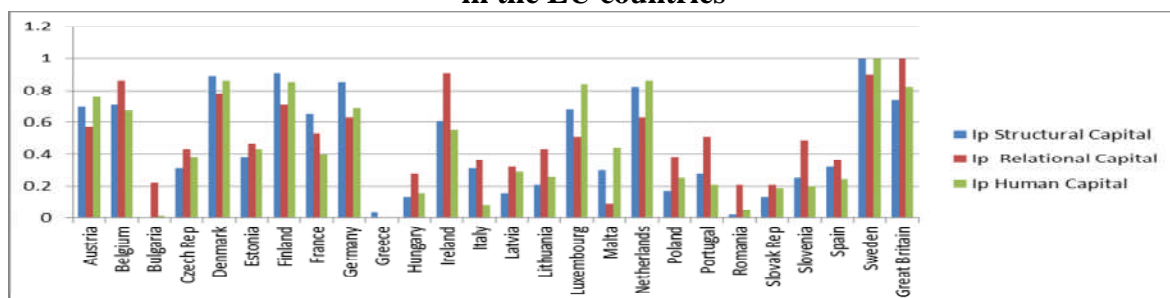


Source: processed by Hofstede, G. and Hofstede, G.J., 2012. Dimension Data Matrix, available online at: <http://www.geerthofstede.com/dimension-data-matrix>

Next, we direct our analysis towards the three dimensions of intellectual capital, namely the performance indexes of structural capital, relational capital and human capital. Europe 2020 once again demonstrates the constant concerns manifested in the development of human capital in the EU. (Savu M., Chirilă A.C., 2012)

For this analysis, we used an assessment model of intellectual capital in the companies from the EU countries that we proposed and tested in a previous research (Dindire, 2012, pp.33-39). The indices range from 0, the minimum value, undesirable, and 1, the maximum value. The support data for this analysis are summarized in the following figure (Figure no. 7).

**Figure no. 7 Performance indices of structural, relational and human capital in the EU countries**



Sursa: Dindire, L.M., 2012. Conceptual model of organisational behaviour management aimed at companies' knowledge intensive development, *Knowledge for Market Use 2012, Olomouci*, pp. 33-39, [http://knowledgeconference.cz/downloads/SBORNIK\\_ZNALOSTI\\_2012.pdf](http://knowledgeconference.cz/downloads/SBORNIK_ZNALOSTI_2012.pdf).

#### 4. Conclusions and future research directions

The data analysis allows us to conclude the following:

➤ The countries characterised by the best performance of structural capital are: Sweden (1), Finland (0.91), Denmark (0.89), Germany (0.85), and the Netherlands (0.82). At the opposite pole, the worst performance is recorded in: Bulgaria (0), Romania (0.02), Greece (0.03), Hungary (0.13), Slovakia (0.13), Latvia (0.16), and Poland (0.17). Slovenia records a relatively small performance index of 0.25 of the structural capital. Nevertheless, compared with Romania, which has one of the lowest values, Slovenia is in a superior position.

➤ Correlating the scores of the six dimensions of national culture with the performance indicators of the structural capital, we work out the following:

- the countries that are characterised by a high level of the power distance such as Slovakia, Romania, Slovenia, Bulgaria, Poland, recorded low performance of the structural capital. On the other hand, the countries with a low power distance, such as Sweden, Finland, Denmark, Germany, the Netherlands, benefit from the best performance of the structural capital;
- the countries with a high degree of individualism, such as the Netherlands, Denmark, Sweden also have the best performance of the structural capital. On the other hand, Slovenia, Romania, Bulgaria, Greece, countries characterised by a higher level of collectivism, recorded the weakest performance of the structural capital;
- the countries characterised by a high level of uncertainty avoidance, such as Greece, Romania and so on, have poor performance of the structural capital, unlike countries with poor scores of this dimension;
- the countries with high levels of indulgence, seen as a relaxation of the rules and constraints, such as Sweden, Denmark and so on, also have the best performance of the structural capital. On the other hand, the societies in which constraint is predominant, for example: Latvia, Bulgaria and Romania have poor performance of the structural capital.

➤ Regarding the relational capital, the best performance is achieved by the United Kingdom (1), Ireland (0.91), Sweden (0.90), Belgium (0.86), Denmark (0.78), Finland (0.71),

while the lowest performances are found in Greece (0), Malta (0.09), Romania (0.21), Slovakia (0.21), Bulgaria (0.22), and Hungary (0.28). Slovenia, with an index of 0.49 of the relational capital, is halfway the ranking. So, it also has a much better position than Romania.

➤ Comparing the performances of relational capital with the dimensions of national culture, we can say the following:

- countries with high values of the power distance, such as Romania and Bulgaria have recorded low performances of relational capital. At the opposite pole, countries with low power distance: Sweden, Finland, Denmark have the best performances of relational capital;
- societies characterised by individualism, such as the Netherlands, Denmark, Sweden are in the top of the performance of relational capital, unlike mainly countries characterised by collectivism: Romania, Bulgaria, Greece which recorded low values of relational capital;
- the uncertainty avoidance tendency in countries like Greece and Romania, is associated with low performance of relational capital. In contrast, Denmark, Sweden, the UK, are countries performing on relational capital, recording low uncertainty avoidance scores.
- the relaxation of the rules and constraints, respectively the indulgence in countries like Sweden, Denmark, the Netherlands, is associated with good performance of relational capital. On the contrary, an excessive constraint in countries such as Latvia, Bulgaria, Romania, leads to poor scores of relational capital.

➤ The best performances of the human capital are found in Sweden (1), the Netherlands (0.86), Denmark (0.86), Finland (0.85), Luxembourg (0.84), the United Kingdom (0.82), and the lowest in Greece (0), Bulgaria (0.01), Romania (0.05), and Italy (0.08). Slovenia, although records a higher value than Romania, namely 0.20, concerning this dimension, has the worst performance compared to the other two, namely with the structural and relational capital.

➤ The association of the human capital with the dimensions of the national culture reflected the following aspects:

- a high power distance in countries such as Romania and Bulgaria is associated with low human capital performance. Conversely, Sweden, Denmark, Finland, countries with low power distance, have very good performances of the human capital;
- Great Britain, Holland, Denmark, Sweden, countries characterised by individualism, have higher performances of the human capital. Greece, Bulgaria, Romania, countries characterised by collectivism, have poor performances of the human capital;
- countries with low levels of the uncertainty avoidance dimension, such as Denmark, Sweden, the UK, recorded good performances of the human capital. At the opposite pole, Greece and Romania are countries in which individuals prefer to avoid uncertainty and whose scores are associated with a low performance of the human capital;
- the relaxation of the rules and constraints from societies such as Sweden, Denmark, the UK, the Netherlands, is associated with higher performances of the human capital, while the constraints from Bulgaria and Romania are associated with low human capital performances.

The main results of the research highlight the influence of national culture on intellectual capital. We demonstrated that some dimensions of national culture, such as Individualism versus collectivism and Indulgence versus restraint positively influence intellectual capital, while other dimensions, namely Distance versus power and Uncertainty avoidance negatively influence intellectual capital.

The future research directions are considering extending the analysis, its further study by identifying the correlations between variables and the conceptualisation of a model of the interrelation between national culture – intellectual capital.

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# STAFF PERFORMANCE EVALUATION – COMPONENT OF STRATEGIC MANAGEMENT IN TOURISM ESTABLISHMENTS

Carmen-Gabriela, Secară<sup>1</sup>

## Abstract:

*Modern managers are currently increasingly investing more time and energy in a more accurate understanding of the enterprise they lead. The usefulness of this understanding is essentially predictive, it is circumscribed to changing, reconstruction needs, or rapid and accurate response to the stimuli of extra-organizational environment. In relation to the content of the human resource management, we consider it useful to note three important features of this work: human resource management is action-oriented, human resource management is individual-oriented; human resource management is future-oriented. All these guidelines reflect the fact that vision related to the enterprise's staff has changed as a result of changes in the economic, social, psychological and ethnic context. This research has applications in the field of hotel management companies. Study results indicate that organizational culture is a significant predictor of organizational performance, due to the fact that a satisfied employee will be efficient at his/her job, as well as for the methods and techniques used in the human resource management. In a market economy, the enterprise operates under the conditions of a strong competition, both on domestic and foreign markets. Therefore, in order to have a profitable business, there is a need to create structures capable to anticipate the evolution trend, as well as structured and content changes on the market it operates. In this context, the strategic planning of the enterprise, including human resources, is the most important managerial activity with long lasting effects.*

**Key words:** human resources, strategy, strategic management, career, performance.

**JEL Classification:** M21.

## 1. The importance of human resources strategies in tourism establishments

Human resources have become a strategic resource in the economy of any country that wishes to have added value in various sectors, but in certain areas, particularly. One of the areas considered important in the domestic economy is tourism, due to the fact that the customer satisfaction directly depends on the revenues of hospitality industry establishments. Human resources engaged in tourism do not have a proper training, nor the necessary skills for conducting such a business. Strategic management of human resources is a term designating an integrated approach of the human resources strategy development that will enable the enterprise to achieve its goals.

It is correlated with the term "strategy", which, as defined by Johnson and Scholes (1993) it is the "Direction and action amplitude of a long-term enterprise, aspiring to create a perfect match between the enterprise's resources and its changing environment, especially the markets, customers and beneficiaries, in order to meet the expectations of group of persons interested in the proper operation of the enterprise.

Strategic human resource management is an approach to decision making as regards the enterprise intentions and plans relating to labour relations between employees and enterprise, as well as to strategies, policies and practices of recruitment, training, career development, performance management, reward and employee relation management. Defining feature of the strategic human resource management consists in its integrated character: human resource strategies are generally vertically integrated with the company's business strategy and horizontally, with each other. HR strategies developed through a strategic human resource management approach are essential components of the economic strategy of the enterprise.

In the early 1980s, enterprise staff departments have progressively turned into HR departments, so that the term "human resources management" has gained ground in front of the term "staff management". This change in label makes us ask several questions

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regarding the nature of this transformation: does the evolution of the term correspond to a real transformation of concepts and practices in the field? By studying examples of the specialised literature, one can see several trends. On the one hand, research conducted on a number of enterprises in the UK shows that there can be only partial and fragmented changes, that can not be generalized and, on the other hand David Guest summarizes four directions that characterize human resource management: strategic integration, employee involvement, human resource flexibility and quality.

Through strategic integration, we understand the coherence between the enterprise strategy and human resource management: on the one hand, human resource management practices are considered as a means of achieving strategic objectives and, on the other hand, human resources are the elements considered in developing the enterprise strategy. Implementation of methods and procedures for human resources management are components of the strategic planning process, which is a factor in the enterprise performance. A second type of strategic integration relates to interferences between various practices of human resource management (staff recruitment, training, performance evaluation). A third type of strategic integration is that human resource management, as compared to staff management, grants greater importance to teamwork, one of its objectives being to make the managers aware of their responsibilities regarding human resource management practices.

Staff involvement is also a priority of human resources management in that it tries an employment of the enterprise staff to achieve the objectives set, as well as an identification with the enterprise values.

Human resources management is also taking into account the developing and maintaining into the enterprise of some "quality effectives", i.e. individuals with a high level of skill and competence. Human resources management allows for getting some quality performances, by setting performance standards in this regard, to be identified and accepted by all members of the enterprise. This quality can be developed through processes of selection, recruitment, training and performance evaluation, as well as by means of some private practices as "quality circles".

Strategic integration, staff involvement, adaptability and flexibility, as well as quality make distinctions, in the vision of D. Guest, between human resource management as compared to staff management. Techniques and systems carried out are not necessarily different from the conventional systems (defining functions, recruitment and selection, training, performance evaluation, remuneration). If these practices are sometimes similar, in the human resource management they will be so designed and articulated, as to encourage the strategic integration, employee involvement, adaptability and quality, within the enterprise.

Definition given by S. Michel to the involvement reflects very well the complexity of this concept: "involvement is defined as attachment to work, employee identification with his work. Involvement also takes into account the importance which the employee grants to his work, the place the professional life has in relation to the other concerns. Involvement also includes self opinion, as it conditions energy investments into employment field."

Individual involvement in the enterprise is based on self-image and on the importance granted to work in relation to other areas of life. This commitment is expressed through the behaviour of individuals and, especially, through work-related conduct. So far, it has not been found a well established relationship between engagement and productivity, or between involvement and job performance. Research shows that a strong involvement of staff is not required in all organizations, but rather in those organizations facing turbulent and uncertain environments or where performance is difficult to measure and quantify.

If the organization has to react very quickly to some changes in the environment and when it is difficult to develop, in a very short time, new rules and procedures for the coordination and control of activities, acceptance of all members of the enterprise to its goals

and values, as well as the will to invest in job (profession) can lead to coordination of activities. This is the case of enterprises operating in the fields of services, audit and expertise firms, companies undergoing crisis periods, in which survival requires a rapid change. In these conditions, involvement is not a performance guarantee, but it may be useful in certain circumstances. Factors likely to promote employee involvement in the enterprise business are numerous and, most of the time, they are outside the enterprise. The main factors that determine a person's involvement could be re-grouped into the following categories:

- personal characteristics: age, sex, level of training, personality factors (value systems, expectations, needs for achievement), seniority in the enterprise;
- features related to the role of the individual within the enterprise: extent and stake of position, presence of conflicts (negative correlation with involvement), role ambiguity;
- structural characteristics own characteristics of enterprise structure. According to some authors, there is no clear relationship between the staff involvement and company size, presence of the union trade in the enterprise and the centralization of power. However, cut characteristics related to formalization and decentralization are related to involvement;
- as a socialization factor, work experience influences individual commitment as regards the enterprise to which he/she belongs. In addition to these, there is also the colleagues' attitude towards the enterprise, a sense of fairness in terms of salary, management style, employees' participation in social activities of the enterprise.

**The main factors that determine a person's involvement:**

- variables related to positions: variety of tasks, degree of autonomy within the position, communication and exchange opportunities, opportunities for development within the position and enterprise;
- variables related to hierarchical organization: leadership style, feed-back, decentralization, participation.

Staff involvement may be influenced by a number of factors not depending on the staff management. Whatever the actions taken by the enterprise would be, the staff's result in terms of acceptance and its conduct in the way of achieving some common objectives remains a random one. It has not yet been evidenced the direct causality relationship between the variables clearly identified and involvement and, in addition, it should be taken into account that a number of factors unrelated to the job may occur.

## **2. Recruitment, selection and employment of staff within “Orizont” Hotel**

Placed under the majestic shade of Cozia Mountains, on the banks of the Olt river, considered by the great historian Nicolae Iorga the "Olt pearl" or "Sinaia Vâlci" Calimanesti-Caciulata resort is one of the most beautiful in Romania, being famous for its hot springs, outdoor pools using thermal waters for treatment, the slightly negatively ionized air, building architecture, the numerous tourist attractions.

“Orizont” Hotel opened in 2006, after the reconstruction and modernization processes became a luxury class hotel (4 stars), which can meet the requirements of the most exigent businessmen. This is due to changes that occurred in the structuring and organization of the internal environment of the hotel, reorientation of staff policy, being admitted the importance of the human factor in the services sector.

Staff recruitment is a task incumbent on the Human Resources Department, which is designed to search for and find candidates for vacancies in the “Orizont” hotel. Tasks of the Human Resources Department in the recruitment activity are: drawing up the recruiting advertisements, maintaining relationships with the education establishments, to meet the candidates' demands of employment, to maintain the company's image in the recruitment – selection process.



Sources of recruiting the new employees can be: internal sources, which have priority within “Orizont” Hotel and external sources.

Internal sources are preferred to the external ones, an advantage of this type of recruitment being that it is cheaper compared to the other sources and employees already working in the hotel are well-known to the senior line managers.

Bringing the job vacancies to the attention of the employees is made via a written advertisement, displayed at the notice board from the canteen or the basement, where all employees have the opportunity to read it.

The announcement is made by the Human Resources Department and is disseminated made public before starting recruitment from the outside. It includes information on job title, skills needed for employment, selection criteria.

Also, recruitment can be also made from external sources of “Orizont” Hotel, through various means: advertisements printed in specialized newspapers and magazines, advertisements containing information on the number of vacancies, their type, job description, type of person sought, how the Human Resources Department may be contacted. Selection is choosing the best candidate for being employed on a position within “Orizont” Hotel. On the basis of this selection is the preparation of the candidate, its skills and ability to work.

Selection is sometimes made empirically, based on recommendations, interview presentation model, physical appearance of the candidate, or, scientifically, when the employer uses tests, questionnaires and practical tests as criteria.

To know which of these methods should be used, the hotel HR department is considering the job requirements and candidates’ experience.

Several stages are undergone during the staff selection process, until it reaches a final decision.

The first step is represented by the sorting of letters of intent and CVs, filling in application forms, containing information on the qualification, professional training, education. After this, the respective person is called for an interview.

Interview is one of the most used selection methods within the hotel and by this, the candidate is given the opportunity to present himself/herself. In an interview, the head of Human Resources Department aimed at issues such as: appearance and physical skills, education of the candidate, his/her intelligence, motivations and interests, availability for the job in question.

At the end of the questionnaire, the interviewer will express appreciation whether the interviewed person meets the requirements or not and fills-in the possible date of commencement of work, the weaknesses and strengths of the candidate, the salary discussed, recommendations for other jobs, as well as other comments.

Another step of the selection is represented by tests and work samples to determine the quality of candidates that can be highlighted. Usually, knowledge tests, as well as medical tests are being used, as health and safety of the customers which whom employees get into contact are involved.

Following the final decision of employing the candidate, it follows its integration, which responsibility is incumbent on the direct superior, who informs the new employee on working conditions, task nature.

Employment is first made on a probationary period of three months, each person being made a presentation of the hotel, during the first week. They must receive all the information needed and accommodate themselves to the working environment.

Following the probationary period, a work performance shall be made, depending on which such person will continue the campaign work, or not.

Upon employment, each person shall sign an employment contract and an employment record book shall be prepared. He/she shall also take note of the hotel internal regulation policy, comprising compulsory employment issues.

All new employees must provide papers and documents needed for employment: graduation diploma, qualification diploma, certificate of criminal record, references from school or from the last job, medical records, employment application form, birth certificate, identity card and photographs.

### **3. Job analysis**

One of the important objectives of the new human resources policies applied by the hotel is represented by the job redefining and analysis. Although positions are generally considered static entities, their redefining was necessary due to enterprise changes.

Analysis of jobs within “Orizont” Hotel is the process of establishing and transmission of information on the nature and specific feature of the job (set of skills, knowledge, abilities and responsibilities required to an individual in order to obtain performance on a certain position).

Data obtained following the analysis of positions are needed in many activities related to human resources, such as recruitment, selection and employment, career orientation, improvement, performance appraisal, establishing the reward system. All have to be based on a very thorough analysis of the jobs without which all these activities cannot be carried out.

Also, an important role in redefining the positions had the job specification, including the requirements relating to occupation, experience, training, physical and intellectual skills, decision-making, in order that such employee should achieve performance on a certain job. As a consequence of redefining jobs in 2013, the following have been found: job enrichment resulted in improvement of employee performance, but never a poor performance, job enrichment response was an increase in enthusiasm for the work and not reducing the interest, delays decreased and quality of work increased, changes can be more easily introduced due to the high level of labour flexibility.

### **4. Performance evaluation**

After the recruitment and selection of the new employees and after their social and professional integration into the hotel staff, it takes place the evaluation of their performance obtained in such position.

Performance evaluation is to determine the extent to which the employees exceed their job responsibilities, identifying their weaknesses, potential and professional training needs.

With regard to performance evaluation, the hotel Human Resources Department has set the following objectives:

- employees’ actual performance evaluation;
- improving current performance;
- establishing training requirements;
- establishing promotion plan;
- establishing improvement requirements for promotion purposes;
- material motivation of staff.

Performance evaluation at “Orizont” Hotel for the operating staff, is made periodically based on checking forms and the results will reveal the way they perform their duties.

Responsibilities incumbent on a job occupant are explained by the head of department or by an appointed person, by the time of his employment. The first performance evaluation takes place three months after the employment and the result can be: excellent, very good, good, needs improvement and insufficient. If the employee gets one of the first three grades, it means that the probationary period has ended and he/she will continue to work in the hotel. If the result is "needs improvement" or "insufficient", the employee will leave the company for good.

After 6 months of the end of the probationary period, another performance evaluation shall be conducted. After this, evaluation shall be made once a year, usually at the end of the year and, early next year the employee shall receive a bonus based on his/her performance.

At such a performance evaluation, the following factors shall take into account: quality of work, customer orientation, knowledge of issues needed for the performance of work, labour productivity, market knowledge, ability to develop working skills with others, ability to communicate verbally and in writing, teamwork, availability, response to change, employees' personal cleanliness and hygiene.

For the job of receptionist, at annual evaluation of an employee, it has been achieved a score of 3.91, enabling the evaluator to award the grade "very good". At chapter "Special Considerations", it has been recorded that excellent results are desirable in the future and such employee, on the basis of the result, will be given a bonus.

When evaluating the performance of an employee on the position of waiter for the purpose of promotion, a score of 4.72 points was obtained, thus resulting in the "excellent" grade, such employee being promoted on the position of rank chief and at "Special Considerations" chapter was recorded that the result of evaluation due to the favourable working environment and positive motivation. The employee has been admitted the professional merits by the direct superiors, being further able to be promote.

Selection of performance criteria was based on personality characteristics required to fill a specific job (from the job description- job specification), the responsibilities and types of activities specific to each position. The well structured and concise form can be applied both in case of employees who have direct contact with the customer and in the case of the "invisible" and the results are obtained quickly and easily; by using the arithmetic mean, they are easily comparable to standards.

After the actual evaluation, the results of employees will be discussed immediately with them in an assessment interview in which the focus falls on their consultation on identifying ways to improve performance. Communication of results is done tactfully, so as to avoid possible negative reactions from employees. Also, the tested person is helped to understand how the evaluator reached to such conclusions and accept the criteria used. To be effective, performance evaluation should be integrated into an appropriate human resource management, whose fundamental features must be professionalism and fairness.

### **Conclusions and recommendations on improving the staff policy within "Orizont" Hotel**

As regards the afore-mentioned, the following measures are proposed to improve the activity: being part of the SC Călimănești-Căciulata, "Orizont" Hotel showed an excellent business in the few years of operation, "Orizont" Hotel is intended for business tourism, with a strategic position near important business center South-West Oltenia, brand awareness and quality of services provided at a high standard determined the recognition of Valcea hotel by a large number of foreign customers (businessmen, political personalities, sportsmen), as demonstrated by the continuous increase in the occupancy throughout the year.

Also, material endowments and the facilities are up to the international standards, offering large organization opportunities for different activities (meetings, conferences) within the hotel, various loyalty programs meet the customers' satisfaction (i.e. Priority Club) and facilities provided, aiming thereby keeping the old customers and attracting new, customers from all around the world.

The new internal structure of "Orizont" Hotel is a consequence of changes in the human resources policy of the tertiary sector enterprises in the last decade, where focus is on satisfying their own employees, because they, in their turn, through the quality of their work, should contribute to the hotel prestige among customers.

The good organization of the hotel employees is the merit of the management team leading the company. The team is mostly composed of young persons, receptive to all the changes that occur. Also, each employee has very well defined duties, placing great emphasis on quality of work, professional training, customer orientation.

From studying business, the hotel human resources department – of that party which deals with the job analysis, performance evaluation, promotion system, staff policy - it can be deducted that, between what the “Orizont” Hotel offers (a secure job, recognition of professional merits, a fair promotion system, satisfaction of working in a branded hotel) there is no difference and this is due to the fact that any action taken on the staff is considering the employee’s motivation and satisfaction, in order that his/her work results should have a major contribution to the accomplishment of the corporate general objectives.

Considering the above mentioned, it may be found out that, in the “Orizont” Hotel, the role of the Human Resources Department to effectively lead and manage the enterprise’s staff, so that employees should contribute actively, individually and / or collectively to the achievement of the hotel overall goals is achieved for a policy of valuing human resources, adaptable to the content of challenge of the new millennium economy.

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# BLENDED LEARNING – A SPECIFIC APPROACH OF TEACHING STRATEGIES IN INSTITUTIONS OF HIGHER EDUCATION

Marinela, Lăzărică<sup>1</sup>

## Abstract:

*Fast developments in information and communications technologies have significantly affected the behaviour of today's students. These students, grown up in the digital age and exposed to digital technologies since they were born, have inherited a social and technological culture which makes them think and process information differently from the past generations. Therefore, they are fully dependent on tech equipment and their learning is constructed as a much more social process. In this context it is important to design and implement specific strategies in teaching learning process.*

*Blended Learning is a strategy which integrates the teaching learning process with different learning environments like face-to-face, online, social networking etc. Its rapid growth has been facilitated by the Internet and other emerging technologies like cloud computing, social networking etc.*

*This paper provides a view about blended learning model and mainly, the technology-based tools involved in blended learning.*

**Keywords:** *blended learning, blended learning model, online learning*

**JEL classification:** A20, C81, D83

## 1. Introduction

The technology is an integral part in the lives of young people who are direct beneficiaries of the educational process. This was often made argument for the need to develop learning methods that use modern technology in the formative and educational. These e-learning methods have involved fundamental changes in learning paradigms. E-learning has not only changed the presentation way of information from traditional to the digital one, but it has catalyzed the development of a new philosophy of learning. By such methods students are responsible for their own learning, on which they themselves have control and manages it according to their interests and needs. The specialists' researches reveal that the methods which combine the traditional education with the modern technologies (*blended learning*) have increased the effectiveness.

## 2. Blended learning – a few considerations

Blended learning is a concept older than 10 years. This term first appeared around 2000 and was at that time often associated with simply supplementing traditional classroom learning with self-study e-learning activities.

Like many advances in educational practice, blended learning is defined and implemented in multiple ways. This concept is defined in wikipedia as "a formal education program in which a student learns at least in part through online delivery of content and instruction with some element of student control over time, place, path or pace" ([http://en.wikipedia.org/wiki/Blended\\_learning](http://en.wikipedia.org/wiki/Blended_learning)).

As more and more organisations implemented this model, many different meanings have evolved. iNACOL, the International Association for K-12 Online Learning, defines blended learning as "combining online delivery of educational content with the best features of classroom interaction and live instruction to personalize learning, allow thoughtful reflection, and differentiate instruction from student-to-student across a diverse group of learners." (Watson, John, 2008).

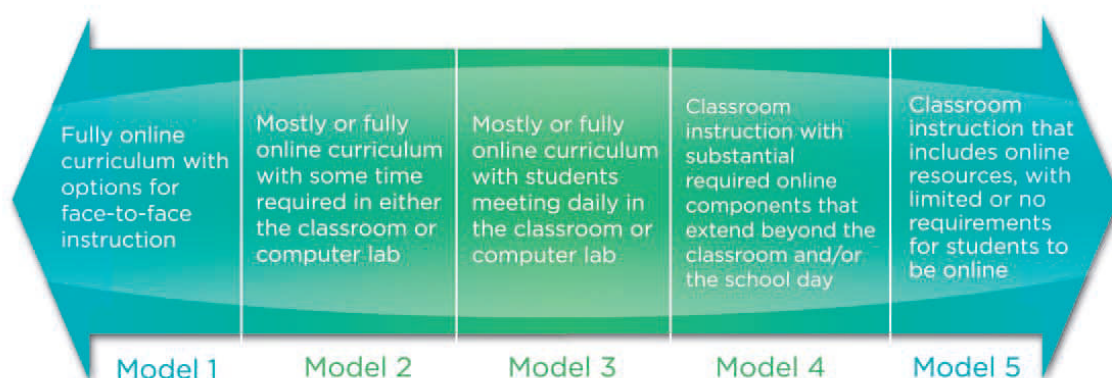
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Essentially, all definitions broadly highlight blended learning as an instructional practice that combines the teaching methods from both face-to-face instruction and online learning.

Blended learning comes in a wide range of implementation models. The continuum of models implemented in educational institutions gives educators a working picture of the many ways in which online learning blends with and supports traditional instruction (fig. no. 1). This figure shows the wide range of models, from fully online curriculum (model 1) to few online resources (model 5).

**Fig. no. 1. Blended learning continuum**



(<http://www.kineo.com/elearning-reports/blended-learning-current-use-challenges-and-best-practice.html>)

Recent studies reveal that many organisations gained significant benefits from blended solutions. The most common identified benefit (54% of respondents) was improvements in business performance. Also, another benefit nominated was more effective learning do to blend of methods. Finally, others important benefits are: a cost-effective accessibility to all participants, a good speed of implementation and costs savings in providing learning (Oxford Group, 2013).

According to the research in this field, the blended solutions will increasingly be common in the future. There are many key challenges that organisations face in developing / implementing blended solutions. Particularly timeline to design and develop, complexity of designing a blend, lack of internal expertise to commission and cost are critical.

Past studies have found for the US universities that blended courses have the potential to increase student learning outcomes (97% vs 94% for face-to-face and 92% for fully online) while lowering attrition rates in comparison with equivalent fully online courses (Charles D. Dziuban, Joel L. Hartman, Patsy D. Moskal, 2004).

Blended learning helps instructors evolve as designers of active learning environments, thus becoming much more facilitative in their teaching. This phenomenon is consistent with what Carl Rogers called the “facilitative teacher”, where instructional environments take precedence over information transmittal (Carl Rogers, 1983).

### **3. Research regarding the opportunity of implementing of a blended learning system in "Constantin Brâncoveanu" University**

Romania is familiar with the blended learning method because there has been noticed an increase in the use of blended learning. However, the use of blended learning has still not reached a high level and there are now many institutions where it can be adopted.

A recent international report (Barbour et al, 2012) shows as main reasons that inhibit the spread of online education in Romania:

- the educational system is very centralized,
- as far as blended education is concerned, the regular use of e-learning software does not allow teachers to attain the learning objectives, partially due to the limited time and the overloaded compulsory curriculum, and partially due to the uncertainty of teachers in using such new tools, conducting such time-consuming, computer-assisted teaching activities,
- lack of funding for professional development and teacher training (resulting in shortages of qualified instructors trained to teach online),

Despite higher costs, blended learning systems can provide important benefits of educational institutions that adopt them.

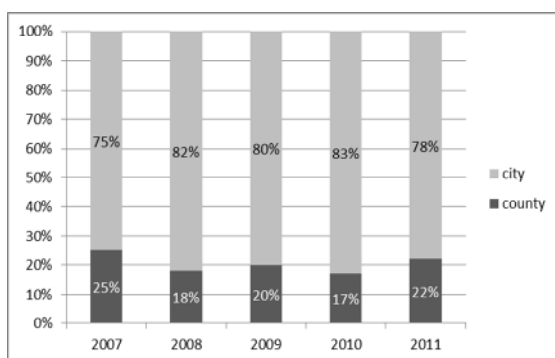
Because blended learning is combining online learning with traditional learning, such a training system will combine the advantages of both types of training: quality / flexibility and memorability. By online learning students can have unlimited access (from any computer, iPhone, iPad, at any time) to reference sources and learn at their own pace, and by traditional learning (group meetings) may discuss the new learned concepts.

The private universities in Romania often show significant differences compared to the structure of the student population, unlike the public universities. Overall, the average age of students in private education is significantly higher than the public sector. This phenomenon is due to the fact that most candidates already have a job and choose a private education. In addition, most private institutions of higher education in Romania offers training programs for low frequency (RF) or distance learning. All these factors create specific premises for implementation of e-learning or blended learning systems.

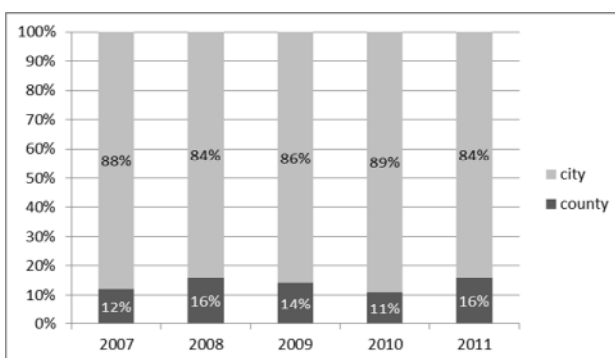
In the last years, I have been concerned by analysis of the main items regarding the opportunity to implement a blended learning system in the faculties of "Constantin Brâncoveanu" Pitesti, Braila Center. A large part of the data comes from a study aimed on analyzing the new students enrolled for the period 2007-2011 at first and second degree from the Faculties of Braila Center. The correlation and the synthesis of these data allowed the student population segmentation analysis according to several criteria.

For this paper research, the data were selected from the mentioned study and it highlights the structure of the students enrollment in 2007-2011 by three criteria: type of education (full frequency FF /RF), address type (city / county) and employee/unemployee.

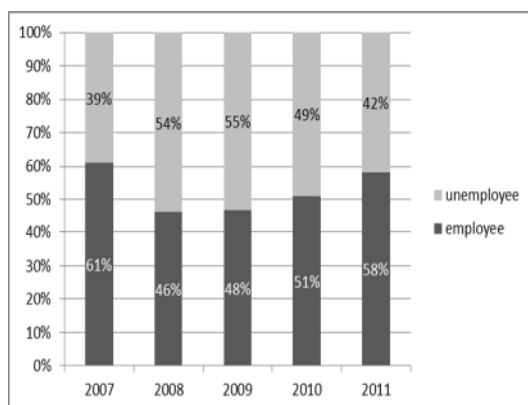
**Chart no. 1. Address type / first degree**



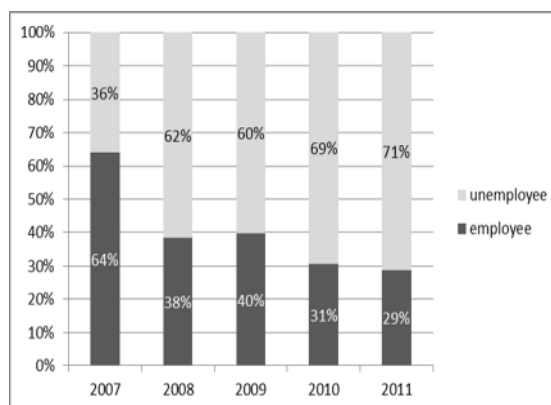
**Chart no. 2. Address type / second degree**



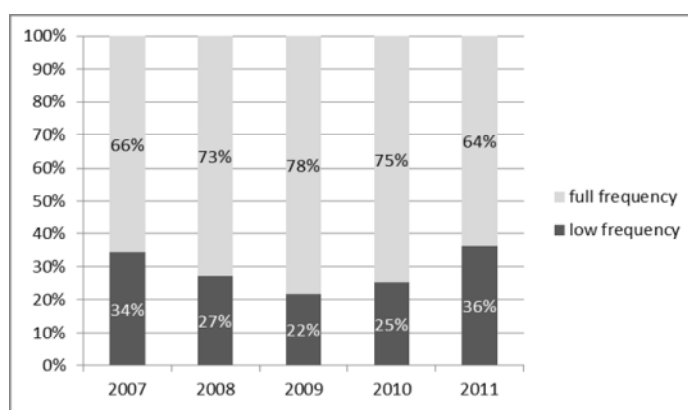
**Chart no. 3. Have job or no / first degree**



**Chart no. 4. Have job or no / second degree**



**Chart no. 5. Frequency type / first degree**



The graphs above show a significant percentage of students residing outside the city (chart no. 1 and 2). The specificity of this criterion determines additional agreement by this category of a blended learning system.

The second criterion, by percentages exceeded in some years even the value of 50% (chart no. 3 and 4), brings a strong argument in favor of the opportunity of implementing such a system.

The attractiveness of such a system of learning is enhanced for the students from RF, which have a significant share (~ 25-35%) overall - chart no. 5.

The training of students in the group over 30 years has specific aspects compare to the group under the age of 30. The older students' category exhibit strong and formed value systems, it has misconceptions, a different level of education and culture and lower availability to change. Consequently, the methods proposed by blended learning can be particularly effective, addressing to the specific needs mentioned and considering the characteristics of learning, types of smart thinking and different learning styles.

Actual data show that at the Braila Center, the percentage of students older than 30 years is raised, arguing the opportunity of implementing a blended learning system.

In the past two years, I made a brief empirical research of the 1st and 2nd year college students regarding their willingness to access a blended learning system. Over 85% of them answered affirmatively that the introduction of such a modern system would have a good feedback from almost all of the students.

"Constantin Brâncoveanu" University operates in three cities: Pitesti, Braila and Rm. Vâlcea. In this context, the implementation of a blended learning system would bring a range of special benefits for the university, enabling more effective collaboration and interaction between teachers and students from these three locations.



#### 4. Conclusions

Blended learning – an instructional practice that combines teaching methods from both face-to-face instruction and online learning, gives to educational institutions new approaches and strategies for addressing the challenges they face and for taking advantage of the exciting new learning opportunities that are now available.

Blended learning does not exclude the traditional learning methods, but adds new and modern methods as: IT tools (email, web, chat, online conferences, e-learning platforms), workshops, individual project groups, practical demonstrations, etc..

The statistic data about the segmentation of students population from Braila Center, "Constantin Brâncoveanu" University, as well as the empirical research convincingly argues in favor of implementing of a blended learning system in the entire university.

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# A METHODOLOGY TO ASSESS THE PERFORMANCE OF CORPORATE SOCIAL RESPONSIBILITY. A STUDY OF THE EUROPEAN AUTOMOTIVE SECTOR

Cristina, Gănescu<sup>1</sup>

## Abstract:

*This paper aims to develop a methodology to assess the corporate social responsibility performance of European car manufacturers. The research started with a content analysis of sustainability and social responsibility reports published by European automotive businesses in 2010, 2011 and 2012, identified the indicators used in the respective reports and created a comparative table. The methodology focused on developing a unique model to assess CSR performance, consisting of four dimensions: business performance, work relations performance, environmental commitment performance and societal commitment performance. Applying this model has allowed us to create a composite index of CSR performance and corporate hierarchy and to identify the strengths and weaknesses of CSR performance. The results of the study reveal that analysed organizations focus most of their attention on business performance and less on environmental and societal commitment performance. Limitations of the current research arise from the complex choice of indicators relevant to the model we have created and from the need to standardize data, which is often reported in various ways by companies. This study contributes to knowledge in the field, while at the same time, opens up opportunities to be extended and improved in terms of methodology by including new indicators to evaluate CSR performance.*

**Key words:** corporate social responsibility (CSR), indicators assessing CSR performance, CSR performance evaluation model, CSR performance composite index, automotive industry, Europe.

**JEL Classification:** M14, Q01, O52.

## 1. Introduction

Establishing the balance between social and economical performance is a preoccupation and, in the same time, a challenge for any important company. Hence, researchers and, mainly, practitioners, focus mostly on identifying corporate social responsibility specific instruments that would allow managers to achieve economical-social objective in real time.

Corporate social performance is a concept for which there is yet no unanimously accepted definition in the literature. This concept was created by American author, Prakash S. Sethi (1975), followed by Archie B. Carroll (1979) and redefined by Steven L. Wartick and Philip L. Cochran (1985). These authors marked the evolution of the corporate social performance model by focusing on three challenges of corporate social responsibilities: economical responsibility, public responsibility and social acceptance.

The basic idea related to corporation social performance represents the recognition of the fact that companies have ethical obligations and they must pragmatically answer to social pressures. The studies and researches conducted in recent years reveal that different company managers get involved in social responsibility initiatives because of the most diverse motivations, which may vary from the desire to do the right thing to strengthening the company community role or the need to find a solution to some problems, in order to obtain direct or indirect benefits. On the other hand, the consumers want more and more responsible companies.

## 2. Social responsibility instruments applied globally

In the last fifty years, proliferation of the interest to create new instruments for conceptualize the corporation social responsibility was noticed, corresponding to an increasingly higher number of the company social responsibility forms. Thus, until

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currently, over 300 such instruments had been formulated, most of them being standardized, used, primarily, to achieve two main purposes: firstly, *they promote the corporate responsible practice*, which becomes also measurable; secondly, *they allow the creation of a clear and common way of understanding the basic concepts*, such as company sustainable development and social responsibility. Even if the use of these instruments in voluntary, they assure legitimacy, consistency and comparability, required by companies and stakeholders. Many confusions and uncertainties still arise regarding the role, function and quality of some corporation social responsibility instruments.

At global level, the issue of identifying some coherent social responsibility instruments raises special interest. Many institutions established such instruments, classified in: codes of conduct, management standards, audit and reporting standards. In this context, it is indeed difficult to specify the numerous instruments adopted at global level. Consequently, within the paper herein, we will only try to reinforce the fact that the research efforts have increased throughout time; that the problem for the social responsibility conceptualization instruments description is the centre of attention for theoreticians, but also for the practitioners and up to now they have settled a consistent set of instruments.

The United Nations Union has created “*The Global Compact*” (United Nations, 2013), with the purpose to offer a guide for responsible behaviour in business, made of corporative behaviour principles. We are discussing a pact by which companies take to range their activities and strategies according to 10 principles universally accepted about the human rights, work conditions, environment and fight against corruption. The global pact, the main global initiative of the corporative citizens, regroups thousands of participants from over 100 countries and has the promotion of social legitimacy of companies and markets as main objective.

The Organisation for Cooperation and Economical Development has accomplished a guide for the multinational companies that includes voluntary principles and standards for responsible business, structured on the following fields: general policies, confidentiality non-respect, the work force occupation and the industrial relations, environment, corruption control, consumers’ interest, science and technology, concurrence and taxation (Shelegeiko, 2009). These first degree instruments complete the private initiatives for social corporative responsibility and represent the key-expressions for the broad public and private governing systems, from which private initiatives derive.

We have to highlight the research made by the author Ran (2005), who identified and described 16 specific instruments for corporate responsibilities. The big companies problem is not how much time they can use these instruments, but how these can be applied. Basically, the author has made a selection of these instruments regarding the organisation social responsibility, based on the following criterion: the use frequency, the quotes from the corporatist responsibility guides, the multilateral support and the relevance for Canada. These instruments structured by Ran Goen are, on their turn, quoted by different organisations and guides.

Subsequently, McKague and Cragg (2007) have published a collection of ethic codes, principles, guides, standards and other instruments for social responsibility used on the global market, the result of a research project founded by the Research Council in Social Sciences from Canada. This compendium includes the complete text of some instruments for social responsibility from the most important sectors, organised in several chapters: general codes, environment, sustainable development, labour, type, corporative governance, money laundry, bribe and corruption, human rights, codes specific for one country, codes specific for a sector, and also sections regarding the govern laws and the socially responsible investment practices. The author idea to make a list with the name of ethic companies is extremely interesting.

The corporation adherence to these measuring and evaluation instruments for social performances influence positively the capacity of a certain company to treat serious problems to which it is confronted. This conclusion results from an empiric study of the Norwegian Boasson (2009), regarding the manage manner of the corporatist social responsibility problem at Hydro and Shell. The author has determined that the tendency for social responsibility problems management exists within both companies, the behaviour is profoundly influenced by this sector, but also by the degree of regulation for the problem regarding corporate social responsibility.

### **3. European level concerns regarding conceptualisation instruments for corporate social performance**

At European level we have this type of concerns, materialised not only in companies' policies and practices, but also at the level of European social policy (Steurer, Martinuzzi and Margula, 2013). The first accomplishments in this direction were materialised in the paper *Green Book – the promotion of corporatist social responsibility at the European level*, published in July 2001 at Brussels. We observe that in practice there are a lot of instruments used in order to manage, measure, communicate, monitor, check up and awarded the social performance associated with corporative social responsibilities, varying from the general directives, corporate conduct codes which settle the principles for a responsible behaviour, up to the complex management systems, fine communication instruments and the evaluation methodologies for the investments (Iamandi, 2009, p.306).

In report „ABC of the Main Instruments of Corporate Social Responsibility” (European Commission, 2004), published in 2004, the General manager responsible with the social policy at the European level said: *„the characteristic instruments of the corporate social responsibility policy plays a fundamental role in what concerns the assurance of a favourable environment for the sustainable corporative performances development, supporting an efficient promotion of CSR. These instruments settle minimum performance levels, help companies to monitor their processes, systems and results which they introduce at the community level and, not lastly, it encourages the excellence in business. Although, generally accepted as component parts of the business environment, the percentage of European companies which don't appeal at one or several CSR instruments is low, and the majority of companies still ignore or are not convinced by the benefices of these instruments”*. The European Union has highlighted the main instruments for the corporative social responsibility, grouped in three categories: *social responsible management (corporate conduct codes, management standards and report on the corporative, social involvement)*, *social responsible consumption (the ecological and social labels)* and *the social responsible investments*.

a) *Social responsibility management* is the assembly of instruments which allow the companies to settle their own business strategies including the specific values for corporate social responsibility: conduct codes, management standards and social implication report. The organisations which follow the observance of a value set and the adoption of certain attitudes for the employees and managers create conduct codes and the benchmarking code allows the increase of economical and social performances and acquiring market advantages, in comparison with the concurrent companies. The social performances of a company depend also insomuch as managers know and apply these norms comprised in a benchmarking code. If the company elaborates a series of ethical regulations and codes and it sets for itself beautiful ethical objectives, but impossible to accomplish, it will not achieve the goals and they become useless. So, for an organization to be able to have an ethical behaviour, it must have an organizational culture that promotes ethics in business (Gangone, 2007).

*The management standards* are, also, the internal instruments which support the incorporation of values within the current activities and follow the accomplishment of

certain objectives and the accomplishment of certain activities. They support the improvement of strategic corporate social responsibility and consolidate the social performance, responsibility and credibility of a company (Iamandi, 2008, p.30). By means of these management standards the organisations can manage efficiently the social and ecological risks and assure a bigger efficiency for the organisation by the creation of a better coordination between the functional departments of the company. The adoption of these standards is, also, a volunteer action of companies.

*Reporting on social involvement* is another corporate communication modality used for the economical, social performances, and company environment. The accomplishment of a report regarding the social involvement of the company starts with the data collection and processing, by their comparison with certain specific indicators, after which the correctness of the data is verified and evaluated. As the other specified instruments the report on the social involvement represents a volunteer action, but it has become more and more obvious the interest for the processes standardisation and information presented in this one, for a simple comparison between different organisations. The social report contributes at the credibility construction. „*It is not enough to give up old habits and to offer employees the possibility to work without worrying for their children safety. It is necessary for stakeholders (from shareholders and employees to the NGOs and community) to be convinced that their actions ensure the sustainable development of the company and community*” (Ducu, 2008).

At the European Union level, we identify three forms of report for the social involvement of companies: national public report, multi-stakeholders report (GRI – Global Reporting Initiative, AA 1000s – Accountability Assurance Standard) and other reports. There are efforts for the standardisation or regulation of the frame for social report. France has introduced a regulation by which companies are obliged to report the measures that they take regarding the social and environmental consequences of their activities. Denmark has adopted in 2008 an “action plan [for CSR](#)” as a continuation of the policy regarding the sustainable development and has settled explicitly the report lines. This plan has the force of a law for all who wish to be aligned care to the responsible policies of the Danish government. There is a global tendency within the great companies to appeal at a standardised model. Starting from the idea that the same model is necessary at a global level for transparency and efficiency, these companies use the GRI G3 system developed by Global Reporting Initiative. GRI is the framework most commonly used by companies to measure CSR performance, as shown by reports of companies worldwide (Panayiotou, et al., 2008; Castka, et al., 2004). On the other hand, there are companies which prefer to use their own model, especially made in order to correspond to standards [SA 8000](#) or [AA 1000](#). Beside the recognised benefices of the standardised systems for reports, there is a disadvantage: the organisations might become interested only to report, and not to evaluate the social responsibility programs and, ulterior, to communicate the social performances.

b) *The social responsible consumption* describes those market instruments addressed to the consumers which confirm and certify the fact that the organisation, has respected certain socio-ecological criterion for the accomplishment of that product. Within the category we include ecological and social labels, having a certain role for the promotion of an equitable and sustainable demand, by the influence upon the buy decision of the consumers, suppliers, producers, dealers etc. The creation of these ecological and social labels was justified due to an increasing interest of the consumers for products made in conditions which respected the environment and society. The use of ecological and social labels is a result for the attestation of that certain company by the labelling organisations, like Fair Trade Labelling Organization, Forest Stewardship Council.

In the European Union they use the following categories for labelling: labels which promote an equitable trade (FLO International – Fair trade Labelling Organization, IFAT – International Federation for Alternative Trade, EFTA – European Fair Trade Association), social labels (Belgium Social Label, Flower Label Program) and ecologic labels (EU eco-label, FSC label) (European Commission, 2008).

c) *The social responsible investments* suppose the integration of sustainability engagements in the investments decisions (Iamandi, 2008) and present a lot of interest in the last years. It has been determined that there is multitude of products and instruments that are characteristic for socially responsible investments, such as: the ecological, social and ethical funds, the pension funds, the sustainability indicators, the listing processes for securities. In fact, socially responsible investments feature a distinct level of interest on the market due to the fact that they stress their credibility through transparency and responsibility, the on-going dialog between the companies, the financial analysts and institutional investors.

Studies in recent years show that CSR practices and reporting arrangements differ between companies in North America and Europe: the degree of social behaviour of European businesses is higher than that of U.S. firms, while environmental concerns are at the same level. Instead, U.S. companies are more active in the community compared to European ones (Sotorrio and Sanchez, 2008).

Hence, the need for organizations to adopt these social responsibility instruments becomes obvious, seeing how pressure from society becomes stronger and stronger, but also seeing that their role in creating the real competitive advantage is being acknowledged.

#### **4. A methodology to assess CSR performance of European car manufacturers**

Scholarly literature highlights various attempts to define methodologies to assess CSR performance of various industry fields (Mărcine, 2013; De Grosbois, 2012 Le Gal and Salaun, 2010; Barlet, et al., 2010; Baret and Petit, 2008) or of key organizational processes (Gănescu, et al., 2013; Gănescu and Gangone, 2012). In this context, this paper seeks to identify indicators used in 2010, 2011 and 2012 by European car manufacturers to evaluate their CSR performance, and to create a composite index of CSR performance that could help rank these organizations.

*The research objectives are: O1. Create a list of companies operating in the European automotive sector O2. Content analysis of the reports published by these companies in 2010, 2011 and 2012 O3. Aggregate CSR performance evaluation indicators and present a statistical overview of companies reporting CSR evaluation indicators; O4. Create a composite index of CSR performance based on our own methodology, O5. Rank European car manufacturers according to the 2010, 2011 and 2012 values of the composite index of CSR performance.*

European automotive industry plays an important role in supporting EU competitiveness. Car manufacturers operating in Europe provide employment to more than 2 million people in the sector and a further 10 million jobs in assembly manufacturing and distribution. Worldwide, the European automotive industry covers 24% of the total vehicle production, with over 17 million cars per year. Given that cars are one of the most complex and innovative products, companies invest annually over EUR 26 billion in R&D, which is 5 % of their revenue, becoming the largest private investor in R&D in Europe (Gănescu, 2013). From the point of view of responsible practices, businesses in this sector state that numerous CSR initiatives are carried out for the benefit of employees and society as a whole (European Automobile Manufacturers' Association, 2012). Their industrial products meet environmental and safety standards, as a result of a long tradition in innovation and investing in R&D, so that: currently, 100 cars pollute as much as one car did in the 1970s, while vehicle noise levels were reduced by 90%, and improved safety systems have reduced the number of deaths and serious injuries by 80%.

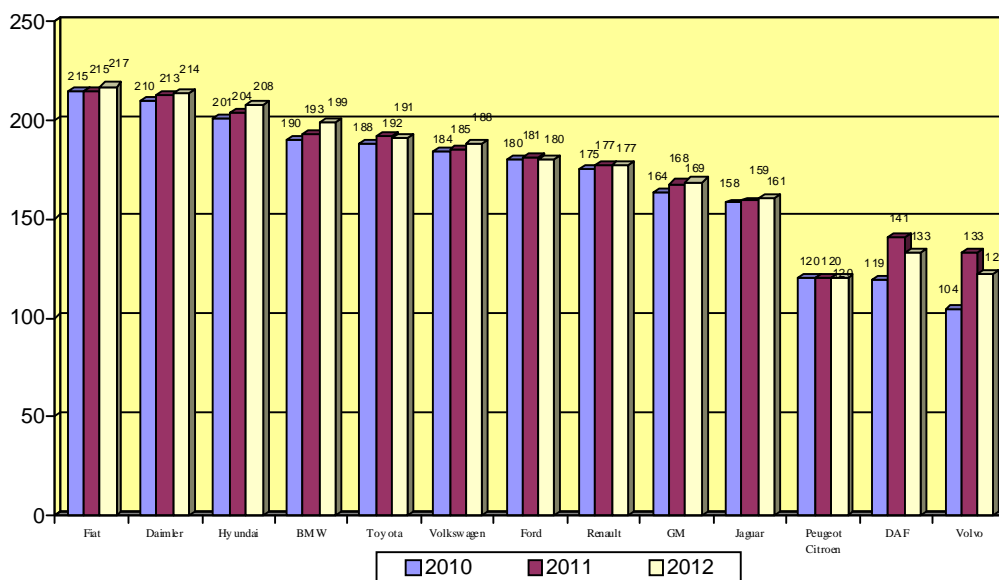
In creating the list of companies operating in the European automotive industry, we started out by studying the members of the European Automobile Manufacturers' Association. We have chosen only 13 of the 16 members of this association because we lacked complete data for IVECO SpA and Porsche and MAN Nutzfahrzeuge AG and Scania AB were taken over by Volkswagen Group.

Based on content analysis of internal reports, CSR reports, and sustainability reports published in 2010, 2011 and 2012 by the analysed companies, we identified the key indicators and tools used to evaluate CSR performance. Among these are: ISO 26000 (used in 2012 by 8 of the 13 companies), ISO 14001 (11 companies), ISO TR 14062, ISO 362, ISO 50001, ISO 22628, ISO 14040, ISO TS 16949, ISO 39001, ISO 9001, EN 16001, GRI, ISAE 3000 Certificate, United National Global Compact, the UN Global Compact Korea Network, Carbon Disclosure Project, Boston College Center for Corporate Citizenship, Sustainable Asset Management, Vigeo, Sustainalytics, Oekom Research, Imug / EIRIS, Dow Johns Sustainability World, ASPI Index, FTSE4 Good Index, Global Framework Agreement on Responsibility, The STOXX Global ESG Leaders Index, FTSE ECP I Italia SRI Benchmark Index and FTSE ECP I, ECP I Ethical EM U Equity Index, MSCI ESG Indices, etc.

Based on this analysis, we designed a statistical overview of companies that implemented the GRI tools or international standards regarding environmental protection, quality, energy or protection of employees' rights to evaluate CSR performance. We also ranked organizations based on the number of CSR indicators reported in 2010, 2011 and 2012 (Figure no. 1).

Indicators reported by analysed organizations fall into three categories: indicators that assess the economic performance (27% in 2010, 27% in 2011, 28% in 2012), indicators that assess the social performance (42% in 2010, 43% in 2011, 44% in 2012) and indicators that assess the environmental performance (31% in 2010, 30% in 2011, 28% in 2012).

**Figure no. 1. Number of CSR indicators reported in 2010, 2011 and 2012**



Source: created by author

The analysis shows that in 2010, 12 of the 13 companies adhered to GRI's sustainability principles, and in 2011 and 2012 all 13 companies adhered to the GRI principles. Although they adhered to the conceptual framework of GRI, some companies did not fully apply it. A total of 10 companies reached the A+ maximum reporting level and 5 companies audited their sustainability reports.

An important goal of our research was to create a composite index of CSR performance ( $PI_{CSR}$ ). We designed a model to assess CSR performance on four dimensions: business performance (BP), labour relations performance (LRP), environmental commitment performance (ECP) and societal engagement performance (SEP). BP was assessed using the following indicators: total revenue, number of sold vehicles and R&D expenses. LRP was evaluated using the following indicators: the ratio of women in the total number of employees, number of hours of training per employee and frequency of accidents. To evaluate ECP we used: CO2 emissions in g / km, water usage per vehicle, energy consumption per vehicle, waste amounts in kg / vehicle. SEP evaluation was based on 2 indicators: donations and corporate citizenship expenditure.

Our methodology to calculate the  $PI_{CSR}$  involved the following stages: values for each indicator within each dimension were sorted in a descending order, we determined the value that defines a contribution to CSR performance: the best result (maximum value) and the value of the lower (minimum), we scored each value of the indicators with 0 to 1000 points (0 to 1000 minimum and maximum), we normalized the values using by the following formula:

$$P_i = 1000 * (X_i - val_{min}) / (val_{max} - val_{min}) \quad (1)$$

where:  $X_i$  = the value of the indicator to be normalized,  $val_{max}$  = maximum value,  $val_{min}$  = minimum value.

We set the weighting coefficients: each indicator is equally weighted within each dimension and each dimension has equal weight in the total index; we aggregated all dimensions by multiplying the number of points given during normalization with the weighting coefficients (0.33 for BP and LRP, 0.25 for ECP and 0.50 for SEP) using the following formula:

$$P_{i/d} = P_i * C_d \quad (2)$$

where:  $P_{i/d}$  = points for indicator  $i$  after weighting,  $P_i$  = points for indicator  $i$ ,  $C_d$  = weighting coefficient for dimension  $d$ .

We calculated a composite index by summing up the scores each organization received after aggregation, for each separate dimension, using the following formula (the values of the total index will range from 0 to 1):

$$I_t = (P_{i/d1} + P_{i/d2} + P_{i/d3} + P_{i/d4}) / 4 / 1000 \quad (3)$$

where:  $I_t$  = composite index,  $P_{i/d1,2,3,4}$  = points for indicator  $i$  after weighting, dimensions 1, 2, 3, 4.

We ranked organizations according to the values of the  $PI_{CSR}$ , the entity with the highest index value being also the organization with the highest CSR performance (Table no. 1).

**Table no. 1. Corporate standings based on  $PI_{CSR}$  values**

Company	$PI_{CSR}$ 2010	$PI_{CSR}$ 2011	$PI_{CSR}$ 2012	Average of $PI_{CSR}$
Toyota	0.803	0.803	0.773	<b>0.793</b>
Ford	0.528	0.564	0.735	<b>0.609</b>
Daimler Group	0.519	0.611	0.636	<b>0.589</b>
Volkswagen	0.554	0.58	0.605	<b>0.580</b>
GM	0.509	0.538	0.516	<b>0.521</b>
Hyundai	0.497	0.527	0.505	<b>0.510</b>
Bmw	0.482	0.485	0.501	<b>0.489</b>
Psa Peugeot Citroen	0.449	0.473	0.419	0.447
Renault Group	0.422	0.404	0.425	0.417
Fiat Group	0.294	0.413	0.426	0.378
Volvo	0.368	0.357	0.372	0.366
Paccar	0.221	0.233	0.219	0.224
Jaguar/Land Rover	0.158	0.242	0.231	0.210

Source: calculated by author



Results for the  $PI_{CSR}$  show that 7 out of 13 organizations have average and above average CSR performance. None of the organizations received the maximum number of points, which is a normal situation, given that we used a total of 12 indicators and dimensions were applied the same weighting (0.25). For organizations located in the lower ranks we noticed a low score for BP, resulting in an unsatisfactory result of the index. Businesses in the top of the ranking are the world's leading car manufacturers, and economic, social, societal and environmental issues are cumulatively included into their major priorities.

Based on social performance scores, Daimler Group Mercedes Benz stands out because the indicator for reduced frequency of accidents places the company in a privileged position. Therefore, ensuring safe working conditions may increase the values of the CSR performance index. The evaluation of environmental commitment performance places BMW Group in a leading position and shows a homogeneous spreading of the scores received by the top nine producers under analysis. BMW's leading position is supported by their ability to recycle waste. Ford is the company with the lowest CO<sub>2</sub> emissions, and the company with the lowest consumption of water and energy per total number of vehicles is Toyota.

## 5. Conclusions

Precise knowledge and accurate use of tools to assess CSR performance are extremely important because they help analyse CSR programs and compare CSR performance. In Europe, there is great focus on standardizing the evaluation of CSR performance, and one of priorities of the European Commission is to draw up a set of tools to assist companies in monitoring and evaluating their CSR policy.

The present research facilitates the assessment of CSR performance based on a unique methodology, which helps pinpoint strengths and weaknesses of companies by using the four dimensions and provides all interested parties with a general overview of CSR performance, and also a closer look at business performance, labour relations performance, environmental and societal commitment performance or at the assessment indicators; it also gives researchers and practitioners a clearer picture of CSR indicators reported by European car manufacturers and of their focus on adhering to the principles of voluntary sustainability reporting; it opens up opportunities to extend and improve the methodology by including new indicators to assess CSR performance that can be used regardless of sector.

Limitations of this study arise from the existence of rigors in the choice of indicators for each dimension, constraints that were determined by the need to equally highlight each of these dimension, from using only the reports published by companies (sustainability reports, annual reports, social responsibility reports), from the fact that companies needed to design their own calculations when reporting customized indicators (currency unit, etc.), from the fact that each dimension has equal weight and consequently equal importance of determining the total index.

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# ASSOCIATION TROUGHT CLUSTERS IN THE CONTEXT OF REGIONALIZATION

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## Abstract:

*An important objective of the European Union is to sustain progress both economically and socially, balanced and durable, through administrative divisions/regions located in the administrative hierarchy in a position immediately below the central level. In the last decades regions and regionalization were imposed, not only in European countries, as trends in territorial organization. In the process of regionalization, the development of clusters had a key role in a country's economic competitiveness. New administrative regions determine the appearance of new economic structures and cluster organizations can respond to problems in different economic areas. In Romania the stage of development of clusters is still early, but in terms of global competition for markets, economic power is needed, and that is why the idea of cluster associations should be sustained so as to promote a properly entrepreneurial climate. Clusters are accepted as a solution to the crisis, a tool for competitiveness and regional development. Considering the economic potential and Romania's current economic situation, we plan to discuss the issue of clusters in our country through content analysis, scientific observation, induction, deduction, considering the pros and cons of their development in the context of highly-publicized regionalization.*

**Key words:** cluster, competitiveness, economic development, economic concentration, regionalization.

**J.E.L Classification:** C38, M21.

## Introduction

Europe 2020 sets out principles of the Lisbon Strategy for growth and creating new jobs and includes three major objectives: smart, sustainable and inclusive growth. In the short term, this strategy aims to prioritize the fight against the crisis and long-term creation of jobs, increase living standards and positioning the EU at the forefront of international rankings. Meanwhile, the European Commission has set the objective to create a Europe that is based on social progress, sustainable and rapid growth. One of the ways to accomplish this goal is the improvement of regional cooperation between business, universities, research institutes and the state, through a form of partnership highly debated and publicized, but under exploited, the cluster. The paper aims to discuss the concept of clusters in the sense of specialists, with the advantages and risks involved, to present models of developed countries that have facilitated the emergence and development of clusters and, finally to grasp the shy but promising initiative, of clusters in Romania, in the current context of regionalization.

## 1. Concept of cluster

Increased competitiveness and regional development are some acceptable solution to the crisis determined by the use of an instrument that has no novelty character, the cluster.

Clusters are now the subject of a whole series of documents issued by national and international organizations (OECD, 2005, 2010, European Commission, 2008) and, based on experience, many authorities promote the idea that due to clusters increase competitiveness, workforce is specializing, businesses and regional economies grow.

The first economist who described the clusters in terms of "supply chains" was Alfred Marshall (1842 - 1924), who analyzing industrial agglomerations in England found that clusters of firms in a particular sector creates involuntary positive economic effects - the so-called externalities:

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- effects on employment: a large number of enterprises supplies from the same workforce pool results in increase of salaries on the one hand and specialization and increase the level of qualification on the other hand;
- effects in terms of specialized suppliers: to avoid competition, a cluster of industrial enterprises tend to specialize in a particular segment of the chain creating added value, leading to increase product quality and reduce costs;
- technology transfer: Marshall found that the information and knowledge flows between existing businesses in the geographical concentration.

Since the '50s, the term became current and was debated by specialists in regional science, architecture, urban planning, urban and regional economics, political science. Most authors have defined the cluster, revealed the factors influencing the emergence of clusters and presented the positive and negative effects of a cluster in a region.

In the 80's, Michael Porter, in his book "The Competitive Advantage of Nations", stated about the cluster that is the most common form of collaboration. Porter describes a "diamond of competitive advantage" to be the basis of any cluster. The main elements of the diamond, identified by Porter, consist of factor conditions (skilled workforce), demand conditions (influences innovation in enterprise), related and supporting industries (the network of providers help reduce the distance between suppliers and producers), firm strategy, structure and rivalry (to remain competitive the company is forced to upgrade and invest continuously).

According to the same author, clusters are geographic concentrations of interconnected companies and institutions, in a certain domain. Clusters include a group of related industries and other important entities from a competitiveness point of view. These include, for example, suppliers of specialized inputs such as components, machinery and services, or specialized infrastructure providers. Also, some clusters include governmental institutions and other types of institutions - such as universities, standardization agencies, think tanks, vocational training providers and employer's associations - which provide specialized training, education, information, research and technical support.

In the early 90's politicians have admitted interest in recognizing and supporting clusters, stating that they are not simply agglomerations of business enterprises, but also a platform for innovation. According to specialists, clusters are geographic concentrations including businesses, universities and research institutes, and local or regional authorities, and because of that they attract specialized suppliers, can select from a workforce pool, easier access to information. By facilitating the dynamics of workforce, specialization and exchange of information all businesses can benefit from potential local innovation, it encourages entrepreneurship, and growth of productivity, salaries and jobs. Clusters are characterized by a flexible organization, each member meets certain activities, has a role established under the cluster strategy and market requirements. Membership of an organization to a cluster is supported by the benefits of this form of association:

1. Increase competitiveness and the employment rate of workers by interconnecting people, skills, competencies and knowledge.
2. Increase efficiency due to the presence of the network of customers and suppliers.
3. Stimulating innovation as customer interaction creates new ideas and strong pressure on innovation.
4. Increase the bargaining power of companies both on the domestic and foreign markets.
5. Encourage businesses to collaborate on quality criteria approved according to international standards.
6. Arise opportunities for knowledge transfer.

Initiative of association in a cluster influences business strategy, improve its competitiveness as it increases the added value provided. The authorities have rethought policy and analyzed all the new perspective of the regional economy. The local economy benefits

from clusters because they may increase the competitiveness of ii, income, provide quality jobs, develop investment in research and innovation and promote potential winners. And the state can use financing projects more efficiently by supporting start-ups, innovative companies, can implement effective public policies (health, education, infrastructure and so on).

The state is seen in the regional development as a major player in the promotion of clusters and networks. The success of clusters is equivalent to an economic objective because there are adopted different projects and programs that fund collaborations between different economic actors, local authorities and other institutions.

The importance of clusters in the EU economy is supported by the establishment of the European Cluster Observatory which identified some 2000 cluster (defined as regional agglomerations) working in 38% of the labor force of the union.

## **2. Regional development and competitiveness through clusters**

Clusters own an important place in the general policy of the European Union, something seen in many documents and position papers adopted by the European Commission since 2005 and the establishment of a European Cluster Policy Group that in 2008-2010 studied the cluster policy countries outside the EU.

In the EU there are three categories of cluster policies. The first category the *policies for facilitating* work to create a microeconomic friendly environment to growth and innovation which in turn stimulates the emergence and dynamics of clusters, for example by encouraging networking and business knowledge from the action or geographical proximity. The second category, the *leveraging policies*, concerning the industry, SME (small and medium- sized enterprises), research and innovation that often use the cluster to increase efficiency of a specific instrument. The third category consists of *development policies* designed to create, mobilize and strengthen a particular cluster or initiative to associate in clusters.

In the economic literature there are several models of clusters.

### **The French model**

French policy to support clusters (poles of competitiveness) was introduced in 2005. The objective of this program is to improve the country's innovation potential by focusing efforts on public centers of excellence to create wealth and jobs. The poles of competitiveness, according to the French model, are combinations of companies (large and small), research centers and educational institutions that implement a common strategy for economic development in line with the overall strategy for regional development. Other partners of the pole of competitiveness are represented by local and national authorities. An important role is played by large companies and research institutions from a region.

During 2005 - 2008 the French government has provided funding of around 1.5 billion euros, with the allocation of funds being funded research and development projects in 71 clusters.

Currently, in France are 71 poles of competitiveness which includes 5000 enterprises, of which 80% are SMEs.

### **The German model**

In Germany, the first efforts to support clusters were made in the mid 90's. Federal states such as Bavaria, Lower Saxony and North Rhine - Westphalia started implementing clusters within their borders. In 1996, Federal Report on Research included for the first time officially clusters as a way to support innovation.

In Germany, cluster policy has its origins in supporting technological networks and regional development and even today put focus on these fields through the support of networks of excellence. Thus, at the federal level are supported, since 1999, the 130 German competence network that bring together partners from different sectors and different, around a main theme.

In order to increase flexibility, competitiveness and quality of research, Germany has chosen in 2005 to strengthen the academic research and to establish academic excellence poles being implemented through the Excellence Initiative. This funding program extended over a period of 6 years (2006-2011) the committed the amount of 1.9 billion euros (75% of federal funds, 25% of provincial funds) and included the following axes: Support technology transfer by selecting the cluster of excellence; Research - Industry (optional averaged 6.5 million/cluster); Supporting scientific excellence by selecting the top doctoral schools (1 million euro/year/school); Support future strategies for promoting top university research, proving once again that the partnership between academia and industry in the clusters is an important activity supported by public funds.

#### **The British model**

Promotion of the "cluster" on British territory was initiated by the Department of Trade and Industry in December 1998, implementation of this policy in a specific program is assigned to the 10 regional development agencies, established in the same year. In 2000 was launched the second phase of this program, and in February 2001 was made a national cluster mapping, were identified 154 clusters throughout the territory of UK.

Although were found 154 clusters, the British approach to clustering starts from universities, most notably Silicon Fen, Cambridge, organized around the best European universities. Cluster organization is provided by Cambridge Network and is characterized by great professionalism in its action through intensive cooperation with the university, and by a strong involvement of local entrepreneurs and investment funds. Professionalism in actions, entrepreneurial dynamics, strong involvement of investment funds and local entrepreneurs, intensive cooperation with universities are some arguments supporting this cluster.

#### **The Slovenian model**

In Slovenia, a consistent policy of support for clusters is found since 2001. The main objectives were:

- Encouraging cooperation between companies and between companies and research – development sector;
- Strengthen the capacity, skills and know-how of actors that contribute to the development of clusters, cluster formation itself;
- Developing an innovative environment in clusters;
- Development of networks of micro-enterprises (local clusters);
- Development of network technology.

Following the implementation of this policy were created over 25 clusters.

#### **The Hungarian model**

Hungary, a country from the group of the new members of the European Union, imposed an original at the same time strong and flexible model of cluster. Policy on clusters was coordinated by the Ministry of Economy, through the Implementing Agency POLUS which aims to monitor and accredit clusters in Hungary. Financial support of clusters is in 4 phases, accreditation returning after stage II.

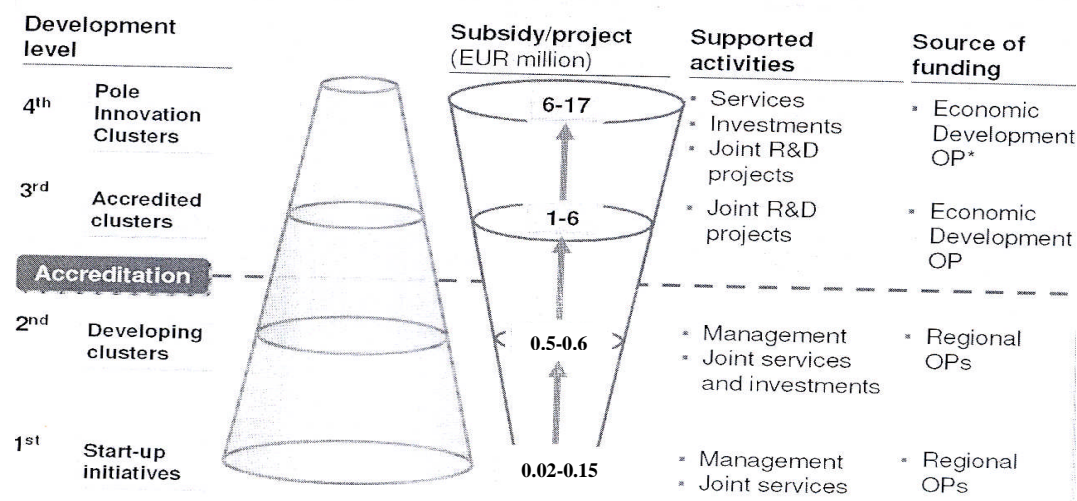
In 2012, in Hungary about 70 clusters receive support in phase 1, 21 clusters in the second stage and 21 clusters obtained accreditation.

### **3. Romania's experience in association through clusters**

The idea of clustering is not completely new title in Europe, nor in Romania, but we can give title of present. We believe that in our country the fatherhood of the cluster idea can be assigned to the great forerunner of economic thought, Virgil Madgearu. Concern for the development of the internal market was manifested especially after the Union of 1918 which was the culmination of Romanian heritage integration into a unitary functional body. The process of industrialization typical for the 3 and 4 decades of the twentieth

century took into account first of all the location of industries, resources of raw materials, processing industry being concentrated near the exploitations of ores, coal, salt, quarrying, oil reserves, natural gas, forests.

**Fig. no. 1. Parameters of call proposals for cluster in four development phases**



Source: Coșniță, D., Baban, A. (2012) „Analiza situației privind clusterelor existente și potențiale din România”, ISBN: 978-973-0-13852-8, pp.13, [www.clustero.eu](http://www.clustero.eu)

In his paper "Romanian economy after the World War", professor of economics, Virgil Madgearu identified in Romania for that period a number of 8 industrial development areas:

1. *Prahova Valley Region* has developed because of the existence of oil, stone quarries, forests. These conditions resulted in the establishment of oil refineries, cement plants, lime, plaster and paper mills.
2. *Resita Region* developed due to mineral resources in iron ore and manganese, coal and wood. It was characterized by the development of metallurgy and steel industries.
3. *Turda Region* rich in reserves of gas, salt, gold and silver ore, copper and lead have led to the development of industries in the region: cement, lime, bricks, tiles, porcelain, glass, and some industries consumer goods: food, textile and leather.
4. *Baia Mare Region* has allowed the industry due to the presence of gold ore, silver, copper, lead, zinc. Based on these resources have emerged chemical industry.
5. In *Hunedoara Region* was shaped steel industry due to iron ore, forests, manganese and waterfalls.
6. Although is located far away of the supply of raw materials and fuel, in *Region Ferdinand and Nădrag* developed steel industry and for the manufacture of iron and steel was used iron ore from Teliuc and crude iron from Călan.
7. *Cisnădiei Region* developed on the basis of old domestic industry qualified in textiles. The region later extended including Tălmaciului's and Sibiu's area.
8. *Region Piatra Neamț, Bacău and Buhuși* was a good place for the textile industry due to specialized workforce.

These industrial concentrations identified almost a century ago subsequently demonstrated viability. Nowadays, we find them in the industrial landscape, some in the active state, the other in the fall or latent, but whatever they may be, we remember that idea of development focused on resources, on regional forces, was sustainable.



Such an approach deserves to be considered in a higher proportion of by the firms in our country and harnessed this time relying on other conditions and resources, but in a context of unity of Romanian companies.

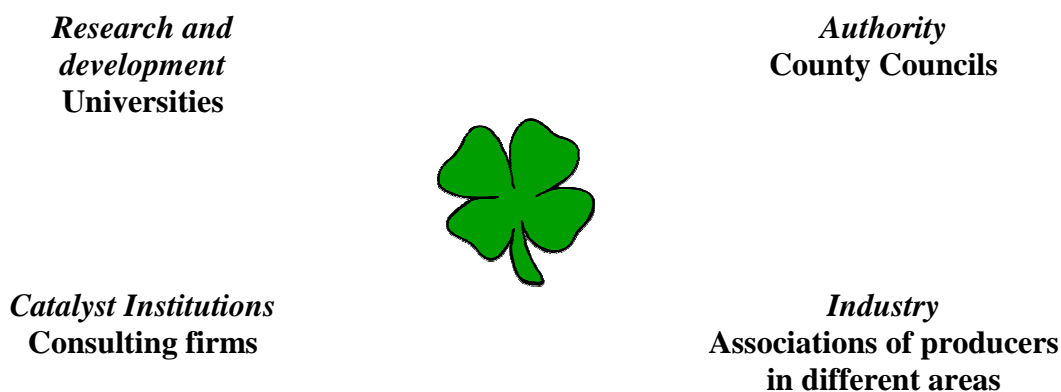
We can inspire very well from the experience of countries such as USA, France, Italy, Finland, Austria or can borrow from enthusiasm and actions of Hungary or Moldova.

Association it becomes a necessity to cope with intensifying competition in the various markets: local, national or international, is a good motivation to carry out large projects (construction giant, highways, tourist complexes) that requires huge expenses, large and ready workforce and works of quality.

The Romanian state role is very important in the development of clusters. The theory states that cluster initiatives should occur only in areas where there are already various forms of partnerships and networks, but still underdeveloped because of the economy. We believe that the state should get involved and help more businesses.

The first steps have been taken by the Ministry of Economy, which has funded a number of studies for Romanian definition of cluster. Based on the model of 'triple helix' which included three natural partners (industry, especially SMEs, universities and state) concluded that Romanian model cluster should have the shape of a four leaf clover, where the fourth partner are promoters. These are organizations specializing in technology transfer and innovation, consulting firms etc.

**Fig. no. 2. The Romanian cluster model**



Our experience so far shows that, on the one hand, the state facilitates the establishment of the clusters, introduced positive measures in industry and SMEs, on the other hand, there are few cluster initiatives that work, although potential exists. Ministry of Economy funded in 2009, the publication of the "Guidelines for implementation in Romania of innovative cluster concept", which presents a list of industrial parks, technology transfer and innovation entities, universities, Romanian and foreign investors who can benefit of cluster's advantages by association.

Analyzing the strengths and weaknesses of Romania's regions, it appears that there are economic sectors and industries with potential (e.g. agriculture, textiles, construction, tourism, forestry, industry), SMEs seeking to internationalize, entrepreneurship is growing and entrepreneurs show more courage. Meanwhile, due to political instability and lack of a clear strategy for Romania, medium-term strategies are absent or weak, for businessmen it is difficult to plan and predict, the education system is not market oriented, workforce migrated in the last 10 years, especially in the age segment of 18-35 years (the active group) and those who remained active in the country are not very mobile, infrastructure is underdeveloped (about 300 km of highway), communication between potential partners in a cluster is rare or nonexistent, research activity in universities is poorly developed, there are not coherent and prioritized topics, cooperation between members of industrial clusters is lacking.



Chances in the formation of clusters are coming from the EU, which requires Member States to transfer policies and measures on clusters in national programs to improve conditions for business. The Black Sea and the Danube Strategy provide opportunities for cross-border projects and economic development, the implementation of regional development programs, increase interest in opening branches of multinational companies and research units in universities.

Romanian state is involved in cluster policy differently. As in other European countries, the regional development policies, clusters, and the role of SMEs in the economy are contained in several ministries and institutions. The main actors are the Ministry of Regional Development and Public Administration, Ministry of Economy, Trade and the Business Environment, Ministry of Environment and Climate Change, [Ministry of Transportation and Infrastructure](#), Ministry of Internal Affairs (responsible industrial parks). Nationally, developing regions will play a more important role because project evaluation will be done by regional and local mayors, and municipal councils are encouraged to be more involved.

Since 2008, the Ministry of Economy, Trade and Business Environment, General Direction of Industrial Policy conducted a comprehensive effort designed to identify existing and emerging clusters in Romania. This resulted in four main actions:

1. Elaboration of the chapter regarding clusters on industrial policy document, with support from the German Society for Technical Cooperation (GTZ).
2. The "Inov Cluster" project (2008-2010), from the framework of the Sectoral Plan for Research and Development which aimed to disseminate the concept of innovation cluster in Romania and examples of good international practice and stimulating economic operators in creating and developing innovation clusters by making specific tools (guide, gateways, consulting services).
3. The "cluster mapping" exercise conducted by the Ministry of Economy, Trade and Business Environment with support from German Society for Technical Cooperation (GTZ).
4. Generating potential competitiveness poles.

All these actions were aimed at:

- Analysis of international situation in clustering;
- Developing the Guidelines for implementation in Romania of the concept of innovative cluster;
- Conducting 19 regional workshops (Bucharest (2) Iași (2) Piatra Neamț, Brăila, Constanța, Călărași, Pitești - Mioveni, Craiova, Râmnicu Vâlcea, Timișoara, Arad, Oradea, Cluj, Sibiu, Sfântu Gheorghe (2), Bistrița, on the whole over 500 participants. Workshops have a double role: dissemination of the concept of innovation cluster and identification of existing/emerging clusters in Romania based on methodology "peer review";
- Consultancy services (including on-line) on the creation and development of innovative clusters in Romania;
- A study visit to Hungary where were visited clusters representative of Szeged and Debrecen. Also, a visit was made to POLUS, Promotion and Accreditation Agency of Clusters in Hungary, to identify examples of good practice and adapting them in Romania.

#### **Romanian Cluster Association**

Romania's experience in clusters association is shy. However, in 2011 Romania had formed Romanian Cluster Association whose purpose is economical development, promotion and revival by supporting creation, development and cooperation between clusters at regional, national and international level.

Among the founding members, we can mention:

1. The North-East ASTRICO Textile Cluster, Piatra Neamț, represented by the ASTRICO Association

2. The South-East Maritime Cluster, Constanța, represented by the Ronomar Foundation
3. The Elinclus Electronic Cluster Bucharest, represented by the Association for Promoting Electronic Technology
4. The South-West Tourism Cluster, represented by the Association for Promoting Tourism Mehedinți
5. The Agro Food West Cluster, represented by the Arad Chamber of Commerce, Industry and Agriculture
6. The Green Energy Covasna Cluster, represented by the Green Energy Association
7. The Pro Wood Covasna Cluster, represented by the KOFA Association.
8. The Electrotechnical ETREC Center Cluster, represented by the Regional Electrotechnical Cluster Association ASCRET Brașov.

From the Association's standpoint, the cluster must contain:

- The Economic pillar (industry and / or services): a significant number of enterprises from the domain in which the cluster is operating;
- The Education - Research – Development pillar: universities, research institutes (or any other institutions engaged in research and development);
- The Public authorities pillar, at national level (ministries), regional (Agencies for Regional Development, county councils), local (local councils, municipalities, City Halls).

In the year 2012, the Association's activity is reflected in the following economic data:

**Table no. 1. Economic data**

Indicator	Value	UM
Turnover	15.006	thousands RON
Number of enterprises	255	Units
Export	3345	thousands RON
Employees	77295	persons

Source: [www.clustero.eu](http://www.clustero.eu)

Since Romanian Cluster Association is a trans-sectoral organization, economic data are relevant at national level.

### Conclusions

Cluster initiatives are seen as a tool for improving both national and regional competitiveness, through clusters a nation can secure economic development, promote cooperation between companies, universities, research institutes, customers, competitors and suppliers in a particular geographic area. Establishing priorities and accepting collaboration with research and development entities, with the state, in a cluster businesses can enhance their image and invest in modernization and ensure efficiency.

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# TALENT MANAGEMENT – OPPORTUNITIES AND CHALLENGES RESULTED FROM THE CHANGES CAUSED BY THE ECONOMIC CRISIS

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## Abstract:

*In the always-changing economic environment of today companies, especially those aiming at expanding in new markets, are faced with major challenges in developing and implementing effective talent management strategies. This article intends to analyze the characteristics of talent management and to emphasize its role in an economic environment that is highly competitive, dynamic and affected by the economic crisis in which companies have major difficulties in developing and implementing effective development strategies. The article also intends to highlight in which measure Romanian companies are preoccupied by the implementation of talent management strategies and how can the retention of talented employees be realized in cost-optimizing conditions.*

**Key words:** talent management, employee retention, competences, assessment of performances

**JEL Classification:** O15, J24

## 1. Introduction

The world has become a labor market without frontiers, where talents are no longer limited by national or even continental borders. The access of talented employees to more complex positions on a globalized labor market has forced employers to invest in cultivating, preserving and keeping talents loyal, in order to maintain a competitive advantage and continuity in business.

The measurement of the intellectual capital and of the knowledge management is not reflected in most cases in the companies' monetary and financial – accounting records, the reporting being rather voluntary than mandatory. As such, there is a huge difference between the reporting methods used by companies and in the typology of the indicators reported. (Dindire Laura, Dugan Silvia, 2013)

Companies like to promote the idea that employees are their biggest source of competitive advantage but most of them are as unprepared for the challenge of finding, motivating, and retaining capable workers as they were a decade ago.

In the most general sense, talent is the sum of a person's abilities- his or her intrinsic gifts, skills, knowledge, experience, intelligence, judgment, attitude, character and drive. It also includes the ability to learn and grow. The talent is now a critical driver of corporate performance and that a company's ability to attract, develop and retain talent will be a major competitive advantage far into the future. (Michaels Ed et al., 2001)

Talent management means having the right people in the right place, at the right time and most of all at the right cost and it also represents the totality of systems and processes that allow a company to attract develop and preserve highly-qualified employees.

Jack Welch, one of the most renowned CEOs in the world and the leader of General Electric for 20 years, had a very interesting theory about the healthiest structure of a company. He considers that the most important part of a company's employees, "the talents" should represent 20% of the total of employees in a company, while the maneuver part, the ones a company usually changes, are 10%. The rest 70 % are the working part, the ones who guarantee the company functions. He states "my main role was to develop

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talents. I was a gardener, feeding the garden of the 750 top people in the company. Of course, I had to obtain a harvest.”

Talent is not about someone’s potential to move into increasingly senior positions. It’s about how they perform now and how they deliver tangible and sustainable results. (Davies Jacqueline, Kourdi Jeremy, 2010)

At its hart, talent management is simply a matter of anticipating the need for human capital and then setting out a plan to meet it. Talent management is not an end in itself. It is not about developing employees or creating succession plans, nor is it about achieving specific turnovers rates or any other tactical outcome. It exists to support the organization’s overall objectives, which in business essentially amount to making money. (Cappelli Peter, 2008)

SHL The CEB Talent Measurement Solution has presented the results of the annual study Global Assessment Trends Report which is based on an online survey, filled in by 481 professionals in human resources worldwide, showing that “the organizations which will be successful, disregarding economical conditions, are those having a culture centered on the employees, as this culture becomes visible with clients as well. Companies that understand the potential of the internal talents have bigger chances to adapt and succeed in comparison with the other players on the market. However, this depends on their ability to value the competences and the knowledge of the workforce and to recruit candidates that can increase the internal talent nursery. An effective talent management begins with a profound understanding of the competences, behaviors and potential in an organization and aligning these coordinates to the present and future business objectives.” (Sarah S. Fallaw, et al, 2012)

An effective talent management means to clearly differentiate both people and roles. In a market characterized by dynamism and competitiveness, the solutions provided by talent management have a double purpose: identifying, developing and adapting human capital to strategic business objectives and connecting these objectives to the individual objectives of the employees and their long-term development in the company.

## **2. Paper objectives and methodology of research**

In performing this paper we aimed to achieve the following objectives:

O1: identification of the characteristics of talent management in the knowledge-based economy;

O2: presentation of various talent retention solutions within organizations;

O3: analysis of the effects of the economic crisis on talent management strategies;

O4: revealing certain aspects related to the trend entitled “talent market” in Romania.

In order to achieve the objectives we used as research method the content analysis of the specific studies made by various authors (Fallaw S., Dawson C., Michaels E., Handfield-Jones H., Axelrod B.) and some prestigious international institutions (Pricewaterhouse Coopers, Ernst & Young, etc.).

## **3. The characteristic of talent management**

The talent management goes beyond basic employee administration. When well done it ensures that the right employees are in the right positions with the skills and motivation necessary for success. On a more and more competitive talent market, the talent management is based on the leaders of the entire organization to take responsibility for all the aspects in the employees life cycle. Making leaders responsible in talent management implies hiring, developing, administrating challenging, promoting, motivating.

When we say “talent management” we must not strictly refer to a single process or a single technology. This involves a combination between effective processes, scientific measuring instruments and a winning strategy (Khan Samia, 2013): administrating talents, measuring talents and talent strategy.

The „Growing pains: companies in rapid-growth markets face talent challenges as they expand”, rapport realized by Ernst & Young, identifies the equation of talent and explains why talent management has become one of the important risk areas in the development of organizations. Research shows that in the attempt to integrate talent management in their mobility strategies at a global level, most of the big companies apply the following principles:

- alignment and integration – to effectively implement talent management at a global level, the efficiency of this process is connected to the superior performances of the business, both at a financial and at a non-financial level.

- talent management– defined as the way in which an organization administrates and develops human resources as an integral part of the business strategy.

The research has also defined four big challenges for an organization in identifying talents and consequently, four types of imperative actions for successfully managing them (Ernst & Young Study, 2012 ):

Challenge 1: top management teams do not have enough knowledge about the local culture of target markets and do not understand global markets. Only one of the five managers believes that the firm where he works reaches the optimal balance between local talents and expats on the international markets.

*Area of action: Developing and promoting local company leaders, as well as giving opportunities to the staff to gain global knowledge.*

Challenge 2: the lack of an internal recruitment structure, which takes time and investments, forces companies to recruit from other organizations. This approach represents a not very appreciated practice by the operational managers (30%)

*Area of action: aligning the strategies of the company with the individual objectives of the employees, monitoring the existing talents within the company and accurately using those who have the required set of qualifications and are at the right stage of their career.*

Challenge 3: The companies consider that giving adequate stimulants to employees from different markets is particularly difficult. What could stimulate the employees from one culture might discourage those coming from different cultures.

*Area of action: Combining short term recruitment strategies with long-term workforce planning*

Challenge 4: Leaders and managers have opposing opinions regarding talent management.

*Area of action: the loyalty of the employee can be stimulated by internal promotion, investing in the education and developing it and by aligning it individual objectives with those of the company. Creating an organizational culture that takes the individual into account and integrates a clear communication strategy on all levels also helps this purpose.*

In talent management one can identify five basic elements that make the difference: instituting a “talent management” thinking style, generating a winning and valuable offer in order to bring in the company the most talented people on the labor market, a continuously recruiting talents, developing and growing leaders, differentiating and promoting talent management politics.

Petter Matthews, President of Global Learning Ernst & Young, stated: “Few companies have adapted their approach to satisfy the complexity of the current economic and market global environment. The organizations that aim at global growth will have to invest in developing an effective talent management strategy that will successfully involve several geographic areas. Theses have to change and flatten traditional organizational structures, to encourage a decentralized decision making process, to take into account the significant diversity of cultures, age, environments and geographic locations and adopt new and inclusive leadership styles. The deficit of talents quickly becomes the one and biggest obstacle in economic growth. At a global level, companies have difficulties in covering critical positions, where they need people with advanced skills, essential to business evolution.”

The „Paradigm shift: building a new talent management model to boost growth” study, realized by Ernst&Young, notices that there is a general lack of investments in talent management with all companies. Less than half the companies (45%) state that they achieve efficiency by investing in talent management in order to accomplish their financial objectives. This indicator decreases to 36% for companies with low performances.

Only half of the competitive interviewed companies (54%) say they already have a strong talent reserve for future leading roles, in comparison with 43% of the low performing companies. The respondents are even less optimistic that they will manage to find experienced leaders with sufficiently diverse knowledge.

Only 43% of the competitive companies and 38% of the companies with low performances agree that their organization has a clear set of values regarding the criteria that qualifies candidates for leadership positions.

Even more, few companies focus on the lack of skills. Of the big players, only 26% consider that the dimension of the lacking skills is a factor that determines the efficiency of talent management, and with low performance companies the percentage drops to 18%. Competitive organizations are more inclined to take into consideration soft skills, interpersonal for executives, laying emphasis on the effective management in an international business environment (47% compared to 37%), as well as on the ability to express and illustrate the values and culture of the organization (44% compared to 37%). Therefore, the ones with low results lay a bigger emphasis on traditional skills, tough management techniques such as industrial and technical expertise and the understanding of financial aspects. This idea, of having only one strong expert in a high management position within the company is no longer a viable pattern. Companies must adapt their approach towards talent management so that they can better identify and cultivate interpersonal competences that have now become so important for business management.

A study realized by Pricewaterhouse Coopers, Romania shows that the main focus of organizational managers is administrating talent management. Jeoff Armstrong, former CEO of Chartered Institute of Personnel and Development, explains the need of the employees to develop an organizational culture that encourages developing the talent and personality of the employee. He states that “we no longer have the same work method as we used to. Before, one did not have to compete with people one did not know, from the other side of the globe. Thus, people remain the only competitive force of the organization, and what people do at their workplace has become essential for the organization”. Armstrong claims that a company differentiates itself through the type of activities and ideas implemented by the employees more than through the purchase of modern technologies for production, thus considering that talent management should be the main occupation of human resources specialists.

Creating a talent management system implies five stages.

1. Defining company objectives, evaluating and controlling the evolution of positions (to avoid the surplus, blockage or deficit)
2. Creating and applying key elements for evaluation: defining key-competences for each position, methods of performance evaluation, methods of forecasting the potential or evolution of an employee, within the company.
3. Creating/ importing evaluation instruments for training and coaching needs (for individual or teams)
4. Individual evaluation of the employees;
5. Data analysis and making the right decisions.

There is a series of benefits for those who deserve for companies to invest in their talents: Competitiveness: true talents always migrate in environments where they can continuously develop. A company that has an active talent management strategy becomes more attractive for such resources and, at the same time, much more competitive on the long-term

◆ Maintaining key resources loyal: constant investment in talent developing, creating a real career path generates, in most cases, a loyal employee

◆ Flexibility: in a world submitted to the pressure of the economic environment, the existence of an internal talent nursery can only offer a plus of flexibility to any transition and contribute to the success of the change process.

◆ Contingency: quickly covering key positions that have become available by using internal talents;

◆ Early identifying the competence gap: the existence of a talent ranking in each area and geographic area of the organization allows the early identification of the talent gap that might have a negative impact on achieving future strategic objectives.

#### **4. Organization behavior – means of valuable employee retention**

Attracting job applicants and a low retention rate are considered very important issues that companies have to deal with. On an international scale, 82% of organizations are dealing with difficulties during recruitment, 69% of them have got retention issues and 67% of North American, European and Asian managers consider that the inability to attract and retain the best employees is among the top three threats for economic competitiveness. (Ionescu Mihaela Alexandra, 2008)

In order to keep the most valuable employees, a series of retention models have been developed for companies. The usual retention solutions include special training programs, salary policies, career development paths, all of them being structural solutions; most such programs lack a specific focus on the person. By the same token, one research that should raise questions has been done by Gallup; it clearly shows that very often people don't just quit their jobs/companies, but more likely they quit their superiors. Until retention programs take this into account, it will not be an efficient mean in the quest for head – hunting.

Organizational behavior can have a negative and positive influence on employee retention. The most common reasons for quitting a job are:

- Lacking an honest and transparent leadership;
- Lacking a good communication with superiors and peers;
- Reducing promotion opportunities;
- Unreasonable objectives and targets;
- Not acknowledging accomplishments;
- No trainings;
- An undeserved salary level for some employees;
- A certain mistrust among colleagues.

Apart from financial packages that are being offered by companies in order to retain employees, managers should look at a few other methods as well, some of them being quite easy to accomplish, thus ensuring that employees, especially the valuable ones feel respected and valued by the company:

- The existence of a sincere and transparent leadership. The way that the management can convey information, does have the ability to contribute to employee retention. It is not just conveying information to employees that is important, but also the feedback. Whenever employees feel free to present their ideas and opinions, they feel free to criticize, which in turn has a positive influence on the improvement process. If they are not allowed to express themselves, they will often find themselves in delicate situations, and will eventually decide to quit;

- The existence of an adequate communication plan;
- Maintaining career promotion possibilities;
- Realistic goals and targets; expectations that are adapted to real conditions;
- Official acknowledgement of accomplishments and values. Most times when an employee doesn't properly deal with his tasks he will be subjected to critics. The is no



opposite situation, which would presume receiving appreciation from one's superior; such a gesture would empower the employee, giving him more self confidence and thus encouraging him to better perform next time;

- A wise development of training programs, adequate to the real needs of employees. The moment that an employee benefits from the appropriate training he starts feeling that he is truly being helped in his development and that the organization is involved in his education; this leads to the normal reluctance of quitting the job;

- A balanced attitude towards employees; salary bonuses according to accomplishments. The way in which the global perception on how a company treats its employees plays a huge role in their retention. In the case when some employees receive a salary increase or better working conditions than others, even though the 2 categories play an equal role some people will be unhappy about this, and will want to quit the company. This is the reason why a balancing of the motivational system will contribute to employee retention;

- A sense of trusting people;

- A relaxed environment. Studies have proven that people who work in optimum conditions, relaxed environments, without conflicts or exaggerated pressures coming from superiors are not only more productive but will also be loyal to their job. Although nowadays people are tempted to choose their job mainly according to their income, better working conditions can in some cases become the condition for staying loyal to their job and not quitting it.

## **5. The effects of the economic crisis on the talent management strategies**

For decades, companies have used phrases like “Our employees are second to none”, “People are our biggest competitive advantage” to describe their greatest asset — talent.

The economic crisis has forced many organizations to reexamine their talent management approach. Leading companies have begun to account for all the different dynamics of talent that are affecting them now and that are anticipated to influence them in the future. They have systematically changed their approaches to reflect the coming reality of the next five years. (Five rules for talent management in the new economy, 2010)

The global economic downturn is likely to bring into prominence some of the longer-term trends in the workplace that affect talent development – first, employment models are changing, with more part-time and temporary work, greater off shoring and outsourcing to drive cost competitiveness, and corporate downsizing and delivering to generate operational efficiencies. (Perspectives on talent management in challenging times)

Different studies show a number of surprising positives reported in relation to managing talent in a downturn: (The war on talent? Talent management under threat in uncertain times, 2008)

- Organizations are focusing more of their time on engaging, motivating, retaining and fully using the skills of their existing workforce.

- There are increasing opportunities to recruit talent discarded by competitors.

- Greater scrutiny is being placed on talent management systems and processes – this seems to be both from a return on investment perspective and also by placing greater emphasis on more robust and transparent criteria for the selection and development of high-performing individuals – which can only be a good thing.

- Uncertain times, for the most part, have led to more honest and frequent communications between managers and employees, with individuals having a greater understanding of where the business is, for better or worse, and how their performance can make a difference to overall business success.

- Tighter margins are leading to greater scrutiny around pay and reward – the positive here is this might help to avoid some of the mistakes we have recently seen in the City, which some believe kick-started the decline.

- Companies are also thinking more creatively about approaches to non-financial rewards – small things that can have a big impact.

A greater emphasis is being placed on ethical leaders who are able to motivate and lead in both the bad and the good times. It is also worth highlighting that nearly three-quarters of the sample (74%) suggest their talent management strategies have not been affected by the downturn as yet. For some, there are signs that business might be affected in the coming months; however others are actually experiencing periods of growth.

As for some of the more negative findings relating to development and talent management freezes, it is essential that organizations avoid knee-jerk reactions and cost-cutting in the very areas that will make the biggest difference going forward. Now is not the time to halt employee development nor is it the time to postpone or scale back talent management strategies.

In a downturn managing, developing and motivating employees is even more important because it is the one thing that can differentiate their organization and ensure that they not only survive the short term but thrive in the long term.

*‘People and their development are the key to the success of any organization, no matter what the economic climate...’*

Just over a quarter of managers (26%) report that their organization has been forced to change its approach to talent management as a result of the current climate, with private service organizations most likely to be affected. For those organizations whose talent strategies have been affected by the current climate, the top four reasons given are: *“our learning and development budget has been cut”, “we are placing an even greater focus on talent management”, “we are shifting our efforts to focus on employee retention”, “we are reviewing our current systems and talent processes for their cost-effectiveness.”*

Changes made to reward strategies during economic crisis include: restricted pay increases, bonus reductions or freezes, more focus on rewarding top performers only, a move to performance-related pay, development cuts/greater targeting of resources.

Measures introduced to support managers to effectively manage talent in the downturn include: a greater emphasis on leadership and management development, extra and targeted support provided by HR, coaching and mentoring, a greater emphasis on communication and open discussion.

It would be naive to assume that the talent war for skilled professionals has completely disappeared. Research recently published by the Chartered Institute of Personnel Development in the UK suggests that many organizations’ talent strategies remain unchanged, and that almost one-fifth of organizations are placing even greater emphasis on identifying, developing and retaining talent. A key part of firms’ current talent retention strategies should be to ensure that the ‘psychological contract’ with talented employees is not broken. There is huge potential to demotivate and spread insecurity among those who remain if redundancy strategies are pursued.

A positive effect of the wider economic uncertainty is a move by some to place even greater importance on talent management strategies. Many believe this will push them ahead of their competitors when the economy recovers and are holding on to a long-term view of the benefits a strategic approach can bring to their business.

## **6. Various aspects of talent management in Romanian organizations**

The idea of talent management is not new to Romania but it has become more visible lately due to the fact that multinational companies have reached new stages in their development and identifying and retaining talents have become processes that are naturally adopted along with the relocations of top management expats, or just the acute need for flexibility, the rapid adaptation to market changes, of properly facing the global economic crisis.

A lot of managers have hoped that the issues with finding and retaining talents among employees will disappear together with the economic crisis, or at least will diminish. The more and more competitive markets and the fundamental differences between company needs and the features of the „millennium” generation (people born between 1980 and 2000) seem to have increased the situation’s complexity just as the PricewaterhouseCoopers (PwC) study shows. (Annual Global CEO Survey, 15<sup>th</sup> edition, – În căutarea echilibrului. Întâlnim cu prudență sub auspicii schimbătoare, 2012)

This way, in spite of personal fluctuations determined by different measures that have risen from the present economic difficulties, Romanian managers view the future with a cautious optimism. Almost half of them expect an increase in employee numbers (18% with less than 5%, 23% with 5-8% și 7% with above 8%), 36% of managers don’t expect any changes whilst few of them expect a decrease (7% with less than 5% and 9% with 5-8%).

It’s possible that some managers have considered that the changes brought by the economic crisis will have eased the recruiting process. In spite of this, just 30 % of them have had such an experience whilst for 25% of managers it has been more difficult to find the people they were looking for.

There are various reasons that generate this, one of them standing out: the small number of qualified applicants, mentioned by 91% of questioned managers, which is a 2 times larger percentage than in comparison to the average rate in the EU – 52 % and the US – 53%. The large number of company managers that focus on this aspect represents a warning sign towards the lack of appropriate education and skills needed to ensure the necessary talent resources in Romania. The second reason why it is difficult to hire someone, according to importance and from a manager’s perspective is the applicant’s salary expectations (9%).

On an EU level, company managers who have faced similar issues have quoted other reasons, including the sector’s growth rate and the change in necessary abilities in a certain industry (both with 14%), as well as applicant’s opinion referring to the industry’s reputation (11%).

*„Market trends have tipped the balance in favor of identifying new talents instead of just recruiting. If there ever was an expectation that the financial crisis will free up capital, including human resources, thus making head hunting a lot easier, such an expectation has proved to be wrong. The challenge is more complex now, while high unemployment rates persist and companies are facing a personal shortage. This mismatch is affecting profit rates and has become a priority on manager’s agenda, generating a strategic approach and a lot more investment in this area.”* Peter de Ruiter, Partener PwC România

As high as 73% of Romanian managers that have been questioned anticipate changes in the talent management area, just like in 2011 (77%). This shows that the estimates referring to a possible influx of talented workforce due to the economic crisis are yet to be confirmed.

*„The traditional talent management model in which companies used to reward loyal employees for their performances through clear job promotion scale and a comfortable pension is no longer existent in the new economic reality. One of the options that companies have is to focus on delivered results, allowing employees to choose the way in which they work, including when and where they work.”* states Dan Iancu, Partener PwC România

For the following 3 years, 68% of respondents have stated that they are keen on increasing investments in the creation and development of a qualified workforce, and 64% support offering a healthcare protection to employees, which means that talent management strategies are on top. Middle management employees are the most attracted by work benefits packages offered by the competition. Some 50% of local managers have expressed their worries regarding this aspect, which is close to the average in the EU as well as the global average 51% and 53%.

In regards to the lack of qualified personal we find it encouraging that Romanian managers are focused on the existence of a proper career development plan for their potential employees (80%). As a result, they seem more and more interested in creating the necessary environment for developing a specialized workforce.

There is also an encouraging tendency regarding companies that want to invest in their workforce. Out of all the managers questioned, 75% of them are making direct investments in the markets that they are operating in, which is 3% less than their global partners, 78% in the European Community.

The decision to invest or not to invest in developing the workforce depends on a series of specific factors. The majority of Romanian managers (61%) consider that the profitability of their workforce investments is the decisive factor. Managers in the EU (64%) feel that it is a lot more important that solid resources for recruiting future employees exist, whilst only 52% of Romanian managers feel the same.

The next essential aspect in the decision making process when dealing with investments, from a human resource perspective is the improvement of work conditions (55%), which is similar to the global level. The above mentioned study shows that 43% of Romanian managers are relatively confident when it comes to ensuring talent human resources for their companies, and only 36% of them are very confident about it.

Among the measures that they plan to undertake in order to face a possible shortage in workforce, 30% of Romanian managers that have been questioned base their approach on investing in new technologies. In the same time, 27% on respondents plan a rise in the number of partnerships with other organizations for the same reason.

When it comes to the future of workforce on a global level, current employees have got the advantage in comparison to new employees. Among the respondents, 52% of them intend to develop and support talents from within their own companies in the next 3 years. As part of the recruiting strategy of organizations on an average term, we must emphasize that local talents are preferred as they respond to the needs of the local market (68%).

Within the local business environment, talent management and planning successors for the business are considered specific processes just for multinational companies. We can't still refer to applying these processes for the administration or for private companies with a limited number of employees.

## **7. Conclusions**

Talent management is not just a process but also a strategy that must not lack from any managers perspective. The fundamentals of any talent retention strategy stand for a good management. Observing and acknowledging personal features that can endanger the work performance is vital in building and developing an efficient and profitable organization.

As a conclusion, identifying and later developing and educating unqualified managers is the first vital step in applying any talent retention strategy. Finding and employing managers that know how to raise the involvement level of employees is considered to be the true key for talent retention in organizations.

A good talent management code will be focusing on: an inventory of existing personal and identifying future needs, retention measures and maintaining employee fidelity or just the involvement of leaders within the organization.

A better talent management will distinguish organizations based on their performance and stands for a must in the present business environment, which is a lot more competitive, subjected to changes and which forces companies to face the phenomena of brain drain.

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# THE WEAK ABSORPTION OF THE EUROPEAN FUNDS, ONE OF THE CAUSES OF ROMANIA'S DOWNSHIFT IN COMPARISON WITH THE OTHER STATES OF THE EUROPEAN UNION

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## Abstract:

*The passage from a centralized system to a competitive market economy as well as Romania's adherence to the European Union have lead to significant changes for the Romanian economy on the political, economic and social levels. The lack of an entrepreneurial culture, low financial capital and the lack of decisive government measures have prevented the rise of both the public and private investments which would have been so necessary for Romania's development. In the past few years Romania ranked last place among others due to a weak absorption of the European funds whose role is to reduce the downshifts among the member states of the European Union.*

**Key words:** *the Absorption of the European Funds, causes, measures*

**JEL Classification:** M16, E52, G28

## 1. Introduction

As a member state of the European Union (EU), Romania benefits from constant support in its development process by means of the European funds. Things like the development of a viable transport infrastructure or the qualification of the work force to standards comparable with those of the other member states can be accomplished by means of the European funds. Thus, the European funds represent Romania's chance to make up for the social and economic development downshifts and to become competitive in comparison with the other EU member states.

The present paper aims at analysing the evolution of these European funds, the causes which generated this situation and the measures which are meant to unblock these funds, using the research methods content analysis, scientific observation, deduction, induction, synthesis.

## 2. The Characteristics of the Romanian Economy

The market economy is conceived as an extremely dynamic system which passes through a continuous process of restructuring determined by the technical, economical, social and institutional changes. Looking at the evolution of the Romanian economy in the past 23 years one can notice that its structure has changed, influenced by a series of factors starting from the planned economy to the market economy, the adherence to the European Union – which has led to institutional changes and the gradual adoption of the European legislation generating new new changes at the social level as well as changes of the financial system at a global level (including the financial crisis). The structural changes reveal the weak economic capacity to answer the new demands of the markets, the new tendencies and opportunities.

Romania's economy continues to be affected by the global financial and economic crisis which has been propagated through more channels and manifests itself in the following fields:

- the channel of the institutional consumption / public acquisitions – due to both the lack of efficiency in attracting the European resources at Romania's disposal and the reduction of the access to financing from banking sources as a consequence of the restriction of the external private crediting lines from the mother-banks with an impact upon the whole evolution of the non-governmental credit. The first and the second levels of manifestation are interconnected taking into account the cash

on delivery principle governing the project-based access to European funds and implicitly the necessity to activate financing from the attracted sources;

- the channel of direct foreign investments – the ending or restriction of the major investment projects as a consequence of the interruption of financing from a banking source as well as a manifestation of a prudence and even aversion of the foreign investors towards the risks of continuing the project development in Romania;
- the channel of the foreign trade – the diminishing of the exports as a consequence of the restriction of the demand on the traditional export markets and the reduction of the imports as a consequence of the diminishing of the internal consumption demand;
- the channel of the population's buying power – the gradual but significant reduction of the consumption of the population and the organizations firstly as a result of the adjusting processes in the private firms and in a future stage of the introduction of the governmental austerity programs in the budget sector. At the same time the diminishing of the population's buying demand has taken place as an effect of the dramatic restriction of the offer of the crediting banking system for consumption;
- the channel of the national wealth – through the substantial reduction of the value of many categories of assets, especially the immovable ones, dominant among the assets used as banking guarantees as well as through the growth of the weight of the non-performing credits in the assets of the credit institutions.

One of the major causes contributing to the recession of the country's economy could be the situation of the high foreign deficits accumulated by Romania's economy. Some of the internal causes which have propagated the crisis from the financial zone in that of the real economy are:

- ❖ the accumulation of big payment delays among the economic agents with negative repercussions upon the contractual discipline as a whole;
- ❖ the fiscal instability as a result of the urgent need to collect income to the state budget through the policy of raising the taxing basis;
- ❖ the policy of the commercial banks to raise the interests for the credits in progress and to reduce the offer for the new credits;
- ❖ the massive state loans from the internal banking market which have diminished the interest of the banks for the financing of the corporate sector and the sector of the small and medium-sized enterprises;
- ❖ big delays to the payment of the state debts towards the private suppliers and the duty to return the fees and taxes to the economic agents under the conditions stipulated by the law.

The encountered problems have affected the entire economy, all categories of commercial companies suddenly confronted with the delay of payments from the clients (in their turn confronted with cash flow problems), the diminishing of the turnover as a result of a decrease of demand for their products and services, the raising of costs for the reimbursement of the credits in foreign currency as a result of the depreciation of the national currency, the flow difficulties of financial availabilities, the lack of working and development capital; the work force by the increase of the unemployment rate; the public budget; the payment balance and the commercial balance through the deficit increase.

### **3. The Role of the Structural European Funds**

The goal of the cohesion policy and implicitly of the implementation of the structural funds is to transform and modernize the economies of the regions of the underdeveloped countries of the European Union in order to prepare them for the competition on a single market and for the entrance in the Euro zone. With a budget of 347.41 billion Euros

(35.5% of the total budget of the EU) for the interval 2007-2013, the economic and social cohesion policy aimed at three major objectives: convergence, regional competitiveness and the engagement of the manpower as well as the European territorial cooperation.

The methodology of allocating the European funds has introduced a new concept, that of the absorption capacity limiting thus the transfer of the EU funds to a maximum of 4% from the gross domestic product of each country. In compensation, in order to facilitate the absorption of the funds by the new member states, the maximum co-financing rate out of the structural funds has grown from 80% to 85%. The absorption capacity is given by the competence of a member state to spend the financial resources allocated efficiently out of the structural funds and targeting three aspects:

- ✓ the macro-economic absorption capacity, defined and measures in terms of limited Gross Domestic Product (GDP) (to 4%);
- ✓ the financial absorption capacity defined as the ability to co-finance the programs and projects supported by the EU, to plan and guarantee these contributions in the multi-annual national budgets and to collect contributions from the partners involved in various programs and projects;
- ✓ the administrative capacity representing the capacity and competence of the central and local authorities to prepare adequate programs and projects in time and to assure the coordination with the partners involved, the conformity with the administrative and reporting demands, the financing and monitoring of the implementation of the programs and projects as well as the avoidance of the appearance of irregularities.

The National Development Plan (NDP) has been created in order to adjust the national development policy to the European development priorities to be found in the Union's Cohesion Policy. More precisely, the public investments are prioritized through NDP since they are in line with the intervention domains of the Structural and Cohesion Plans. The NDP represents the basis of the Operational Programs (OP) meant to administer and implement the community funds through Sectorial Operational Programs (SOP) and the Regional Operational Program (ROP).

#### **4. The Absorption of the European Funds in Romania**

For all the 7 sectorial programs for structural and cohesion funds in the interval 1 January 2007 – 30 September 2013, Romania has received reimbursements of 4.066 billion Euros, the absorption rate rising to 21.17% from 30 September 2013.

The operational program POS The Raise of the Economic Competitiveness managed by the Management Authority (MA) from the Ministry of Economy primarily aims at increasing the productivity of the Romanian enterprises for the reduction of the downshifts towards the average productivity at the Union's level. By 2015 the undertaken measures are meant to generate an average increase of productivity of approximately 5.5% annually allowing Romania to reach a level of approximately 55% from the EU average. This program had an absorption rate of 6.77% (172.9 million Euros) in the interval January 2007 – September 2013.

POS Transport, managed by the MA of the Ministry of Transport consists in the promotion of a stable transport system allowing the rapid, efficient and safe transport of persons and goods, with a level of services in accordance with the European standards. This program has reached a total absorption rate of 15.85% in the interval January 2007 – September 2013.

POS Development of the Human Resources managed by the MA from the Ministry of Labor has had a total absorption rate of 19.33%. The goal of the program is represented by the development of the human capital and the increase of competitiveness by means of correlating life-long education and learning with the labor market and by providing more opportunities for the future participation on a modern, flexible and inclusive labor market of 1.650.000 persons.



The Regional Operational Program (ROP) managed by the MA from the Ministry of Regional Development primarily aims at supporting a well-balanced long-lasting economic and social development of Romania's Regions corresponding to their needs and specific resources by concentrating the increasing urban factors through the improvement of the infrastructural conditions and those of the business environment in order to turn Romania's regions, especially those lagging behind into more attractive places to live, to visit, to invest and to work. This program has reached an absorption rate of 40.06% in the interval January 2007 – September 2013.

- ✓ The Average ROP managed by the MA of the Ministry of the Environment had a total absorption rate of 20%. The objective consists in the reduction of the downshift between the UE and Romania with respect to the environment infrastructure from both a quantitative and a qualitative point of view through efficient public services while taking into consideration the principle of durable development and the polluter pays principle.
- ✓ The Development of the Administrative Capacity managed by the MA from the Ministry of Regional Development and Public Administration has the role of contributing to the development of a more efficient and effectual administration to the socio-economic benefit of the Romanian society. The Program had an absorption rate of 33.35% in the interval January 2007 – September 2013.
- ✓ The Technical Assistance OP managed by the MA from the Ministry of the European Funds assures the support necessary for the process of coordination and healthy, efficient, effectual and transparent implementation of the structural instruments in Romania. The program had an absorption rate of 19.56% for the same period. According to the data provided by the Payment Agency for Rural and Fishing Development (PARFD) Romania has attracted approximately 5 billion Euros of the European funds for rural development at the end of September 2013, a thing which represents a degree of absorption of approximately 58% of the total sum allocated through the National Program of Rural Development (NPRD) 2007-2013.

**5. The factors which influenced the weak absorption of the European structural funds** by Romania include:

- ❖ long periods (in some cases even over 12 months) between the moment of filing the financing applications and receiving the answers;
- ❖ the lack of uniformity and coherence in the evaluation process (unclear grids);
- ❖ long periods between the moment of the approval of the financing applications and the effective signing of the contract;
- ❖ very big delays (even more than 12 months) in reimbursing the money which have been spent and leading to the postponement of the planned activities and the blockage of the ulterior reimbursing applications;
- ❖ the impossibility of recovering the GDP by some categories of beneficiaries, thus leading to supplementary expenses of the contractors;
- ❖ the inefficient communication of the Management Authorities and the Intermediary Organisms with the applicants and the fund beneficiaries;
- ❖ the change of the contractual clauses through successive modifications imposed by the Management Authority;
- ❖ the financing of the projects has not been continuous since the state budget has not supported them and, as a consequence, there has not been a fluency of the activities;
- ❖ the inefficient initial checking by the Management Authorities of the procedures of public acquisitions and the adverse surveillance of the activity of the

Intermediary Organisms leading to the pre-suspension of three operational programs (ROP, PARFD, POS The Raise of the Economic Competitiveness, OSP Transport) in October 2012;

- ❖ the reduced degree of knowledge in the field of project management for both the public and the private institutions;
- ❖ the reticence of the beneficiaries generated by the reduced level of pre-financing awarded by the operational programs and the high level of private co-financing;
- ❖ certain misunderstandings between the already existing organisms and the newly founded ones involved in the management of the structural funds and an insufficient level of training and qualification of the personnel from certain intermediary organisms;
- ❖ the absence of the financial availabilities and the existence of certain difficult and restrictive conditions of bank crediting of the private sector (both the economic one and that of the non-governmental organizations) which made many potential applicants not to apply and many applicants to have to drop the financing (at the proposed projects), even if many projects have been viable and they could have brought added value to the national economy;
- ❖ not allocating the necessary sums for the financing of the national projects which should have been of approximately 3% of the annual Gross Domestic Product;

The main reasons for the low absorption at the administration level include:

- ❖ excessive bureaucratic procedures which have to be taken by the beneficiaries, but especially by the Management Authorities and the Intermediary Organisms throughout the entire absorption process which leads to big delays;
- ❖ less human resources in comparison with the needs of the institutions; the low transfer of experience in the management of the pre-adherence funds at the level of the institutions managing structural funds; the personnel and remuneration policy practised by the Government which is non-motivating;
- ❖ the lack of clear rules for a series of procedures such as the recovery of the added-value tax;
- ❖ the decisional centralization regarding the operational programs implemented at regional level which has made the accomplishment of the NDP objectives more difficult; in addition to the low administrative capacity at both the regional and central level one can add the problem of the low capacity of the Intermediary Organisms (IO) at the regional level to evaluate, select and prioritize the projects in accordance with the needs of the areas where they act.

For the integral absorption of the European Funds, Romania should have allocated approximately 10% of the GDP for each of the following 2 financial years enabling the financing of the national projects (pre-financings, reimbursements). The European Funds have been allocated to Romania in order to enable its technological level, competitiveness, transport infrastructure, environment conditions, training of the human resources and qualitative improvement of its administrative acts and decisions to reach the average European level. The European financial support is addressed to a poor and impoverished Romania, member state of the European Union, with low investments means from the economic and industrial private sector.

## **6. The effects of the low absorption of the European funds at the national level.**

### **A. Impact at the economic level:**

- The persistence of the marginal status of the Romanian economy in comparison with the rest of the member states – low GDP in Romania, the low absorption rate together with the diminishing of the volume of the foreign investments (from 8 billion Euros in

2008 to 1.9 billion Euros in 2012) make the real economy lack financing resources. Thus, the estimate that the European funds could have raised the GDP with 3.8% if they had been used according to the expectations until 2015 becomes even more important;

- Potential problems at the level of the control of the budgetary deficit: the suspension of the reimbursements by the European Commission leads to the financial support of the state budget (as it happened in the case of ORP and POSDRU) through loans from the international financial markets leading to the raise of the budgetary deficit;

- Net contribution to the EU budget higher than the benefits: between 2007-2012, Romania has contributed with 7.91 billion Euros to the Union's budget and the Commission has carried out payments of 7.81 billion Euros; this means that "practically we have taken our money back with the exception of 100 million Euros";

- Missing the objectives of economic competitiveness, the creation of working places and the efficient use of human resources: the partial and inefficient use of the funds for small and medium-sized enterprises (only 15% out of the total amount of structural funds) means maintaining the low economic competitiveness, the lack of the working places and the continuation of the emigration of the working force. The POSDRU beneficiaries have highlighted the fact that the interruption of all projects because of the irregularities in certain projects would lead to: 65 000 unemployed people, the blockage of 15 000 potential entrepreneurs and 830 potential social enterprises (which include persons with disabilities or disadvantaged groups on the labor market), stopping the development of 6 500 educational institutions from the point of view of human resources, 70 universities and 150 000 students.

#### B. Impact at the social level:

- In 2012, the total amount of funds absorbed by Romania was the lowest from all the 10 new members;

- Romania will continue to have a rural area disadvantaged because of the sub-development of the regional and local transport infrastructure (only 313 km of road built in the entire country) and the social infrastructure (the lack of modern, extended and well-equipped medical centers, of rehabilitated educational institutions and of centers of professional training);

- The cities will lose the opportunity to benefit from solid and integrated plans of developing the urban infrastructure and the services;

- The social integration on the labor market of the disadvantaged groups has been delayed and even stopped with the suspension of the POSDRU program.

#### C. Impact at the political level:

- The diminishing of the population's faith in the capacity of the institutions of the Romanian state to efficiently manage this type of programs.

## 7. Conclusions and proposals

A first conclusion is that the European financial help meant for Romania could only have been accessed by financially powerful organizations, societies and institutions which eliminated/reduced the access to financing of the micro-enterprises, small enterprises and non-governmental organizations (including associations and foundations) with low business turnover and a modest patrimony.

A second conclusion is that the banking system has not used the appropriate banking products to support these categories of organizations in competitions. The National Bank and Romania's Government should regulate "in three" the credit allocation by banks to the Government and the beneficiaries of European financing. The winning bank for loan allocation to the Government should also offer in "the same package" credit allocation in conditions which are advantageous for the beneficiaries of European financing.

The management deficiencies in state institutions with responsibilities in the field and the lack of motivation of the executive personnel are two other main causes of the low absorption rate of the European funds. Both causes have led to an excessive presence of bureaucracy and finally to the slowing down of the absorption process and even to the temporary blockage of certain European programs. According to the National Prognosis Commission, the government could analyze the possibility of founding a private council made up of a restricted number of Romanian and foreign consultants with proven business experience (managers in multinational companies uninvolved in the absorption of European funds but also bank managers or companies participating in the absorption process of the European funds) and seeking to attract European funds. Thus the reports of this council should be made public to increase the pressure upon the governmental decision factors. The costs related to the functioning of such a council are insignificant in comparison with the almost certain losses Romania will have in the absorption process of the structural European funds in the interval 2007-2013. The lack of motivation of the executive personnel could be approached through consistent salary bonuses in parallel with the establishment of ambitious but realistic targets of increasing the absorption rate of the European funds. According to the same report approximately 2/3-3/4 out of the total performance criteria for bonuses should be related to the actual rate of absorption of the European funds. At the same time, one should take into account the possibility of temporary hiring personnel in the institutions meant to attract European funds taking into consideration the fact that the absorption process is usually related to a limited multiannual European financial framework limited in time (2007-2013, 2014-2020 etc.). A first analysis shows that a supplementation with approximately 200 experts at the level of project monitors for all Operational Programs would have a stimulating effect for the increase of the evaluation and payment speed of the financing applications) with the ongoing periodic training of the experts and project monitors (especially of the new employees).

Another conclusion would be that the Agreements with IMF, the World Bank and EBRD introduce a clause stipulating that Romania's Government can partially use the received funds for financing the projects contracted during the national competitions for accessing European Funds. Both Romania and the foreign financial institutions will have something to gain by the increase of the flux of capital into the Romanian economy through the development of the production capacity and the growth of the number of jobs in Romania thus assuring the passage to a positive trend of economic growth within the limits of budget deficit and inflation.

For the period 2007-2013 Romania has been allocated a budget of 19.2 billion Euros out of which it has attracted only 4 billion Euros. Between 2014-2020 Romania will receive 21.82 billion Euros with 10% more than in the interval 2007-2013 and it is up to us to access these funds for an economy capable of developing and progressing.

To a great extent the attraction of the European funds depends upon the organization and simplification of the administration processes and the level of economic development and another important aspect is that Romania has too few entrepreneurs and small and medium-sized enterprises to apply for the funds.

The restriction of the fluxes of post-crisis capital involves the necessity of raising the compensation elements, the contribution of the European funds being essential. Money have become more expensive and more difficult to get and the international regulations will lead to a new foundation for the decisions of allocating capital and financing funds. The stake of the national economy is attracting European funds.

The calibration of the economic policies to support Romania's economy in the growth zone should follow the acceleration of the absorption of the European funds, the development of big infrastructure projects, the increase of competitiveness in certain

economic sectors and the stimulation of consume on solid grounds. Under the circumstances, the optimization of the process of attracting European funds meant to stimulate the economic translation becomes more and more imperious.

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# SURVEY ON THE RELATION BETWEEN ONE'S CAREER CHOICE AND PERSONALITY

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## Abstract:

*Current economic and social activities require the presence of competent, stable, efficient and well-motivated human resources. Organizations are increasingly concerned with recruiting talented personnel highly competent in more particularized fields. Ensuring that is, in the authors' opinion, a target not only of employers but also of future employees.*

*A survey conducted by the MANPOWER Company on talent deficits shows that as the economic recovery process goes on, employers face higher difficulty in having job vacancies occupied in their companies despite the seemingly large number of candidates and the high rates of unemployment. In addition, it is thought that a reason why talent deficit cannot be made up for is related to the existing incompatibility between one's type of personality and employee training/position held.*

*The first step while building one's career is the good knowledge of one's self, along with an insight into one's interests and concerns.*

*Starting from this element, it is thought to be important to the youth to choose their careers – thus regarded as a vocational development and training process by means of the higher education system in relation to one's own interests.*

*The present paper envisages an emphasis of the connection between students' choosing an education pattern and students' personalities by applying the Holland Form.*

**Key words:** career, vocational interests, personality type, vocational profile, employer, employees.

**JEL Classification:** J24.

## 1. Introduction

The important issue of human capital in an organization as a factor triggering nations' growth has always been the concern of famous specialists in the world such as Nobel Laureates or practitioners in the field such as: Friedman (the Nobel Prize in 1976), Schultz (the Nobel Prize in 1979), Mincer, Becker (the Nobel Prize in 1992), Stiglitz (the Nobel Prize in 2001), Krugman (the Nobel Prize in 2008). At present, in the context of knowledge-based society and creative economy to which all the EU member states and others tend as they are originally encouraged by the regulations of the Lisbon Strategy and, more frequently, by the regulations of the 2020 Europe Strategy, a nation's human capital acquires new values making up a genuine comparative advantage to the countries that invest in this respect (Dindire, 2012, pp. 316-326).

In such a context, organizations have defined new strategies for human resources helping them pursue certain adequate results with as few resources as possible, whereas regarding human resources, they define employment strategies for the talented personnel that is best suited to a position. Now more than ever it is important to acquire adjustable skills and to build mentalities focused on collecting new knowledge to allow individuals to successfully cope with positions that involve various responsibilities according to various departments as small businesses continuously struggle to keep themselves competitive and sustainable.

With these elements in the beginning, it is necessary for human resources to concentrate on choosing professions able to define their personalities as best as possible due to the opportunity of building solid, yet flexible, versatile careers.

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## 2. Stage of the Research

A career regarded as a dynamic framework where a person understands their lives in their entirety (Manolescu, 2002, pp.332) should be built so as to have a balance between what one professionally accomplishes and one's own personality, to create new opportunities, to define objectives and to reach them eventually. **Choosing one's own career depends on one's personal values, motivations, abilities and skills.** Any person has their own system of values and beliefs that one regards as important from the moral perspective, so that one may reject certain jobs that do not meet one's requirements.

Finding an ideal job does not mean the end of one's professional life but, on the contrary, it is a true beginning, the beginning of one's professional career. At this moment onwards, an individual is expected to prove he/she is available to the organization where he/she holds a position (Pănoiu, 2010, pp. 46).

For this endeavor to be fulfilled, it is important one should know one's own personality and choose a career starting from what one is. It shall help one be more motivated, get more involved in organizational activities, prove one's loyalty to the policies set by employers.

## 3. Research Methods

The accomplishment of this paper has required the following research methods: quantitative method (the Holland Form,); qualitative method based on analyzing and stating various in-field published issues; and a case study to collect and assembly the data and information in an accurate way.

Investigating vocational concerns has taken place in accordance with the Holland Form about one's interests, made up of 120 questions describing different types of activities and skills, grouped under 6 categories corresponding to 6 personality types described by the authors, namely: realistic (leader), artistic (aesthetical), social, enterprising, conventional and inquisitive (intellectual). Setting a specific, dominant personality type has been done following two criteria: the average of final points and the frequency of rankings held by each of the six personality types within the structure of an interest pattern (the types ranking the first and the second according to points).

**The following hypothesis has been stated in the current circumstances: let us suppose the specialization chosen by Master Degree candidates, namely Human Resources Management, suits personality profiles S (social) and E (Enterprising).**

**The aim of this research** is to outline how important knowing students' interests is when generating students' choices when it comes to the continuation of their studies.

**The primary goal** of this research is to build the interest profiles of people subject to analysis and to compare the former in order to spot the differences.

Its secondary goals include: highlighting personality types – vocational interests subject to analysis namely the *realistic, intellectual, artistic, social, enterprising, conventional types* and their variants; identifying the connection between the vocational interests of respondents and their selected specializations.

The present work aims at proving that the specialization choices of Master Degree candidates largely depend on their vocational interests which make up an expression of individual personality.

## 4. Data Analysis and Research Conclusions

### Social and Economic Features of Respondents

For this survey to be conducted, its respondents have been 20 first-year Master Degree candidates of the Human Resources Management Specialization at "Constantin Brâncoveanu" University, the Faculty of Management-Marketing in Economic Affairs,

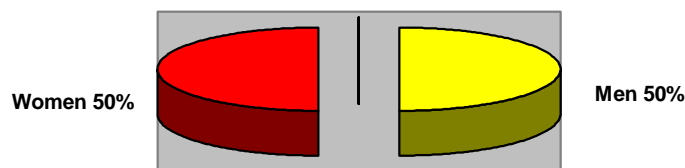
Rm. Vâlcea. The respondents' ages vary between 20 and 47 years old, women and men. Therefore, they have been asked to take part in a survey and they have been announced all their data shall be confidential and used in specialized research.

**Table 1. Features of Respondents**

Category	Features	No.	%
<b>Gender</b>	Men	10	50
	Women	10	50
	<b>Total</b>	<b>20</b>	<b>100</b>
<b>Age</b>	over 40 years of age	5	25
	31-39	3	15
	20-30	12	60
	<b>Total</b>	<b>20</b>	<b>100</b>
<b>Marital status</b>	Married	8	40
	Single	12	60
	<b>Total</b>	<b>20</b>	<b>100</b>
<b>Graduate studies</b>	Business	13	65
	Technical	3	15
	Others	4	20
	<b>Total</b>	<b>20</b>	<b>100</b>

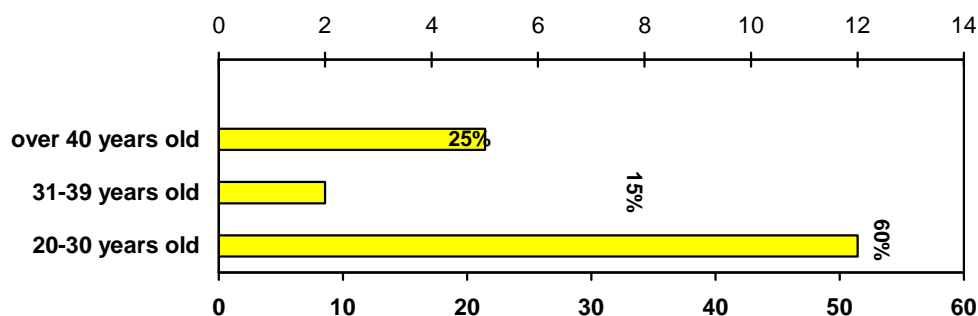
Figure 1 shows that 50% of the respondents are male and the other 50%, namely 10 respondents, are female.

**Figure 1. Share of respondents by genders**



Taking account of demographic characteristics, the respondents were divided into three age groups: between 20 and 30 years old - 60% of the respondents (12 people), 31-39 years old have been 15% of the respondents (3 people) and 25% aged more than 40, namely 5 people.

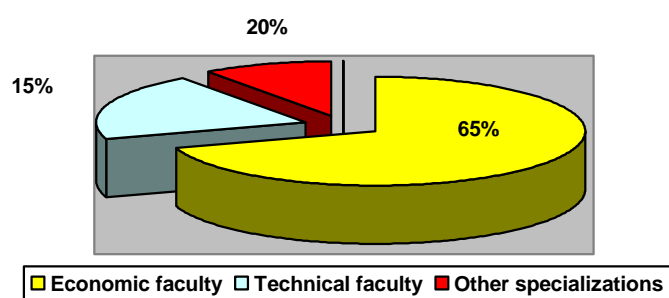
**Figure 2. Share of respondents by years of age**



As far as the respondents' educational levels are concerned, it is important to mention that 65% of them have completed Economic studies (12 people), 3 people, that is 15% are graduates of technical faculties whereas the remaining 20% have graduated from other specializations.



**Figure 3. Share of respondents by studies completed**



Another feature of respondents is marital status: 40% of them are married and 60% are single.

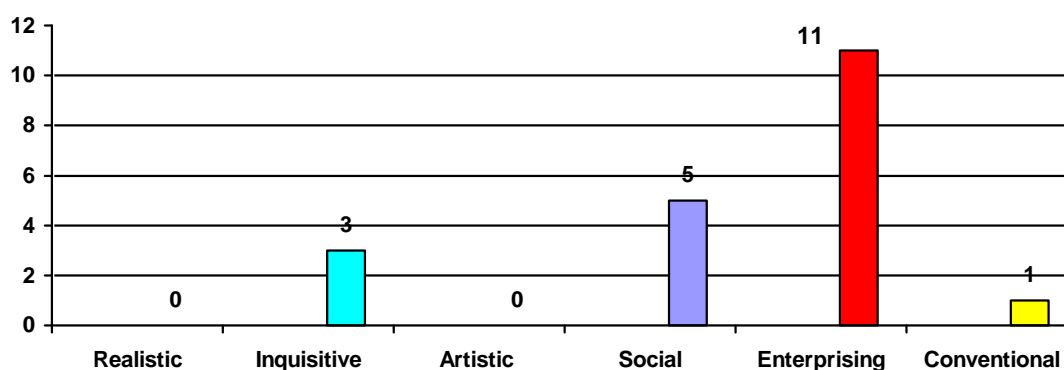
Processing the information has led to the following results:

**Table 2. Results on Personality Types**

Personality types	Number of respondents
1. Realistic	0
2. Inquisitive	3
3. Artistic	0
4. Social	5
5. Enterprising	11
6. Conventional	1

Table 1 and Graph 1 show that type E (Enterprising) is the most common which means the respondents' preference to using communication skills, acquiring leadership skills, becoming persuasive, being able to relate to others. Moreover, the type envisages the development of certain activities involving initiatives, sales, business operations.

**Figure 4. Classification of resulting personality types**



According to Figure 4, one can notice that 5 respondents have preferred type **S (Social)** which means they have communication, interpersonal skills; they socialize, they are outgoing; they dislike manual, technical activities which require the use of materials.

Three respondents have chosen type **I (Inquisitive)** which means they have mathematics-related skills, they are analytical and they do not like rules.

Only one respondent has chosen type **C (Conventional)** namely the person prefers to be a subordinate, likes orderly activities, systematization of data and information; the person has secretarial, mathematical skills. The person is careful with details. It can be seen that type **R (Realistic)** and **A (Artistic)** have not been indicated by any respondent.

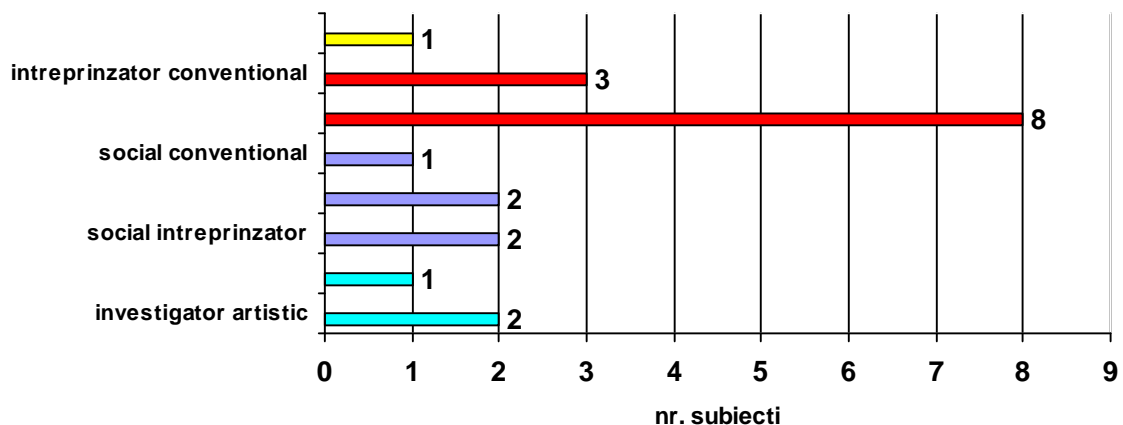
Correlating the results has led to the following variants of personality types as shown in Table 3 and Figure 5:

**Table 3. Variants of Resulting Personality Types**

Variants of personality types	Code	Number of respondents
<b>Inquisitive</b>	-Inquisitive and Artistic	2
	-Inquisitive and Social	1
<b>Social</b>	-Social and Enterprising	2
	-Social and Artistic	2
	-Social and Conventional	1
<b>Enterprising</b>	-Enterprising and Social	8
	-Enterprising and Conventional	3
<b>Conventional</b>	-Conventional and Enterprising	1

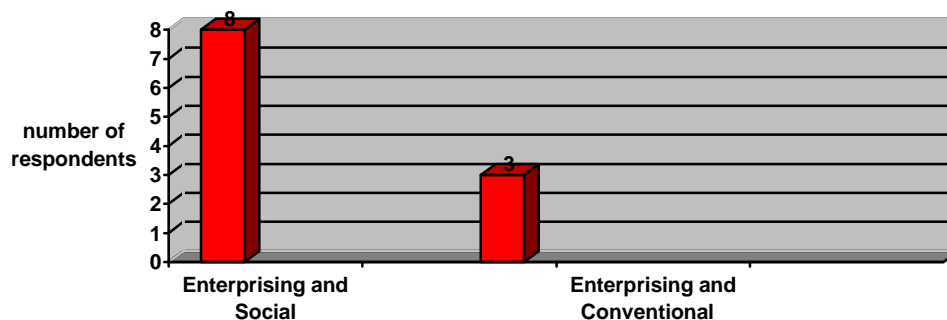
The dominant personality type typical of the Master Degree candidates of the Human Resources Management Specialization as seen in Table 3 and Figure 5 most frequently occurring in the interest patterns of this category is **E (Enterprising)** with the following variants: **E-S**; **E-C** followed by type **S (Social)** with variants **S-E**, **S-A**, **S-C**. The **I (Inquisitive)** type ranks the third with variants **I-S**, **I-A**.

**Figure 5. Variants of resulting personality types**



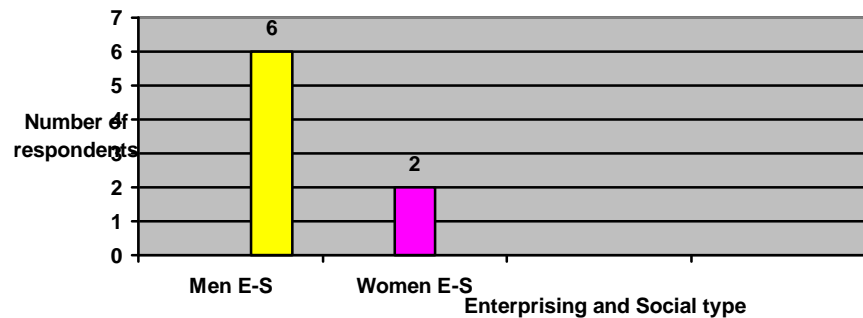
A) By considering **E (Enterprising)**, the most common type, the following variants have resulted: **E-S**; **E-C**.

**Figure 6. Variants of the E (Enterprising) type**



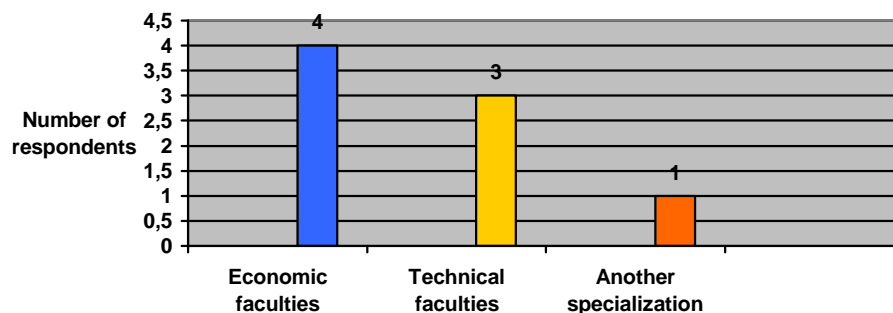
1. In terms of the **E-S** variant (**Enterprising and Social**), it can be noticed that 6 of 8 respondents are male and 2 are female (Figure 7).

**Figure 7. Gender classification of the E-S (Enterprising and Social) type**



The three of the six male respondents have graduated from technical faculties, one has completed other specialized studies and the remaining two have studied at faculties of economics (Figure 8). The two female respondents have graduated from economic faculties. It can be seen that the economic graduates have an **E-S (Enterprising and Social)** profile, which means they have a bias to activities in the fields of sales, management, social services. **One's profile does not correspond to one's educational training but it does correspond to the Master Degree specialization one has chosen.**

**Figure 8. Classification by type of faculty studies completed by an Enterprising and Social type of person**

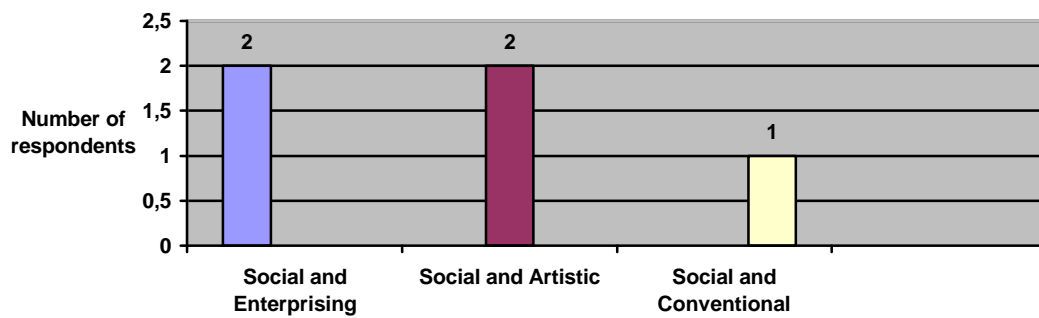


2. Three Master Degree candidates have shown their preference to the **E-C (Enterprising-Conventional)** variant which shows their bias to activities in the fields of management, sales, data analyses, administrative activities. Two of these people are female and one is male and the three of them have graduated from economics faculties.

**B)** In terms of the **S (Social)** type, there are the following variants:

- **S-E (Social and Enterprising):** 2 respondents, one female graduate of a different specialization and one male graduate of economic studies;
- **S-A (Social and Artistic):** 2 female respondents that have graduated from a different specialization;
- **S-C (Social and Conventional):** 1 female respondent who has completed economic studies.

**Figure 8. Variants of the S (Social) type**

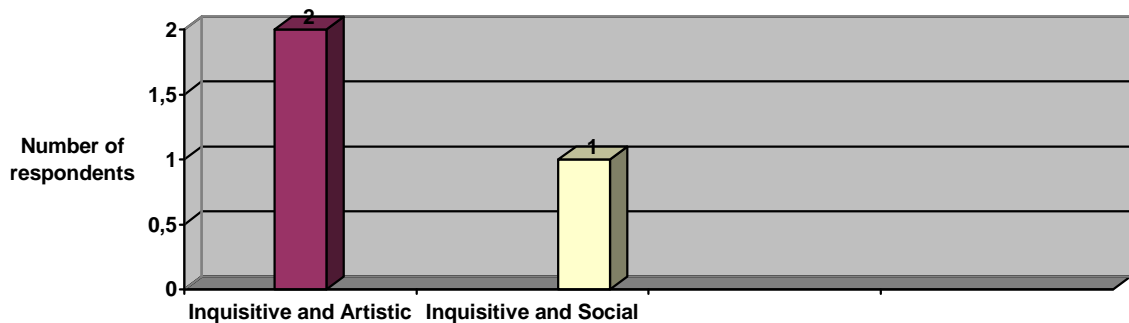


A **Social and Enterprising** profile belongs to a person who prefers activities related to social services, management and sales. The **Social and Artistic** type prefers social services, educational work, music, shows, whereas a **Social and Conventional** type is someone who likes social, administrative or management activities.

C) The **Inquisitive** type has brought about the following variants according to Figure 9:

- **I-A (Inquisitive and Artistic)**, 2 male respondents that have both graduated from economic specializations;
- **I-S (Inquisitive and Social)**, 1 female respondent who has completed economic studies.

**Figure 9. Variants of the I (Inquisitive) type**



An **Inquisitive and Artistic** person prefers the fields of science, medicine and dentistry, literature and arts, whereas an **Inquisitive and Social** person likes the fields of mathematical sciences and social services.

D) The **C-I (Conventional-Enterprising)** variant has resulted for the **C (Conventional)** type, with only one female respondent who has graduated from an economic specialization. She prefers activities related to data analyses, administrative and management activities.

## 5. Conclusions

The authors believe that choosing a career and implicitly choosing certain studies are the expression of one's personality.

The members of the same activity field or specialization analyzed have different personality types. As the research shows, it can be seen that the dominant profiles are Enterprising and Social, which brings one closer to the initial hypothesis of this paper, specifying that an Enterprising predominant type justifies the specialization chosen by

respondents, namely Human Resources Management and an Enterprising person prefers activities related to leadership and sales. Yet, what does not fully confirm the authors' hypothesis are the Inquisitive and Conventional types that mostly characterize a Realistic personality type.

Social facts prove that the labor market accepts only people that do whatever best suits their choices and that is why it is recommended one should choose an environment and a vocation able to help them practice their skills, competences and values, settle matters and play proper roles.

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# HUMAN CAPITAL IN THE KNOWLEDGE-BASED SOCIETY - COMPARATIVE ANALYSIS: ROMANIA-PORTUGAL

Dora, Martins<sup>1</sup>  
Laura-Maria, Dindire<sup>2</sup>

## Abstract:

*The current economic crisis has rushed even more the economists' concerns to identify new directions for the sustainable development of the society. In this context, the human capital is crystallised as the key variable of the creative economy and of the knowledge-based society. As such, we have directed the research underlying this paper to identifying the most eloquent indicators of human capital to meet the demands of the knowledge-based society and sustainable development as well as towards achieving a comprehensive analysis of the human capital in the EU countries, respectively of a comparative analysis: Romania - Portugal. To carry out this paper, the methodology used is based on the interdisciplinary triangulation involving approaches from the perspective of human resource management, economy and economic statistics. The research techniques used consist of the content analysis and investigation of secondary data of international organisations accredited in the field of this research, such as: the United Nation Development Programme - Human Development Reports, World Bank - World Development Reports, International Labour Organisation, Eurostat, European Commission's Eurobarometer surveys and reports on human capital. The research results emphasise both similarities and differences between the two countries under the comparative analysis and the main directions in which one has to invest for the development of human capital.*

**Keywords:** *human capital, human resources, knowledge-based society, comparative analysis: Romania – Portugal*

**JEL classification:** M16, O11, O32

## 1. Introduction

Human capital represents everything connected to people (knowledge, education and individual skills capable to achieve goals and objectives nationwide). Education is the foundation on which human capital is built (Bontis, 2000). Human capital is the stock of competences, knowledge, social and personality attributes, including creativity, resulting in the ability to carry out work to produce economic value. This is an economic aggregate perspective of the human being's action within the economy, which attempts to explain the economic transactions through the interaction of the social, biological, cultural and psychological aspects of the human being. Many theories correlate human capital investment with education, economic development, increase of productivity and innovation (Simkovic, 2012). The focus on the human capital began to grow in 1950, when it resulted that the tertiary sector, which required creativity, began to produce more than the secondary sector in the world's most developed countries.

This concept has been criticised over the years and it has been given nuanced conceptual alternatives. Among these, the most notorious is the signalling theory (Spence, 1973). Bourdieu (1986, pp. 241-258) broadened the research area of this concept by directing the research towards the cultural, social, economic and symbolic capital, as alternatives to the human capital. More recently, some authors include the study of human capital in the intangible assets (Sveiby 1998, Kaplan and Norton, 1996). Sveiby (1998) proposed a model structured on the following components: *capital corresponding to the internal structure of the company, capital corresponding to the employees' individual skills and capital corresponding to the company's external structure*, and for each of those components he identified growth, renewal, efficiency and stability or risk as indicators.

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*The capital corresponding to the internal structure integrates patents, trademarks, designs, administrative and information systems, research - development and management, legal structure, organisational culture and formal and informal relationships between the employees.* Sveiby perceives the organisation as being the sum of the internal structure and the human resources of the company. *The capital corresponding to the employees' individual competences* expresses the people's ability to act in different situations and it materialises in *education, experience, talent, skills, cultural and social values*, etc. The model is widely used in Sweden, the Swedish companies report the intangible assets based on this model. This theory developed by Sveiby (2003) is based on the assumption that people are the ones who generate profit in an organisation, and the profit is basically a proof of success, their actions being converted into knowledge structures directed outwards as external structures or within the organisation, materialising in internal structures.

The positive impact of the human capital, as component element of the intellectual capital related to the companies' market value was the researchers' focus. Thus, the literature shows numerous works that emphasise the idea that the difference between the market value and the value of the companies' assets may be explained in terms of the intellectual capital (Brennan and Connel, 2000, pp. 206-240; Han and Han, 2004, pp. 519 -527; Kitts, Edvinsson and Beding, 2001, pp. 35-50, Drucker, 1995). So, human capital is an important component of the organisations' intellectual capital. As component of intellectual capital, human capital has been analysed through the following dimensions and variables:

- **human capital**-*people's competence, improvement of these competences, the staff's stability, improvement of the people's and groups' capacity* (Montequin et al., 2006, pp. 525-538 ) or

- **human capital** has the following three dimensions: *knowledge* - formal education, specific training, staff development and experience, *skills* - individual learning, collaboration in teamwork, exchange of individual knowledge through communication, know-how and leadership and *behaviours* - models, paradigms, sense of belonging, self-motivation, job satisfaction, flexibility and creativity (Martin-de-Castro et al., 2011, pp. 649-662);

- at company level, Han and Han (2004, pp. 519-527) consider that the most important assessment indicators of human capital are: *the index of the employee's motivation, leadership, quality of professional training programs, literacy*.

So attracting and retaining talent, leadership, corporate reputation, branding image and organisational goodwill, all of these are a reflection of the human capital quality.

The Organisation for Economic Cooperation and Development stresses the need for micro-level indicators to determine the impact of training and developing the human capital on the firms' performance by analysing the expenditure for training according to the types of training: general, technical and managerial, but also on categories of employees and types of firms (OECD, 1996). As such, *human capital* is central due to the ability to connect and develop the attributes of the knowledge-based society. In this regard, highlighting the potential of the human resources, the only one that has creativity and which can transform the society in a knowledge-based society, OECD (2010) encouraged the developed economies' governments to promote policies to increase innovation and knowledge in manufacturing and services, as a way to continue prosperity.

## 2. Epistemological aspects of the human capital

With a major impact on the subsequent theories, Adam Smith was the first to show the effects of labour specialisation on the economic efficiency of production. In the assumptions on human capital, Smith (1776) referred to the acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by maintaining the one who acquires them during his/her training, study or apprenticeship,

always has a real value, which represents a fixed and acknowledged capital. Those skills are part of his/her wealth and also of the society to which he/she belongs. A worker's improved dexterity may be considered as a machine or a trade instrument which facilitates labour and which, although representing a certain expense, repays the expense with a profit. A follower of Adam Smith's ideas, David Ricardo (1817) argued in his time, the organisations' need to have the comparative advantage. Later on, Alfred Marshall (1891) developed Ricardo's theory on the organisation's comparative advantage in various market conditions and gives a boost to Karl Marx's theories (1894), which explain how the organisations' structure and work design were used as a first mechanism of exploiting the workers. A major impact on the economic theory specific to organisations had the German sociologist Max Weber (1948), who studied in detail the problem of labour bureaucracy and whose reflections were sources for the subsequent organisational theories. Although later on criticised for minimising the importance of the employees' psychological variables and social needs, assumptions on the organisational behaviour are to be found in the founders of scientific management, Frederick Taylor (1911) and Henry Fayol (1916). Their ideas, which led to the development of the management science, are currently valid only partially to the principles and directions of organisational behaviour. However, some of their principles, such as the full cooperation with the workers, the preparation of the contractors, fairness, initiative and team spirit (Puiu, 2001, pp. 27-29) have issues with implications on human capital. The most erudite experience with implications on organisational behaviour is considered the one of the founder of this concept - Fritz Roethlisberger (1939, p 552-562), who, in his research, along with Elton Mayo (1949, p. 62), have shown the influence of individual and group behaviour on labour productivity. Their study, which remained famous in the literature, is the mainstream of the Human Relations School. Developed over five years (1927 - 1932) within Western Electric Company's Hawthorne, it highlighted the importance of social relationships which proved to be more important even than the salary system (Dindire, 2013, pp. 868-926).

The issue of the organisation's human capital importance as an development engine of the nations was the focus of world-class specialists, Nobel Prize winners and practitioners in the field such as: Schultz (Nobel Prize in 1979), Friedman (Nobel Prize in 1976), Mincer, Becker (Nobel Prize in 1992), Drucker, Kotler or Stiglitz (Nobel Prize in 2001), Krugman (Nobel Prize in 2008) (Nobelprize.org, 2012). The origin of the term human capital is somewhat controversial in that they are opinions according to which it was first used by Mincer (1958). However, it seems that Schultz in 1953, in his work *Land in Economic Growth* refers for the first time to a new set of resources that contributes to the increase of the other resources' quality (labour, nature and capital), referring to the human capital (Schultz, 1993, p. 142). Received initially with scepticism, Becker (1964) himself confessed that he hesitated long enough, in 1964, prior to entitling his book *Human Capital*, because of the opposition shown by the economists of the time, the development of the concept occurred gradually, being fuelled by the food, oil (1970) or raw material crises. Basically, these crises have contributed to the acknowledgement of the need of using natural resources intensively, by the human resources, the only ones equipped with skills, intelligence, knowledge, creativity (Dindire, 2012, pp. 28-39).

### **3. Research methodology, operationalisation of variables and data collection**

The purpose of this paper is to identify the most eloquent indicators of the human capital to meet the demands of the knowledge-based society and of sustainable development, as well as in achieving a comprehensive analysis of human capital in the EU countries, namely of a comparative analysis Romania-Portugal for the period 2007 - 2011, for which there are the most recent data available for the international organisations.



Thus, to achieve the aim of the research, we further summarise the most recognised methodologies and human capital measurement indicators worldwide. The World Bank analyses the state of human development within the World Development Reports, through the following indicators: *participation in education* (primary, secondary and tertiary) - gross enrolment ratio of relevant age group, *health* – life expectancy at birth years, child mortality rate per 1,000, maternal mortality ratio per 100, 000 live births and *employment by economic activity and political participation* (agriculture, industry, service and women in parliaments). According to the World Bank methodology, while the intangible capital is calculated as a residual value, starting from the value of the total national wealth, a country's human capital consists of all the knowledge, skills and know-how held by the human resources (World Bank, 2012). In the UNDP (United Nation Development Programme) human development reports the Human Development Index is analysed through three dimensions and four indicators, namely: *health – life expectancy at birth, education – mean year at schooling, expected year at schooling and living standards – GDP/capita* (living standards – gross national income per capita) (UNDP, 2012).

In our work, we used for analysis data and assessment indicators offered by the major international bodies and organisations: Eurostat, World Bank and UNCTAD, for the quantitative indicators and World Economic Forum for the qualitative ones, the latter being obtained based on opinion surveys. The dynamic analysis that we perform in this paper aims at the 27 EU countries and considers the time span from 2007 to 2011, for which there are the necessary data in the worldwide agencies and organisations. Although for the quantitative data the European and international organisations provide data for a much longer period of time than the one envisaged in this paper, for the qualitative ones that we considered relevant and used, there are data available in the reports on global competitiveness in the reports on World Economic Forum starting with 2007.

#### 4. Research results

We believe that in order to meet the challenges of the knowledge-based society and of sustainable development, the most relevant indicators, which we have selected and we analyse in this paper are: ***Cooperation in labour – employer relations; Brain – drain; Extent of staff training***, indicators made available by the World Economic Forum, as well as the indicators present in the EU reports on sustainable development: ***People at risk of poverty or social exclusion; Tertiary educational attainment and Total public expenditure on education as % of GDP***.

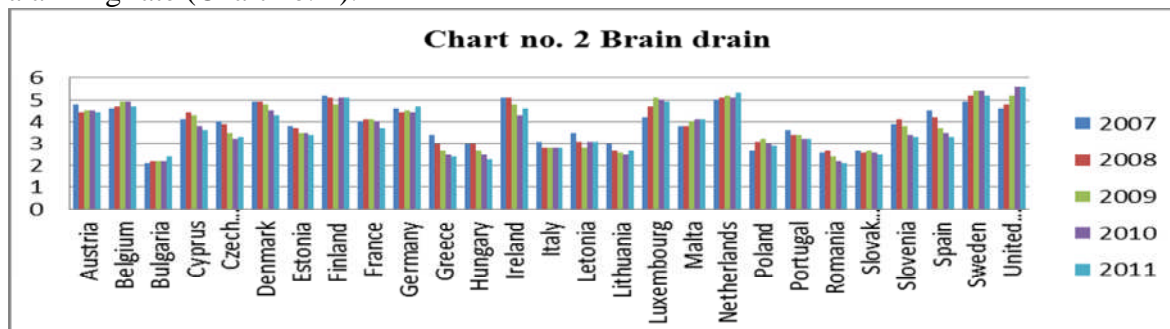
The processing of the data led us to the following results. Based on the graphs further presented by us, numerous interpretations and analyses can be done. We do not aim at an exhaustive treatment of them, but only of the significant aspects and also a comparative analysis Romania – Portugal.

- Regarding the ***Cooperation in labour – employer relations*** indicator we notice, in the period under review, namely 2007-2011, a deterioration trend in this relationship, perhaps due to the economic crisis. In some countries, usually those that also record the highest values of this indicator, there is a slight improvement in 2011. The countries that fall into this category are: Austria, Denmark, Ireland. The lowest scores for this indicator, which means a weak cooperation in the employer - employee relationship is recorded in Romania, France, Greece and Italy. A comparative analysis of Romania and Portugal reveals a similarity in that both countries have low levels of this variable. However, while in Portugal there is an increase in 2011; Romania records a continuous decline throughout the period under review (Chart no. 1).



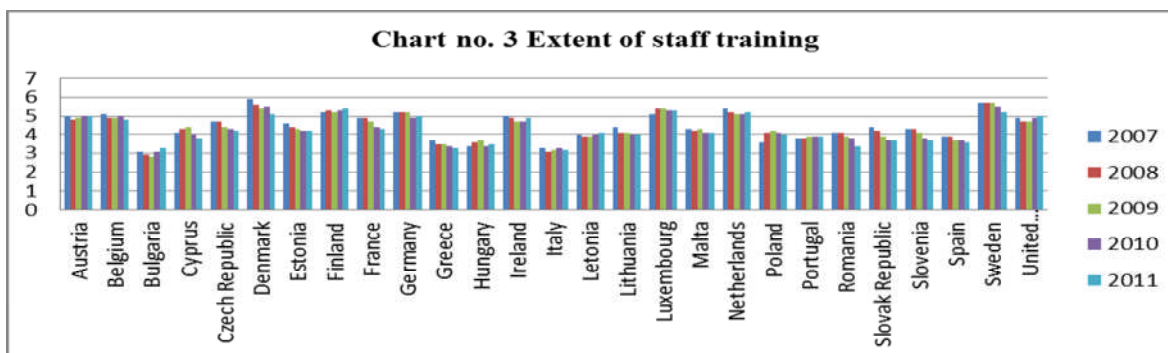
Source: processed according to World Economic Forum, *The Global Competitiveness Reports*, 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013.

- The ***Brain – drain*** variable, expressed on a value scale from 1 to 7, the extent to which talented people are retained and attracted. The minimum level, 1, expresses the fact that the best and brightest normally leave to pursuit opportunities in other countries, and the maximum level, 7, indicates that there are many opportunities for talented people within the country. The data were collected from The Global Competitiveness Reports of the World Economic Forum (World Economic Forum, 2012). This phenomenon, so present nowadays (Voicu and Talmaciu 2011, pp. 2084), polarises at the two extremes, the countries abundantly exporting brains, such as Bulgaria, Romania, Slovakia, Greece, Lithuania, Hungary and, at opposite extreme, the countries absorbing this capital, namely Sweden, the United Kingdom, the Netherlands, Finland, Ireland, Denmark. Both in Romania and in Portugal, there is a negative situation, meaning that in the period under review, the extent to which talented people are attracted and retained decreased at an alarming rate (Chart no. 2).



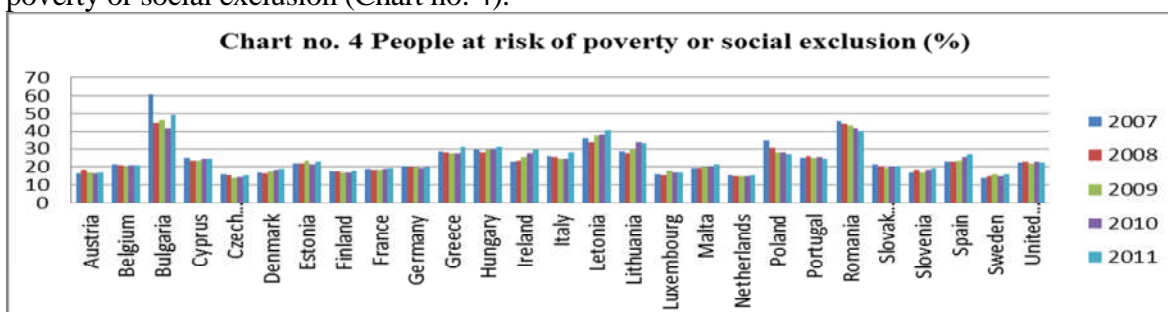
Source: processed according to World Economic Forum, *The Global Competitiveness Reports*, 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013

- Another indicator that measures human capital is the ***Extent of staff training***. Although in most European countries, in the period to which we refer, this indicator has steadily decreased, yet there are countries that stand out for having increased investment in training the staff whose level of training increased, such as Finland, Ireland, the United Kingdom, the Netherlands, Austria, countries that had high scores for this indicator anyway. Bulgaria, although recording the lowest values for the extent of staff training, however, during the period 2007-2013, recorded a decrease until 2009, followed by an increasing trend. In a comparative analysis of Portugal and Romania, there is a clear difference in the sense that, although both in 2007 and 2008 Romania had a better situation of this indicator than Portugal's, over time, the Portuguese understood the need to increase the extent of staff training, recording increases of this indicator, while in Romania, the decrease was significant, so that in 2011 Romania's situation was much worse than Portugal's (Chart no. 3).



Source: processed according to World Economic Forum, *The Global Competitiveness Reports*, 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013

- The ***People at risk of poverty or social exclusion*** indicator expresses the number of people out of a country's total population at risk of poverty or social exclusion. Given the negative impact of this indicator on a nation's human capital, we found it necessary to include it in our analysis. A very worrying situation is to be found in Bulgaria, Romania and Latvia. Nevertheless, although Bulgaria, in 2007 was extremely severely affected in relation to the percentage of people at risk of poverty (60.7 %), managed, with slight fluctuations, in 2011 to reduce this level to 49.1 %. Romania, also with a high percentage of 45.9%, in 2007, recorded constant decreases of this indicator, so that in 2011, there was a percentage of 40.3%. The risk of poverty in Romania affects more females than males because the employment rate is also lower in this category. (Ioneci, Mîndreci, 2011, p. 145). This favourable aspect was not present in Latvia as well, which faces a growing percentage of the people at risk of poverty or social exclusion. In Portugal, with slight fluctuations, therefore increases and decreases, in 2011, with a percentage of 24.4%, the situation was relatively at the same level as in 2007, namely 25%. So, compared to Romania, the situation in Portugal is much better in terms of people at risk of poverty or social exclusion (Chart no. 4).

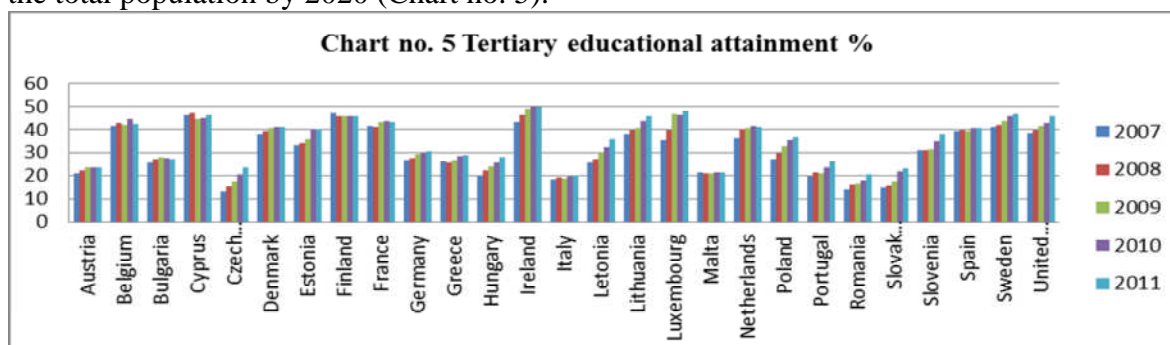


Source: European Commission, 2013. *Eurostat, Statistics, Sustainable Development Indicators, Social Inclusion*, online, available at:

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdsc100&plugin=1>.

- A highly important indicator, with direct implications on human capital is also the ***Tertiary educational attainment***. It expresses the percentage of a country's population, aged between 30 and 34 years old, that has successfully completed undergraduate studies. This indicator is also monitored in the Europe 2020 strategy, aiming at increasing the percentage of people who completed their tertiary studies, at least at 40% out of the total population by 2020. The poorest performances of this indicator are in: Italy, Romania, Malta, Slovakia, Austria and the Czech Republic. Nevertheless, even in these countries situated at the negative pole of the ranking, there is a favourable situation in the sense that in most of them, such as: Italy, Romania, Austria, the Czech Republic, Slovakia, the trend is upward, so for the period under review, a growing number of people have successfully completed their university studies. In a comparative analysis of Romania and Portugal,

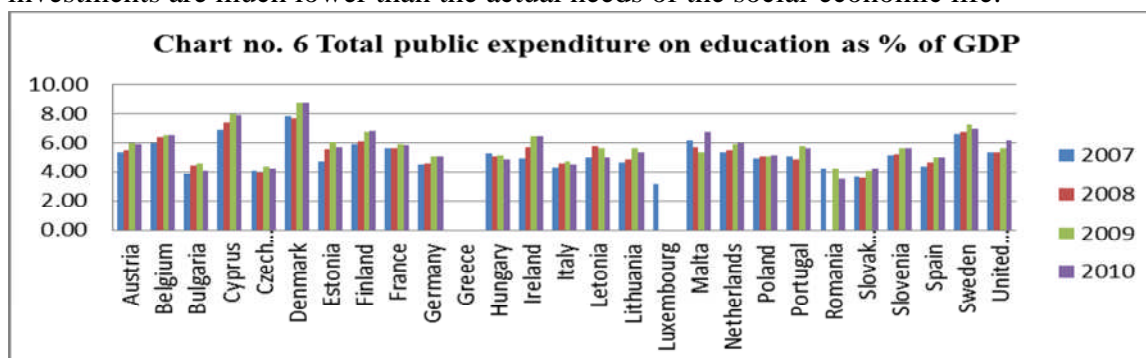
there is a similarity in that in both countries the development of the tertiary education level is favourable. Moreover, another similarity between the two countries (Romania and Portugal) results from the fact that the level of tertiary education is low as compared to other European countries, requiring considerable efforts to achieve the target of 40% out of the total population by 2020 (Chart no. 5).



Source: European Commission, 2013. *Eurostat, Statistics, Sustainable Development Indicators, Social Inclusion, Education*, online, available at :

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdsc480&plugin=1>

• Given that the changes in the balance of power of nations are determined by technological innovation and new technologies (Boghean, Popescu, Lupan and Boghean, 2009, pp.151 -156), which are the exclusive attribute of human resources and which justify once more the need for investment in education and training, we focused in our analysis on the ***Total public expenditure on education (as % of GDP)*** indicator. The human resources are unique in terms of their growth and development potential (Panoiu, Belu and Marinescu, 2008, pp. 103-106). However, in the context of the current economic crisis, the training level has been reduced, this having a negative impact on human resources (Bălănescu, 2010, 527-532). For this indicator, the data were collected from Eurostat, being available up to 2010. In addition, for Greece, throughout the period under review, for Luxembourg, in 2008-2010 and Romania, in 2008, the data were unavailable. The results of the analysis show that the lowest level of investment in education is recorded in Romania, a particularly concerning situation, with a negative impact on human capital. Other countries with smaller percentages in this regard are: Bulgaria, Slovakia, and the Czech Republic. The situation is negative in these countries, especially given that the GDP is much lower than that of the European countries that are in the top of the ranking in terms of investment in education. So the absolute value allocated to investment in education is very low, practically insufficient (Chart no. 6). Compared to Romania, Portugal recorded a higher level of this indicator and an increase trend. But also in this case, in absolute value, investments are much lower than the actual needs of the social-economic life.



Source: European Commission, 2013. *Eurostat, Statistics, Investments in education and training*, online, available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=educ\\_figdp&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=educ_figdp&lang=en)

## 5. Conclusions and further research directions

In conclusion, the focus on human capital began to grow in 1950, when the tertiary sector, which required creativity, began to produce more than the secondary sector in the world's most developed countries.

Attracting and retaining talent people, leadership, corporate reputation, branding and organisational goodwill, all these are a reflection of the quality of the human capital.

The added value brought by this work is that it identifies the eloquent indicators for the human capital that meet the demands of the knowledge-base society and of sustainable development and present the results of the analysis of these indicators in the EU countries. Moreover, this paper presents a comparative analysis of Romania - Portugal, of the representative variables of human capital for the 2007-2011 period.

The research results highlight the similarities of the *Cooperation in employer – employee relationship* indicator in the sense that both countries have low levels of this variable. In addition, both in Romania and Portugal, there is a negative situation, in the sense that in the period under review, the degree to which talented people are attracted and retained decreased at an alarming rate. The differences between the two countries result from the *Extent of staff training*, which is better in Portugal as compared to Romania, as well as the number of people out of the country's total population that is at risk of poverty or social exclusion, the situation in Portugal being also far better than in Romania.

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# ASSESSING AND MEASURING TEAM ROLES BALANCE – IMPROVING TEAM MOTIVATION AND PERFORMANCE

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## Abstract:

*Purpose* – The purpose of this study is to design a model for assessing and measuring team roles balance and to test the model analyzing the relationship between team roles balance and team motivation.

*Design/methodology/approach* – Data were collected from a sample of 32 project management teams on POS DRU program, out of a population of 145 members. Team roles were identified applying BTRSPI. To assess team current level of motivation was used a tool proposed by Woodcock and Francis (2008). Team roles balance was assessed with the developed model. Motivation indices of each team were tested against the team balance scores by using Spearman's rank test.

*Findings* – A statistical relation between team roles balance and team motivation was found. Team roles balance provides an environment which encourages individuals to contribute and provides higher motivation. It is argued that authors do not use constructs according to Belbin's theory of team balance.

*Originality/value* – Team design according to this construct has not been tested up to now with regard to team motivation. The study simplifies on the ambiguity of the concept of team balance.

*Paper type*: Research paper

**Key words:** Team motivation, Team design, Team roles, Team balance, Team working.

**JEL Classification:** M12.

## 1. Introduction

Teamwork is today a primary vehicle utilized by organizations to improve performance. Teams combine the efforts of individuals and provide synergistic outcomes.

Motivation of the individual worker has been studied in detail. One of the areas of great importance in research is the relationship between individual motivation and membership in team environment. There are many types of teams in organizations (project, management, service, production; Kanfer, Chen & Pritchard, 2008), and for all, their members are highly interdependent. Regarding the nature of team working, it is challenging to understand work motivation in team environment.

Some research suggests that individuals can sometimes exert less effort when working with others on collective tasks (Latané, et al, 1979). Kohler effect suggests that motivation occurs when members differ moderately in their abilities. Katzenbach & Smith (1993) sustain that higher level of diversity lead to higher motivation, satisfaction and thereby, to higher team performance. Roosevelt Thomas (2000) proposes that diversity provides higher motivation by an environment which encourages every individual to contribute. Researchers sustain that team composition affect some dimensions of team performance: satisfaction/motivation, communication, creativity, conflict, problem-solving competency and cohesion (e.g. Higgs, 2005). Nevertheless, authors do not refer to specified studies or empirical research. Other studies, Corso (1993) and Kurtzberg (2000) indicate that high level of heterogeneity within the teams leads to less member satisfaction. This is supported as well in the similarity-attraction paradigm, which predicts that homogeneous teams are more successfully. In this study was analyzed one of team performance dimensions - team motivation when members differ in their team roles.

In considering team design it is relevant to take into account the different team roles members play and the way they interact with one another. Some researchers (Belbin, 1981; Margerison & McCann, 1990; Parker, 1990; & others) proposed the notion of team roles.

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The team roles were made popular by Meredith Belbin in 1981 and 1993. Team role is defined as a cluster of behavioural characteristics which individuals display working in teams (Belbin, 2010). Belbin distinguished nine different team roles: Plant (PL), Resource Investigator (RI), Co-ordinator (CO), Shaper (SH), Monitor Evaluator (ME), Team Worker (TW), Implementer (IMP), Completer-Finisher (CF) and Specialist (SP). Belbin's model is preoccupied with the ways in which the roles develop, change and interact with other patterns of behaviour over time. Belbin model was proposed after a nine-year study of team effectiveness and team building with management teams at the Henley Management College, England. Each of these 9 roles proposed by Belbin is characterized by a cluster of specific behaviour. Role behaviour is defined by six factors: personality, current values and motivation, mental ability, experience, role learning and field constraints. However, Belbin did not show how much of the variance in a team role is explained by each factor. Wong (2007) sustains that individual behaviour should not be ignored because they have a great influence on motivation. Individuals spend a lot of time in relationships at work and peer behaviour has a major impact on their motivation.

Belbin (2010) found that certain diversity of team roles leads a poor team performance and that other diversity of team roles leads to so-called winning teams. As a theoretical diagnostic looking at individuals Belbin theory demonstrate the importance of great diversity of human behaviour, and the legitimacy of placing certain characteristics into teams. In others words, what motivates some people will turn others off. According to this, Belbin propose the notion of team balance. For a team to be balanced has to have all nine roles represented. According to Belbin, balanced teams perform better than non-balanced teams. He sustains that the members who prefer some of team roles will be inhibited and not motivated to make contribution if team is poor balanced. Nevertheless, Belbin does not offer us many indications regarding team balance assessment.

The impact of team role balance on team performance is still not clearly understood, research has produced mixed findings. This study will examine the relationship between team design regarding team roles balance and team motivation in order to analyze the influence of team design on team motivation.

## **2. Methods**

The purpose of this study is to design a model for assessing and measuring team roles balance and to test the model analyzing motivation in team environment.

For this propose, a model of assessing and measuring team balance was build and two types of questionnaires was applied, which met the study needs. The subjects were 32 management project teams on POS DRU program. The teams were working on development projects and had five or six members.

To identify team roles it was applied Belbin Team Role Self Perception Inventory (BTRSPI). BTRSPI consist of seven sections, each section have ten statements. Respondents had ten points for each section to distribute amongst the statements. The members were required to allocate more points for statements that they felt more accurately reflected their team role and less points or zero to those that were less reflective of their team role or totally irrelevant.

The second questionnaire used for assessing team motivation, it is proposed by Woodcock Mike & Dave Francis (2008). The questionnaire contains 12 items measured on a 6 Likert scale. Items evaluate the motivation of team members with regard to the four characteristics of team motivation: Task satisfaction; Team-Oriented Leadership; Pride in Membership; and Empowered Participation.

*Team Roles* - To identify members' team roles it was applied BTRSPI. For each member it was considered one or two team roles. Most of the roles were identified as Specialists (SP); a rate of 16% of the 32 project management teams' members preferred this role.



A large percentage is also held by roles: Co-ordinator (CO), Plant (PL), Team-Worker (TW) and the Finisher (CF), for which it was identified that 14%, 12%, respectively, 11 % percent of members who answered the survey preferred these roles. The smaller percentage of representation in the 32 teams analyzed had the roles Shaper (SH), Monitor Evaluator (ME) and Implementer (IMP), followed by the Resource Investigator (RI), with the lowest percentage (only 7%).

These are the roles that create the teams' design. This composition motivates or inhibits team members to work, that depends on the team roles balance of each team. Fisher (1998) and Belbin (2010) argue that team roles should not be considered in isolation but must be considered how roles, in various combinations, interact.

*Team Roles Balance* - Many researches, using Belbin's model, rely on a simple count of the range of roles represented as a measure of balance.

Regarding Belbin Team Roles Theory, we can agree that team balance means a diversity of roles and, in terms of team role balance, diversity is best conceptualized in terms of variety (9 team roles have to be represented in a team; it is best that team roles not be duplicated). But it is Blau's index appropriate to measure team balance? Can we say that a team who has any five of the nine roles has a 'better balance' team than another who has any four of the nine roles?

The Most of the authors, using the Belbin model, considered Blau's index as a measure of team balance. If it is considered any eight of the nine roles and it is used Combination Formula (C98) it can be build nine different teams ; or with any 7 different team roles it can be build 36 different teams, and so on. Now the questions are: Witch one of the nine teams with eight roles has a 'better balance? If we use Blau's index all nine teams have a "equal balance". The same it is happens if we are considering a team with 5 different team roles compared to another that has 4 different team roles. The team with 5 roles it will have a 'better balance' than the 4 can have (with Blau's index).

For this research it was developed a model for measuring and assessing team roles balance when teams have less than nine roles represented. In these respects, team balance receives or gives points depending of some conditions. The conditions were decided following some guidelines:

- All nine roles have to be represented for team performance (Belbin's Theory, Diversity-Variety and Team Performance Theories).
- A member can have more than one role in a team (Roles Theory, Personality Theory).
- Team roles categorization made by some authors (Benne and Sheats, 1948; Bales, 1958; Belbin, 1981; Katzenbach & Smith, 1993; Mumford 2002,) as Action (IMP SH CF), Social(Co, TW RI) and Thinking(PL ME SP).
- Belbin (2010): „Into the ark the managers went two by two. There were two types of negotiator (Resource Investigator [RI] and Team Worker [TW]), manager-worker (Implementer [IMP] and Completer Finisher [CF]), intellectual (Monitor Evaluator [ME] and Plant [PL]), and team leader (Co-ordinator [CO] and Shaper [SH]).”
- Team roles should not be duplicated (Diversity-Separation Theory; Motivation Theory and Belbin Theory): Belbin (2010) argues that typical ineffective team occurs where obstacles prevent individuals finding their preferred Team Role. This can be true for any Team Role.
- Some combination of team roles that Belbin sustain that does not work well together (e.g. A Co-ordinator along with a dominant Shaper).

Given the model, it was calculated team balance for each of the 32 teams that were analyzed. Maximum balance that a team can have, given the proposed model, is 25 points. The scores obtained for teams roles balance are between 13.5 and 22.5 points. No team had a roles balance score close to 25 points, considered to be the most motivating. Given the distribution of team roles discussed in the previous section and the measurement of role balance, these results appear to be justified.

*Team Motivation* - The questionnaire chosen to measure the motivation of the 32 teams analyzed is consistent with the motivation team theory and the objectives of this paper and appropriate to test the hypothesis of this research.

After having identified the level of motivation for each member of the 32 teams, it was calculated the average motivation per team. The average motivation per team had values between 3.7 and 5.8 points (no extreme scores). More than half of the teams analyzed had the motivation score equal to 4.6, representing a high level of motivation.

### 3. Results and discussions

One of the reasons why was chosen to analyze the correlation between team roles balance and team motivation are some literature statements on the relationship between members' diversity and team motivation. However, the authors do not refer to specific studies or empirical research. This paper aims to contribute in this way, researching the link between team role balance and team motivation for 32 teams. Team design according to this construct has not been tested up to now with regard to team motivation.

A statistical relationship between team roles balance and team motivation was studied using correlation analysis. According to this analysis (Table 1), Pearson correlation coefficient was estimated based on data from the sample of 32 teams. To check the significance of the relationship between two variables a statistical testing procedure was applied and T Student test was used to test the correlation coefficient.

Pearson correlation coefficient estimated for the relationship between team roles balance and team motivation is equal to 0.579 and shows a direct link (balance changes determines the variation in the same sense of motivation) and relatively close between the two statistical variables. After verifying the significance of Pearson correlation coefficient (Fig. 1), was obtain a T Student test significance equal to the risk [Sig. = 0.01]. This shows that there are 1% risks to be wrong if it say that between the two variables is a significant correlation.

**Table 1. Pearson Correlation between team roles balance and team motivation**

Balance	Motivation
1	,578**
	,001
32	32
,578**	1
,001	
32	32

Therefore it was decided to reject the null hypothesis: H0: There is no link between team roles balance and team motivation, and support hypothesis H1: There is a link between team roles balance and team motivation. The relationship between the two variables analyzed is statistically significant, i.e. the greater the level of team balance the greater the team motivation level is.

To analyze the dimensions of motivation that were most influenced by the team balance, there was studied the statistical link between team role balance and the 12 items of the questionnaire proposed by Woodcock & Francis (2008). It was studied the relationship between roles balance and the 12 items using correlation analysis (Table 2).

**Table 2. Pearson Correlation between team role balance and the twelve items of motivation**

		TB	I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12
TB	Pearson	1	,671	,623	,667	,688	,762	,729	,714	,698	,716	,661	,526	,722
	Correlation													
	Sig. (2-tailed)		,000	,000	,000	,000	,000	,000	,000	,000	,000	,000	,002	,000
	N	32	32	32	32	32	32	32	32	32	32	32	32	32

\*\*. Correlation is significant at the 0.01 level (2-tailed)

Pearson correlation coefficient estimated for the relationship between team roles balance and each item shows a direct and strong link between the variables. After verifying the significance of Pearson correlation coefficient, was obtain a significance of T Student test lower than the assumed risk [(Sig. = 0.000) < (= 0.01)]. Therefore, we can say that there are less than 1% chances of error to say that between roles balance and each of the twelve items there is a significant correlation. Given the results of correlation analysis we can say that team roles balance have a significant influence on team motivation.

#### 4. Conclusion

It was found a statistical correlation between team roles balance and team motivation. It was found a link between all 12 items of motivation and team roles balance. It can be argue that team design regarding Belbin's team roles, have an influence on team motivation. If teams have a better roles balance than team members are more motivated to work. Regarding motivation theories that contradict the influence of team diversity on team motivation, it can be argue that the ways in which team diversity is defined, assessed and measured are not always appropriate chosen to the type of diversity we analyze. The model purposed in this paper for assessing and measuring team roles balance is a construct suitable to design teams in order to increase team motivation. It is argued that authors do not use constructs according to Belbin's theory of team balance. This study simplifies on the ambiguity of the concept of team roles balance. This research makes a contribution to practitioners responsible for designing and motivating management teams. Implications are suggested for more qualitative measures to designing balanced teams.

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# AN ANALYSIS OF THE PERFORMANCE INDICATORS IN SMALL AND MEDIUM SIZED ENTERPRISES, FROM AN ENTREPRENEURSHIP PERSPECTIVE

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## Abstract:

*Expansion of entrepreneurship, both as a concept and as a representative of the level of economic development, is closely related to the performance of small and medium sized enterprises, while the latter established themselves as a catalyst for business environment. From this view, we point out the key indicators which measure the economic performance of SMEs, considering an entrepreneurship perspective*

**Key words:** SME, entrepreneurship, performance, indicator, business environment.

**JEL Classification:** L25, L26.

## 1. General coordinates regarding the organization's performance

The current economic context determines structural changes and generates a series of confrontations with many different challenges. On an increasingly competitive market dominated by competition, organizations must focus their attention on strategic directions developed.

Ensuring higher efficiency is possible only when we face a proper use of available resources, the main objective being to ensure the generation of performance at all levels of the enterprise.

The literature defines performance in terms of a number of variables, on the one hand, regarding the final result and, on the other hand, the general behavior. For the company to be considered in terms of economic performance, it is vital to ensure good functionality of all components in the assembly.

There has emerged not a single a unified vision on performance, the authors issuing various theories in literature. In definition, the main directions of performance are:

- Performance means the level of achievement of objectives, the idea being outlined by Debiens, Burguignon, Lebas and Burlaud;

- Performance is an "unstable equilibrium resulting from changes in efficiency and productivity evolution" (Niculescu, Lavalette, 1999);

- Performance involves "the creation of wealth, value" in the organization (Jianu, 2007, Albu, 2003).

Be it in terms of performance outcome indicators, whether they refer to the behavioral perspective, it is important to note that the performance is "a thing that an individual leaves behind" (Kane, 1996). We can therefore refer on the one hand to the results, so as to obtain from a particular activity, but also can take into account the concepts of efficacy or efficiency, in terms of which, on the one hand the need to perform a whole range targets, on the other hand the idea of assessing the cost / result. In the literature the authors studied how the performance can be defined, calculated, how establishing relationships or connections between different influencing factors can contribute to a business activity development. Youndt, Snell, Dean, Lepak (Youndt MA, Snell SA, Dean JW, DP Lepak, 1996) have outlined ideas that provide direct and permanent connection between the performance of the enterprise and the strategies

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implemented, while other authors (Purcell, Guest) identify a direct link between performance and human resource management as a whole.

According to the ideas put forwarded by Brumbach (1988), " performance means both behaviors and results. Behavior is emanating from the performer and transforms performance from abstract to a concrete action. Not just tools for obtaining results, behaviors are, by themselves, also outcomes - products of a physical and cerebral effort made to exercise the assignments and tasks - and can be judged apart from results. "

## **2. Entrepreneurship as a factor in increasing the performance in SMEs**

Entrepreneurship is currently considered to be one of the most important ways to generate jobs, as even a "motor of development, one that takes risks and responsibilities of business" (Ciurea, Rîndașu et al, 2008), entrepreneurial economy being an area with broad prospects for development.

Entrepreneurship issue was addressed in various contexts, fields, turning into a topical theme meant to be discussed over a long period.

Definitions in literature approach this concept as follows: "the exploration of market opportunities and distribution of resources necessary to exploit these opportunities in the long term. Is the process of planning, organizing, opportunities and assuming" (Pânzaru, 2013).

In a knowledge based society, the interest focuses on aspects such as information, which also turns into a unpalpable enterprise resource. Especially in the context in which globalization, both covered and played, exercises its influence upon the economy in general, the "competitiveness" and the "performance" factors are constantly tracked coordinates to be met and reached at a highest level possible.

SMEs in particular are characterized by increasing dynamism, going in and out of the market rapidly, the more that the period since the last half of the decade was characterized primarily by widespread economic downturn.

"Entrepreneurship can develop in any sector of the economy, but also in any kind of activity, both in terms of men and women" ( Tanase A, Tanase D , 2010 a), " the issue of increasing the competitiveness of the Romanian enterprises being essential for Romanian economy" (Tanase D. Tanase A., 2010 b ) .

The contribution of SMEs to economic growth is a fact, a necessity and a reality of the European economy in general and the Romanian particularly, small and medium enterprises being "considered economical operators of the internal market, an increasing number of SMEs managing to conquer the global market" (Ciurea, Rîndașu, et al, 2008).

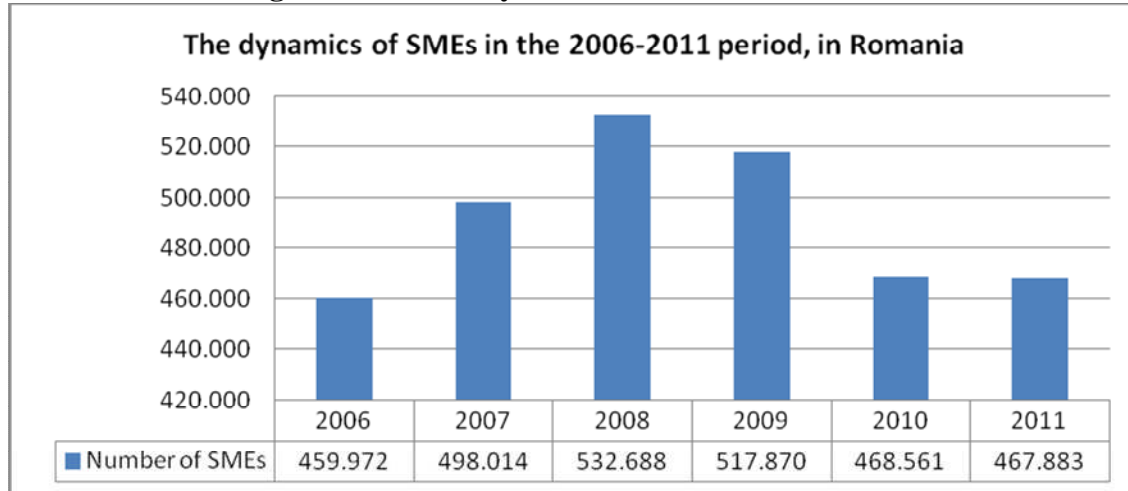
"It is assumed that entrepreneurship is about entrepreneurs and their enterprises" (Scarlat, Mesquita, Borangic, Popescu, 2013). On the other hand, beside this definition, there should be pointed a series of aspect regarding entrepreneurship, among the being listed the following:

- „entrepreneurship means competitive behaviours that drive the market process” (Scarlat, Mesquita, Borangic, Popescu, 2013)
- Beside own effort and time, there are several other categories of resources that should be considered when running a business. By this we reffer to the financial aspects, the human resources, but also the material ones.
- Entrepreneurship stays first of all a process of identifying the proper opportunities on the market;
- There are entrepreneurs who have a serious background behind them in terms of experience, while others are still learning the basic parts of running and managing a business.

### 3. The evolution of Romanian SME performance

During the period 2006 - 2011, the number of SMEs has fluctuated, recording the highest level as number of enterprises in the year 2008 – 532.688 entities, then decreased gradually until 2011, bringing this year almost to the level of 2006.

**Figure no. 1. The dynamics of SMEs in Romania**



Source: The White Book of SMEs

This phenomenon occurs alongside the evolution of the economic crisis that has affected the overall economic environment, exercising its impact especially on small and medium sized enterprises. Parallel to the decrease in the number of SMEs we are witnessing an evolution of the number of employees, criteria that can be analyzed through the following data:

- Change in average staff in 2012 is higher for firms with a history of over 15 years, data from the National Council of Private Small and Medium Sized Enterprises indicating a rate of 0.51% in this case, unlike the case of the firms with an activity of 10-15 years, where the percentage is very low ( 0.0038 );

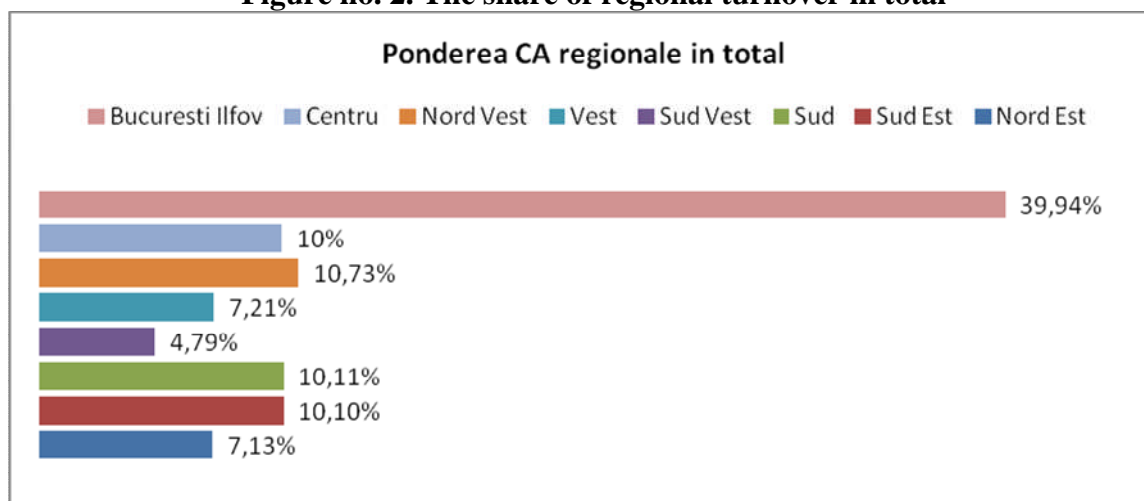
- However, the number of newly employed ranged upward in the same year from a business category to another. Firms with a length of up to 5 years on average 0.79 persons employed, those with an age between 5-10 years - 1.02 persons, organizations enrolling in age from 10-15 years on average 1.10 employees while traditional organizations have undertaken on average 1.66 employees. From a regional perspective, on the other hand, the biggest personal change is recorded in the South East and lowest in the center. However, the average number of persons employed during 2012 reached the highest level - 1.57 in the North East, the fewer employees being identified in the South West - 0.98.

- The percentage of staff in SMEs varies very little from one year to another, with percentages ranging from 63.2 % to 66.3%.

The overall performance of SMEs in 2013, through the quality perspective, is assessed to be similar to the last year in most of the cases. Differentiating SMEs in the three components, the study developed by the National Council of Small and Medium Sized Enterprises in 2013 – The White Book of SMEs reveals a higher percentage in the case regarding microenterprises - 57.17 %, followed closely by small businesses - 48.11 % respectively of the medium - 45.45 %. According to the source mentioned above, very small percentage of firms shows a much better development. On the contrary, an important number of enterprises prove to be weaker compared to the previous year. Thus, only 0.73% of the microenterprises state with far superior results, while 1.89 % of small businesses and 3.03% of the medium.

Much weaker performance was reached by about 5.58 % of microfirms, 3.03 % of small businesses and about 4.55% of the medium ones. The rest of the organization developed average results, either in terms of progress or in negative developments.

**Figure no. 2. The share of regional turnover in total**

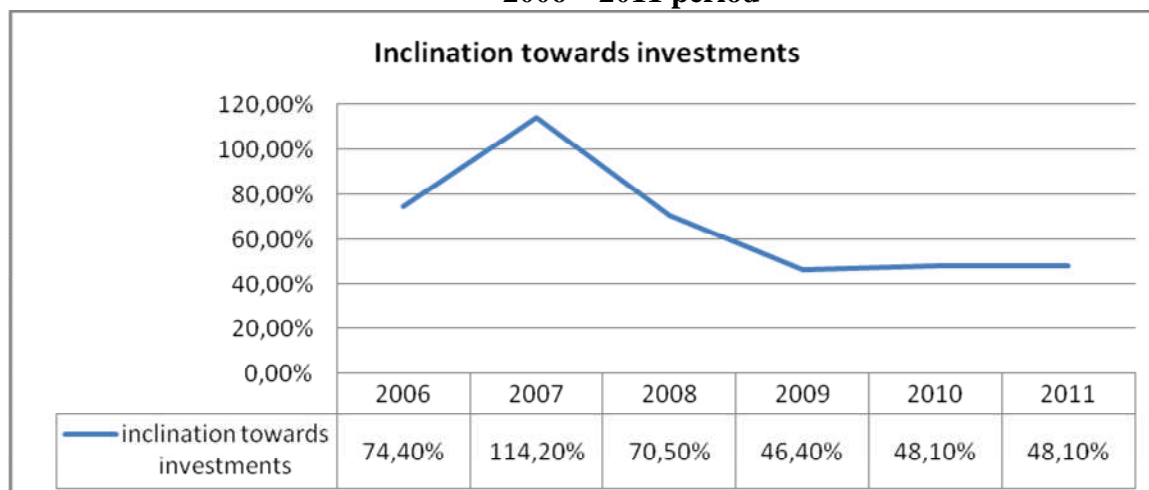


Source: The National Commission of Prognosis

SME performance is directly related to both entrepreneurial studies and their gender, much better performance being achieved by a higher percentage of women 1.22% , compared with businesses run by men (0.87 %). Be it the leading female or male driving the business, an almost similar percentage of businesses have stagnated over the last year (54.18 % and 56.02 %)

Within each company there can be identified a certain inclination towards investments. Regarding SMEs, this indicator has changed over time evolving according to the following schedule:

**Figure no. 3. Inclination towards investments, the case of Romanian SMEs  
2006 – 2011 period**



Source: The National Council of Private Small and Medium Sized Enterprises

According to the studies developed by the National Council of Private Small and Medium Sized Enterprises, the ability of SMEs to stand up to the economic crisis is one major average analysis carried out over the period 2009-2011. About 38 % of companies identify themselves as having less capacity to face the crisis, while a much smaller



percentage is ready to do so (10.16 % in 2009, 5.71% in 2010 and 8.50 % in 2011). This trend may be due to the fact that 2009 corresponds to the average period of economic crisis, time in which firms could counteract the negative effects by the means of resources accumulated through until then, but once these were exhausted, we face a more difficult recovery and at the same time, the establishment imbalances between inputs and outputs, so a more negative trend is ready to take over.

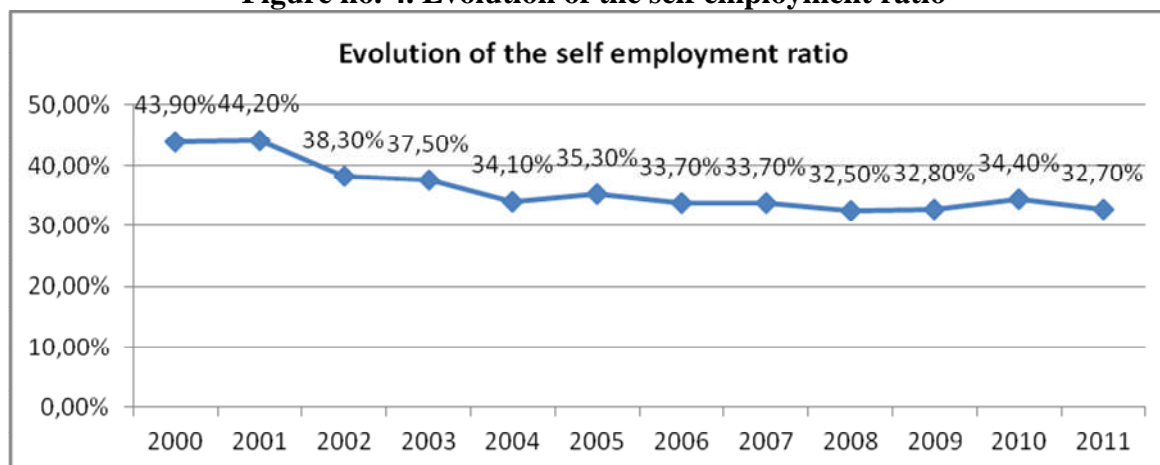
An analysis of data at the level of the year 2011 shows that in all eight regions there is a "very strong correlation between the distribution of the number of SMEs and the percentage of employees, culminating in equalizing the value of the two indicators in some cases" (Study of the Post Privatization Foundation, 2012). Such equality can be found in the following regions: North East, North West, Bucharest Ilfov, Southern Muntenia, South West, Western region respectively. However, the Bucharest-Ilfov region has the highest percentage of employees in SMEs (about 23%), while the South West part stood at opposite (6.7%).

Official data allow a focused analysis of the economical performance at regional level, "highlighting the prominence of the Bucharest Ilfov region through a much higher entrepreneurial and economically level, compared to other regions of Romania" (Study of the Post Privatization Foundation, 2012).

Beyond the above-mentioned indicators, the indicators destined for measuring performance in terms of entrepreneurship cover a range of issues such as:

- Measuring the rate of self-employment;
- Determination of the total number of adults who have started a business;
- Determination of the advantages of being self-employed;
- Percentage of adults who believe that a better education helped developing a proactive attitude on entrepreneurship;
- The length of time required to start a business;
- The cost of starting a business;
- Volume fees payable during the year;
- Support from the State on the development of SMEs;
- Percentage of innovation at the firm level.

**Figure no. 4. Evolution of the self employment ratio**



Source: <http://www.indexmundi.com/facts/indicators/SL.EMP.SELF.ZS>

Self - employment in Romania, recorded a lower level compared to the EU countries, especially in the range from 2006 to 2011. According to the definitions in the literature, self - employment (also known under the term "freelancer" ) ( Blanchflower, 2000) indicates the individuals who develop a certain activity on their one.

The level or a lower scale of fees is the main advantage of this alternative business development. "It is necessary to ask the question whether individuals who belong into this category of activity could also be considered entrepreneurs, as the main advantages of this method are invoked like it follows": (Dawson , Henley, Lattreille, 2009) :

- The desire of not having a certain schedule;
- The desire of being their own boss;
- Freedom of focusing on what project seems more attractive;
- Flexibility of working hours;
- No risk regarding loosing the job.

### Conclusions

The idea of performance is often linked to that of efficiency or effectiveness. Main coordinates expressing this relationship are:

- The adaptability of firms, readiness for change, survival in a dynamic and competitive environment, which proves to be both applicant and exciting in terms of resources;
- The ability to develop products and services according to the current needs of the customers, and the possibilities to attract a number of potential customers in the future;
- The possibility to use a company's resources efficiently, as well as the ability to exercise a good management;
- The ability to draw plans and long term strategies in order to ensure a sustainable organization.
- The ability to ensure a continuous organizational development.

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# PROSPECTS REGARDING THE DEVELOPMENT OF ENTREPRENEURSHIP AND THE CONTRIBUTION OF SME'S TO REGIONALLY ECONOMIC GROWTH

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Suzana, Demyen<sup>2</sup>

## Abstract:

*Romanian business environment is constantly changing, recording successive fluctuations, both in terms of growth and those regarding the "performance" factor. As a result, the development of entrepreneurship has transformed over the last decade in a process generating economic growth and welfare, while the results were correlated with a number of social and technological progress. The present paper aims therefore to describe how encouraging entrepreneurship, at both national and regional level, can help ensure sustainable economic growth. It has been followed, also, the regionally dynamics of SMEs, in the idea of determining the main influences that ensures positive economic results.*

**Keywords:** SME, entrepreneurship, economic growth, business environment.

**JEL:** L26, O12, R11

## Introduction

During the recent years, entrepreneurship has become an independent activity, but also a challenge, turning into a field of study taught in the most prestigious universities in the world. It assumes the existence of specific qualities, but involves as well a number of risks, the overall development being influenced by a number of factors, both at micro economical and macro economical level.

On a more competitive market, where firms are set up and removed with increasing rapidity, it is necessary to identify those criteria that encourage business development and simultaneously generate growth.

The evolution of any economy implies the existence of a series of successive phases of growth, respectively decline, in each of these businesses being characterized by different levels of sensitivity to change. The main exponents are the small and medium sized enterprises, and thus this level of sensitivity is manifested mainly by numerical growth rate of profit, materials costs, namely the development of human resources staff. Human resources are vital to the production and dissemination of knowledge, the availability and capability representing the essential elements of the entrepreneurial economy (Andres S, 2007, p. 15).

The entrepreneurial skills are a must for success, the rapid changes observed on the market requiring a series of forecasts and development of long-term strategies in order for the organizations survival. Entrepreneurial activity plays an important role "in the process of health protection, development of education," their achievements provide society with wealth, jobs and diversity of choice for consumers" (Manciu, Tanase, Nițulescu, 2010). Thus, the development of entrepreneurship is considered simultaneously as a solution to reduce unemployment (Post Privatisation Foundation, 2013), a worldwide comparison showing different percentages regarding people who "prefer to be self-employed" (PPF): 55% in America, 71% in China and only 45 % in Europe.

The concept of "entrepreneur" has acquired many explanations, being defined in a variety of manners, Schumpeter considering the entrepreneur as an innovator and a leader

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(Andres S, 2007, pg. 14). The entrepreneur is the natural authorized person or a legal person that, individually or in association to other authorized natural or legal persons, organizes a commercial society, called enterprise, in order to realize actions and acts of commerce, for the purpose of obtaining profit by realizing material goods, respectively by offering services, by selling them on the market, in conditions of competition. (Law no. 133/1999 regarding the stimulation of private entrepreneurs in the establishing and development of SMEs, Andres S. 2012 , pp. 28 ).

Overall, however, an entrepreneur is primarily an economic agent whose behavior is to significantly expand its assuming a number of risks, adapting to change, using innovation and also taking into account the present opportunities. We consider further the development of an economic entrepreneurial outlook through the enterprise data segment best represented worldwide: the small and medium sized enterprises.

"Entrepreneurship is multidimensional and even if it can be found in different contexts (economical or other) in all types of organizations, this approach focuses on entrepreneurship within a business context " ( Ciurea J, Rîndașu V et al, 2008).

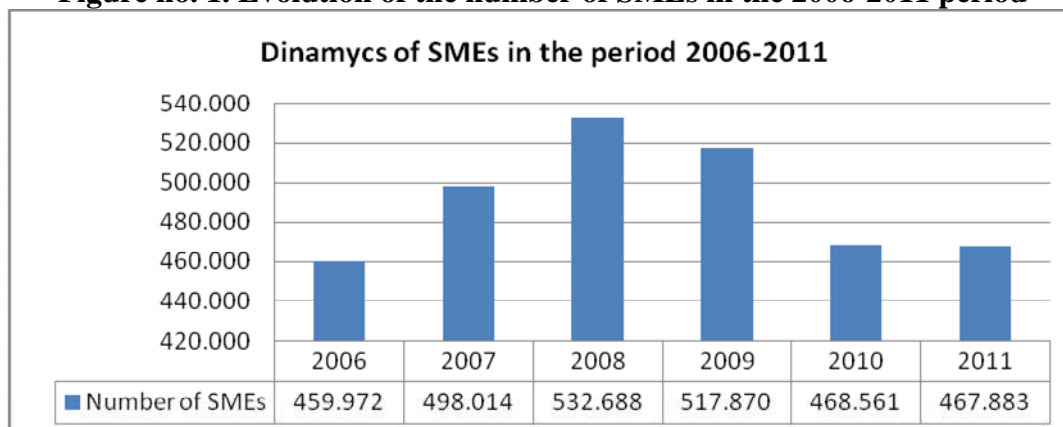
### **1. Dynamics of SMEs at national and regional level**

SMEs, the majority category of enterprises in terms of numbers, have a crucial role within the entire European Union and are considered to be "a key factor for growth, innovation, employment, labor and social integration" (Pâslaru, Modreanu, National Prognosis Commission, 2012), the Europe 2020 strategy emphasizing their role in particular, but also the entrepreneurship in general, taking into account the encouraging of the activity of "small entrepreneurs". However, although the potential for growth and development is a major one, SMEs are dependent in their development process by a number of support elements, mainly financial and legislative. As a category of companies with generally low capital, the center of gravity of SMEs remains the founding entrepreneur or entrepreneurs, as appropriate, whose attention must always be focused on ways to fruition the advantages that appear and also the new market opportunities.

Especially in a period dominated by economic imbalances, the uncertainty regarding firm evolution is an undeniable fact. Companies from various industries are founded at regular intervals but do not guarantee stability and progress through initial success. The business environment is in a continuous change, survival becomes difficult to ensure for organizations. Especially start-ups, but also those with a tradition of many years, require additional support from the State, through which they can "prolong their life" (Pîslaru, Modreanu, 2012). The evolution of the number of registrations for new companies has varied over the period of 2009 - 2011, the highest level being reached at the end of this interval. In 2009 (according to data provided by the Post Privatization Foundation) has been reached a total of 115,841 registrations, with the largest amount taking place during the first quarter of the year (36.211). In 2010 there were 122,744 new businesses founded, especially in the fourth quarter of activity (35,450) , while during the year 2011 the number of new firms increased at a maximum of 133 496, the corresponding of the second quarter being 39.295 enterprises (Statistics offered by the National Trade Register Office). According to the National Trade Register Office, the main areas of activity, with the highest rates of new firm registrations in 2011 were trade (28.7 % and 37,336 firms) and agriculture (15.7 % and 20.432). A total suspension of work continued in 2011, this being "the primary form of exit from the market" (Post-Privatization Foundation study, 2012) .

The dynamics of small and medium sized enterprises during the period 2006-2011 can be illustrated as the following chart:

**Figure no. 1. Evolution of the number of SMEs in the 2006-2011 period**



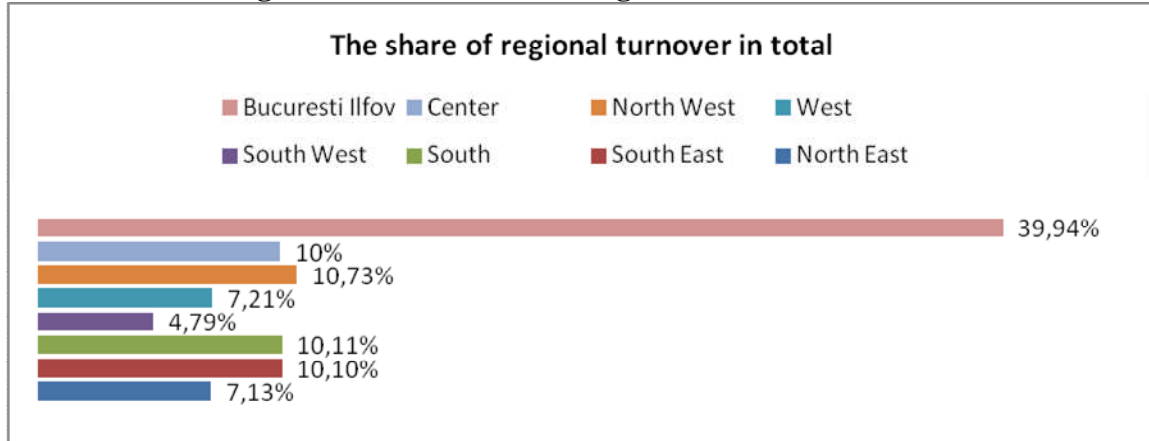
Source: The White Book of SMEs, 2013

We conclude therefore that the highest number of SMEs corresponds to the year 2008 - 532688, while the 2011 is among the lowest values. We thus observe that in parallel with the evolution of the crisis, the activity of SMEs has decreased significantly, the effects being seen in the number of erasures of companies. According to the data set by the National Council of Private Small and Medium Sized Enterprises, the highest share in total is held by the businesses of Bucharest Ilfov region (23.79 %). Other regions meet only half of this, and their weight varies as follows: 14.21 % - North Western Region, Central Region 12.22 %, 11.83 % South Eastern Region, North East 10.61% , 10.57% in the Southern Region, Western Region - 9.37% , 7.41 % in the South West.

National statistics in 2011 showed an average of 19.72 SMEs per 1,000 inhabitants (SME survey, the National Commission for Prognosis), density varying by county, or region, the highest value being recorded in the city of Bucharest (44.98 SMEs per 1,000 inhabitants) and also in the Bucharest - Ilfov region (43.50 to 1000 inhabitants), in contrast to other regions, where the percentages are much lower (21.80 enterprises to 1000 people in the North West, 20.66 sites per 1,000 people in the central region, 17.66 SMEs to 1000 people in the South West, 12.52 enterprises per 1,000 people in the North East, namely 20.58 firms per 1,000 people in the Western Region) (data according to National Institute of Statistics and the National Commission for Prognosis). Therefore we identify a number of gaps between regions, not only as the number of economic entities, but also in terms of regional performance, number of employees or turnover. These differences remain unchanged during the next year also, the 2012 level being characterized by the following coordinates: Bucharest Ilfov - 65.56 firms per 1,000 inhabitants, North East - 32,60 companies per 1000 inhabitants, West - 30.4 , Center - 30, South East - 26.3, South West - 20.7, Southern Region - 20.3 .

We therefore notice a positive change in the level, regardless of the region of which we speak the most significant increase being registered in Bucharest Ilfov (a difference of 20.58 entities per 1,000 individuals. Simultaneously, turnover from small and medium sized enterprises is distributed uneven nationwide, according to the above data, the national shares in total according being due to the schedule below:

**Figure no. 2. The share of regional turnover in total**

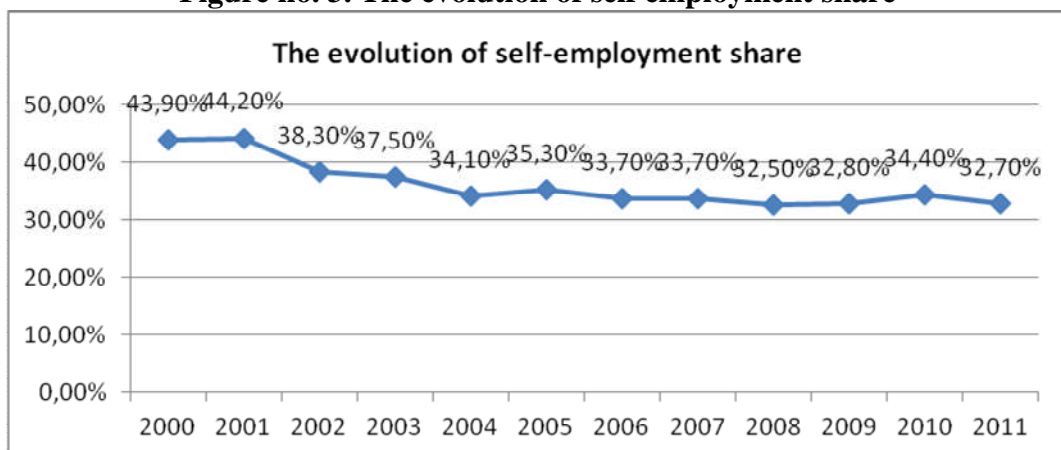


Source: The National Commission of Prognosis

Also in Romania, we identify a lower level of self - employment, compared with the EU countries, the percentage being even lower in 2006 - 2011. Under Romanian law, self - employment (more known under the term "freelancer") (Blanchflower, 2000) is perceived as being represented by individual persons performing certain activities, in this category being included the authorized physical persons, respective associations or family businesses. The main advantage is considered to be one regarding the fees, which reduce their level compared to other alternative business development. This problem determines the question whether individuals who fall into this category of activity could also be considered and entrepreneurs, the main advantages being invoked by practitioners of this method (Dawson, Henley, Lattreille , 2009) :

- The desire for independence, to work on their own;
- Freedom of focusing on a single project or on the contrary, that to address a variety of topics;
- Flexibility of working hours, the lower level of stress;
- No risk of redundancy.

**Figure no. 3. The evolution of self employment share**

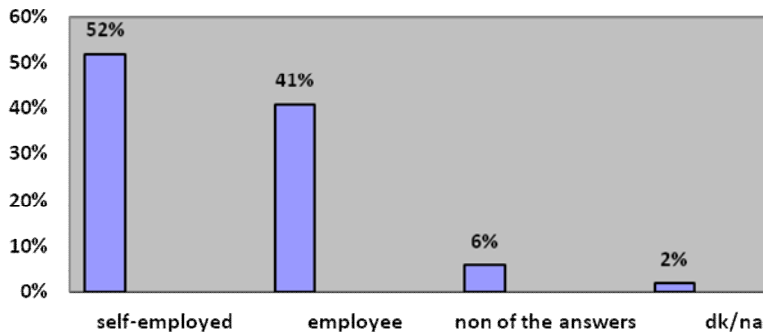


Source: <http://www.indexmundi.com/facts/indicators/SL.EMP.SELF.ZS>

The adoption of the status of self-employed person, or even the one of entrepreneur is perceived differently by each individual. This because the difference in mentality, way of thinking, experience, education and culture are not the same (Meager, Martin Charter, 2011).



**Figure no. 4. Preferences of individuals occupying a position in an organization  
– Case of Romania**



Source: The Gallup Organization Survey, 2010

## **2. The contribution of SMEs to economic growth**

Economic growth is defined as "a complex process that can be expressed through its effects, as a growth process of the results of the national economy, both overall and per capita" (Imbrescu, 2011), this term being often associated with the development or economic prosperity.

Other definitions indicate the economic growth process as "the process of increasing the size of the national economy, expressed in terms of their economic results quantitatively determined by combining and input use efficiency, measured by specific macroeconomic indicators in the form of global product, national income or per capita gross domestic product " ( Dobrotă N, 1996, pg. 311).

In macroeconomic terms, the main indicators that help assess the level of economic growth are:

- The evolution of GDP;
- The labor productivity;
- Distribution of employment at national, regional or sectorial level.

"Economic growth is influenced by direct factors – human potential, natural resources and capital, evaluated on quantitative, structural and qualitative terms, but also indirect factors that act through direct factors, enhancing or diminishing their effects" (Rîndașu, Ciurea, Irimia, 2007).

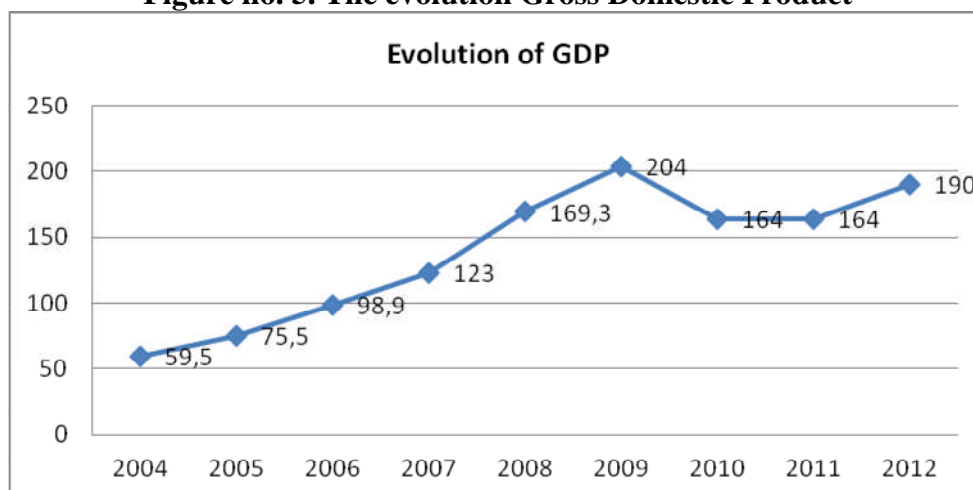
"The contribution of entrepreneurship to the increase of economic performance, well-being and social cohesion can be easily evidenced by the relationship between the values of the indicators for entrepreneurship and macroeconomic outcomes" (Study Post Privatization Foundation). Therefore, we analyze the dimensions of growth in terms of GDP fluctuations, but also referring to the gross value added.

This last indicator ranged between 2006 - 2011, recording (according to data provided by CNIPMMR, the National Council of Private Small and Medium Sized Enterprises) the following shares: 49.2 % in 2006, 51.4 % in 2007, 52.8 % in 2008, 53.4% in 2009, 50.2 % in 2010 and 50.2 % in 2011.

Analyzing official figures, we find that the share of the private sector's contribution to GDP has fluctuated over time, but did not exceed the value of 71.5 % (Statistical Review). This, while GDP values ranged themselves according to NBR and the World Bank, as follows (values are expressed in billions of dollars):



**Figure no. 5. The evolution Gross Domestic Product**



Source: The National Bank of Romania, [www.bnro.ro](http://www.bnro.ro)  
Worldbank, [www.worldbank.org](http://www.worldbank.org)

The main indicator of entrepreneurship remains the total number of active enterprises, plus the assessments of the value added contribution (Post Privatization Foundation). According to the National Institute of Statistics, the share of SMEs in total national enterprises is 99.7 % in Romania, almost similar to the European Union level, to which the difference is only 0.1%. Also the human resource included in this category of firm owns a share close to the EU average (65.9 % for Romania, namely 66.9 % in the European Union).

The National Council of Private Small and Medium Sized Enterprises has identified the key areas where it would be possible the personification of business opportunities. Of these, according to the White Book of SMEs, the main directions aim: increasing domestic sales, adoption or assimilation of new products, and encouraging exports or entering new markets. Beyond this, however, it is necessary to adapt to technological developments and technical environment and willingness to partner with other entities in the same area in order to pool resources for generating performance.

Positive finality of SME activity and also the insurance of their contribution to economic growth and development are possible only in the conditions in which the economic, social and political environment is favorable, both nationally and regionally. This implies, however, not only the application of measures in the area of SMEs, but to create a comprehensive framework for entrepreneurship development, including directions that are legislative, economic or fiscal.

It is important to be noted that SMEs are a flexible class of enterprises, more likely to be affected by major changes in the economy, but "they offer advantages that large firms do not offer, but these do not hold employment or growth, but opportunities building advantages in competing for a region or country" (Pîslaru, Modreanu, National Commission for Prognosis, 2011).

Regionally, we identify gaps between the levels of development of entrepreneurship, both in terms of total number of firms and in terms of their density.

The effects of entrepreneurship in general, over the regional growth, can be appreciated mainly by analyzing the GDP per capita, but also by the density of enterprises. Studies developed by the National Institute of Statistics identified a positive relationship between these parameters, the values of GDP / capita placing Bucharest Ilfov region (58,000 lei), Western (26,000 lei) and Central Region (22,820 lei) on top.

## Conclusions

According to Eurostat statistics, "Romania's economy grew by 0.7% in 2012", future vision given an upward trend, being provided a recovery phase up to 1.6 %. However, the challenges are numerous, stringent measures are needed to support the businesses, so the number of erasures, as well as acts of leaving the market, being stimulated the development of entrepreneurship in the idea of turning entrepreneurship into a "catalyst for economic growth" (Eurostat).

The establishment of new businesses, especially those in the SME category, has encouraged the creation of jobs, entrepreneurship became a solution to high unemployment in the entire European Union.

Currently in schools and universities in particular, the focus lies on shaping an entrepreneurial education, the data provided by Eurostat indicating a 15-20% of the students as the beneficiaries of such programs.

The importance of entrepreneurship is generally focused on the following issues:

- Creating jobs and contributing to the overall economic development;
- Generation of competitiveness;
- Generation of performance and potential;
- Encouraging professional capacity.

However, we identify a number of difficulties that entrepreneurs are forced to confront in the business. The most important is considered to be the access to financing, as long as resources are the "engine" of a company, without which other activities cannot be carried out.

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# STRESS MANAGEMENT AND INFLUENCE ON EDUCATIONAL INSTITUTIONS OF ROMANIA IN THE XXI CENTURY

Nicoleta, Cicioc<sup>1</sup>

## Abstract:

*Starting with the period of childhood and finishing with older age any contemporary society individual have to challenge at least one stress form. The age of speed in which we exist day after day, by the alert rate determines the apparition of stress. Stress can be found in the professional life, and became the area of interest for the managers. The project approaches a present theme, the impact of management stress upon educational institutions from Romania and research is realized based on a SCORCARD between two Universities from Romania for the purpose of identifying the degree of maturity of the stress management.*

*In conclusion the existence of a persistent state of tension in the framework of educational institutions reflects on one side upon the work productivity and on the other side upon the physical and mental state of the employee.*

**Key words:** *stress, stress management, stress factors, stress consequences, stress control strategy*

## Introduction

Everyday life determines us to meet at each step a diversity of stress form, in this case the body is in a permanent defense or adapt reaction to the stress situations. Finding the balance determined by stress in which the individual confront is hard, this is a reason why the managers are in a constant look for the most modern and efficient methods to eliminate stress with visible and clearly measurable as soon as possible.

The project theme is present because the main study is the impact of the stress management upon the educational institutions of Romania and the measurement in which occurs a efficient management of it. The purpose of the project is to highlight the maturity degree of the stress management strategies in the university environment. This project has two approach directions: theoretical and practical. In the theoretical direction frame are submitted relevant aspects of the stress management concept: definition, stress factors, consequences and strategies to prevent. This direction is supported with quotes and representative figures. The second approach direction is a research made on the basis of SCORECARD between two universities from Romania in order to identify the maturity degree of the stress management. In this chapter are described two universities with economic profile from Târgoviște and Petroșani. The foundation which was the basis choosing this universities was that both have similar specializations at the license and master program. The project also includes a number of remedies to improve strategies to combat stress.

## The methodological framework within the research carried

This paper is a marketing researchBased on the analysis of secondary sources and observation, regarding the maturity level of stress management in the academia. The findings and the data obtained were used in an analytical instrument, Benchmarking a SCORECARD based on the main subfields of stress management. This tool is used as management level and at the level of marketing.

In this paper the sample is formed at the University Valahia of Târgoviște and University of Petroșani. The aim of the study is to know how stress is managed educational institutions of university type.

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## **1. Theoretical aspects of the concept of stress management**

Individual in its dual capacity as human resource and member of society has faced requests of physical and mental level, and the effort to cope with this requests puts the body in a permanent state of alert. In general the stress is made in the everyday life, but the one that generates at work is known as organizational.

### ***1.1. Stress definition and the importance of studying it***

Stress is a dynamic state in which the individual is faced with a opportunity, a physical and mental constraint, a unusual request or a requirement which refers to his wishes and the outcome seems uncertain, but in the same time important ( A. Duică, 2008, p 239).

Stress research revealed the existence of two categories: positive stress and negative stress. First type is beneficial for the individual and organization, while the negative stress cause malfunctions upon the individual and organization. For this reason the manager has the main task to establish a balance in order to reduce the risk of high stress. The most common high stress symptoms are: permanent state of fatigue, low resistance, malaise continues, consumption of alcohol and excessive tobacco, the desire to consume in amounts above normal of a larger number of food, high nervousness.

Certo Samuel in his work "Modern Management,, present the main reasons for studying stress" (2001, p 383):

- Stress is a major cause of absenteeism and employees leaving the company.
- An stressed employee can affect the safety of other employees or the public.
- Stress is a major cost to the organization.

The stress study determines a positive approach through knowledge, developing awareness and responsiveness to environmental aggression forms encountered every day.

### ***1.2. Consequence stressors and work stress***

Stressors are structured so: enviromental, organizational and individual. Environment through permanent changes occurring upon him, determining a high degree of uncertainty, influence in a direct way the level of stress. The organisation represents a stress source for the individual through the managerial style, organizational structure, interpersonal tensions and obligations arising from work tasks. Individual factors are reflected in an individual's personality characteristics.

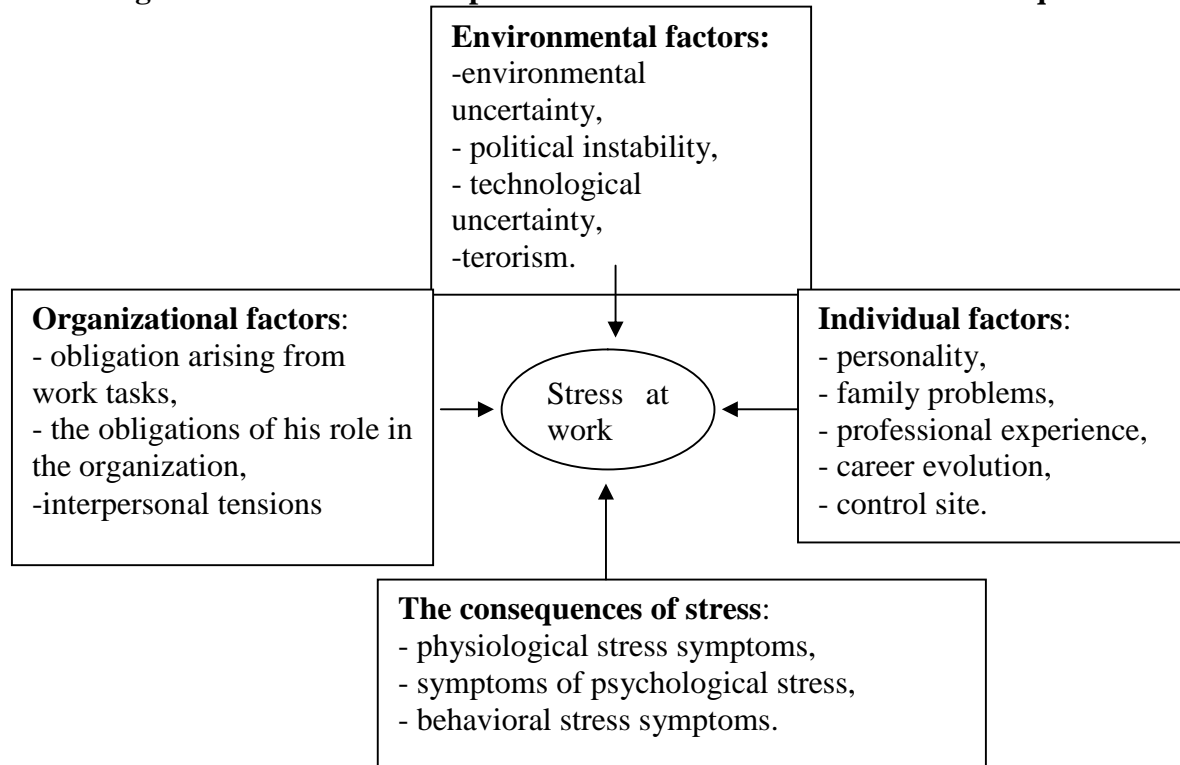
Seley H identify general signs and reactions of the body adjustment to the stress form and group them in the General Adaptation Syndrom (G.A.S). The body state is characterized in G.A.S by three stages (Burduş E, Căprărescu G, 1999, p 399):

- Alarm status, which includes a phase of shock manifested by low blood pressure, body temperature of a depression.
- Stage burnout occurs in the case of such adaptation, obtained as a result of prolonged contraşoc reactions can no longer be maintained. Occupation of the labor market in Romania is characterized by a low level of diversity, interest, identity and connection generates stress and simultaneously determines satisfaction and human resource implications at work. The relationship between stressors and their consequences on the organization is represented by Figure 1.1.

### ***1.3. Stress management***

Managers are faced with situations where it is not easy finding the right people in your organization who has to face high stress. This is determined by on the one hand by the fact that people react differently to the stress, and secondly that the physiological reactions to stress are difficult to identify and managed by managers.

**Figure 1.1. The relationship between work stressors and their consequences**



Source: Duica A, Management, Ed. Bibliotheca, Târgoviște, 2006, p 247

To properly manage the stress in the organization the manager must do the following things:

- Understanding how stress affects employee performance organization,
- Identify stressful situations,
- Helping employees to manage stress.

Manager may adopt some strategies to prevent the development of unwanted stressors in the organization. Three of this strategies are (Certo S, 2000, p 383):

1. Creating an organizational climate that supports people,
2. Turning work in an interesting activity,
3. Designing and implementing career counseling programs.

Stress management according to news portal [www.manager.ro](http://www.manager.ro) are 8 ways to fight stress:

1. Spend more time in silence every day,
2. Reconnect with quiet inner and outer moments,
3. At least once a week forget newsletter,
4. Follow passions,
5. Laugh,
6. Allow things to flow,
7. Play,
8. Take a walk in the nature.

## **2. Stress Management Impact Upon Educational Institutions**

### ***2.1. Presentation of University Valahia and the University from Petrosani***

Faculty of economics science of the University Valahia from Târgoviște was founded in 1996. Faculty mission consists in professional and personal training of the young with the goal to adapt their qualities to the economy of the future ([http:// www ecouv.ro](http://www.ecouv.ro))

Study programs :

1. license:
  - accounting and Management Information Systems,
  - management,
  - marketing,
  - finance-banking,
  - commerce economy, tourism and services
2. masters:
  - audit of public and private entities,
  - management of organizations,
  - information management,
  - banking management,
  - business management.
3. doctorate:
  - management,
  - accountancy.

Contact info: Adress: Str It stancu, nr 35, Târgoviște

Web: [http:// www ecouvvt.ro](http://www.ecouvvt.ro)

Department of Economics of the University from Petroșani was founded in 1993 as the Department of Economic Studies and its main mission achievement a high level of quality and performance of teaching( [http:// upet.ro](http://upet.ro)).

Study programs:

4. license:
  - accounting and management information systems,
  - management,
  - commerce economy, tourism and services,
  - public administration.
5. masters:
  - Strategic management of business,
  - management of organizations,
  - banking management,
  - human resources management.
6. doctorate:
  - service management in public institutions,
  - accountancy.

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## ***2.2. Stress Management at the University of Wallachia and the University of Petroșani***

Measuring the maturity degree /SCORCARD of stress management in the faculties of science economy :University of Petroșani and University Valahia from Târgoviște.

Domain	Subdomain	Activity	Share in group	Analytical hierarchy	Maturity levels / SCORECARD					Score	
					0%	25%	50%	75%	100%	A	B
	1.1. Planning strategies to combat stress 400	1.1.1. Long-term anti-stress strategies	250	100			A	B		50	75
		1.1.2 Short-term anti-stress strategies	250	100				A,B		75	75

Domain	Subdomain	Activity	Share in group	Analytical hierarchy	Maturity levels / SCORECARD					Score	
					0%	25%	50%	75%	100%	A	B
I. Stress management		1.1.3 Implementation of strategies to combat risk	200	80			A	B		40	60
		1.1.4. Monitoring the effectiveness of strategies	300	120			A	B		60	90
		Total	1000	400						225	300
	1.2. Implement strategies to combat stress 300	1.2.1. Planning strategies focused on resolving tensions	300	90				A, B		67.5	67.5
		1.2.2. Implementation of strategies focused on emotions	200	60			A	B		30	45
		1.2.3. Strategy administration	200	60			A	B		30	45
		1.2.4. Monitoring of stress in the workplace through the use of time management techniques	200	60				A, B		45	45
		1.2.5. Implement of new strategies	100	30			A, B			15	15
		Total	1000	300						187.5	217.5
	1.3. Results evaluation 300	1.3.1. Skills and competencies management team	300	90			A	B		45	67.5
		1.3.2. Effectiveness of training programs directed to the staff on stress management.	200	60			A, B			30	30
		1.3.3. The employee response to adopted strategies	100	30			A, B			15	15
			400	120			A	B		60	90
		1.3.4. Work									



Domain	Subdomain	Activity	Share in group	Analytical hierarchy	Maturity levels / SCORECARD					Score	
					0%	25%	50%	75%	100%	A	B
		productivity									
		Total	1000	300						150	202.5
				1000						562.5	719.5

### SCORECARD interpretation

In order to observe the current situation of the most important educational institutions of superior level was carried out a comparative analysis in view of the most important activities with SCORECARD type Benchmarking as fundamental instrument. University of Petroșani got a total of **562.5** of 1000 points while the direct competitor, University Valahia from Târgoviște got 719.5 points. So, according to figures the first University has a lower maturity degree than the second and a capacity to achieve of main activities with 56.25% while the second has a capacity to achieve of 71.95% . To observe the determinant factors to obtain this results and the spread of 157.5 points between the two educational institutions a detailed analysis is performed walking on the side of subdomains including activities.

The first subdomain analyzed of the stress management is planning strategies to combat stress because the management decisions are significant in planning. In this subdomain 4 relevant activities are analyzed: short-term planning strategies to combat stress, long-term planning strategies to combat stress, implementation of strategies for the control and monitoring effectiveness of strategies. This analysis highlights that from a total score of 400 points the University of Petroșani obtain 225 points, and University Valahia from Târgoviște obtain 300 points. The pluses of University Valahia on strategy planning for stress combat are all four activities. Comparing the first University with the second at this subdomain level it may be noted that the University from Petroșani has one strength point reflected upon the short-term activity. University of Valahia from Târgoviște obtain about three quarters from the global score on the analyzed subdomain, while the first University obtain little above average.

The second subdomain analyzed is implementing strategies to combat stress, and after analysis it follows that a total of 300 points, the first University obtain about 187 points and the second obtains 217 points. The difference of points between the two Universities is not significant, 30 points. Main force of the two analyzed Universities is planning strategies to solve stress situations with main purpose to analyze the current situation in educational institutions from University environment. The second force point of the two Universities with economic specific is monitoring workplace stress as a result of using time management techniques. Weaknesses of the two faculties consist of weaknesses in the implementation of new strategies for risk combat. This highlights that new developed and implemented strategies by the managers of the two Universities in stress combat are not in accordance with existing situations in the educational institutions.

The last analyzed subdomain is evaluation of the result following the implementation of the risk prevention strategies. From a total of 300 points the University from Petroșani obtained about half the score, and University Valahia obtained three quarters from the total score of the subdomain. The difference between the two analyzed educational institutions is 52.5 points. This difference is determined by the gaps of the University from Petroșani, regarding the leadership ability level. The pluses of University of Valahia the assessment of strategies are determined on the one hand the managerial skills and on the other hand the

work productivity. The first educational institution and the second shows gaps at the existing programs on staff training both educational institutions in managing stress at work. This is also caused by low investment in staff training courses. In conclusion, the University of Valahia from Târgoviște has a greater capacity for stress management strategies through strategies adapted to existing situations on university environment, but not a higher maturity degree regarding stress management activity.

### **3. Conclusions and recommendations**

A fundamental role of stress management it has prevention aimed at developing effective measures relating to the manager and subordinates to avoid the consequences of stress. The main responsibility of managers for good stress management is avoiding stress and providing individual to a state of comfort, well and stability. Analysis of stress management maturity in the two educational institutions highlights the remedy of some aspects regarding:

⇒ Improving human resources training programs belonging the two educational institutions regarding a better stress management at work,

⇒ Planning and implementation of new strategies to prevent stress in the two faculties in accordance with workplace tensions,

⇒ Improving the response of the staff of both institutions analyzed on stress prevention strategies by improving communication policy (Upward and the downward communication in the two educational institutions),

⇒ University of Petroșani should inspire the strategies implementations to combat the risk of the University of Valahia, in particular regarding emotion-centered strategies,

⇒ University of Petroșani should grant the same level of importance to planning long-term strategies to combat stress not only the short-term planning strategies.

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## **THE SYMPHONY OF TULIPS IN THE POST-ACCESSION STRATEGY OF THE CITY OF PITESTI**

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**Andreea-Daniela, Gangone<sup>2</sup>**

**Abstract:**

*This paper aims to analyse an identity element of the city of Pitesti, based on the results of a study that helped design the town's post-accession strategy. Local development strategies have become essential for administrative reform in Central and Eastern European countries, ensuring the competitiveness of cities in the context of an increasing regional and international competition.*

*Urban marketing approaches the problems of urban design and organization, as it seeks to meet the needs of a community concerned about urban development. With a history of over 30 years, the Symphony of Tulips is a management and strategic marketing tool used to strengthen the city's brand and a promoter of the city's strategic development after the accession. The conclusions of this paper are based on statistical processing of values recorded for specific indicators of socio-cultural events in the period under review.*

**Key words:** *post-accession strategy, urban marketing, city brand, the Symphony of Tulips.*

**JEL Classification:** M31, M38, H83

### **1. Introduction**

Romania's status as a EU country is confirmed by its geographic location, but also by culture and traditions, which ensure a European identity that is temporary blurred by geopolitical vicissitudes. After 2007's accession to the EU, Romania's European identity and vocation have been reconsidered by designing a post-accession strategy with the fundamental objective of socio-economic development to strengthen the newly acquired status of European country, while updating and continuing to provide Romanian contributions to the European heritage.

Romania's post-accession strategy is based on a dynamic social model with a solid core of principles, supplemented in time with other principles, which Western countries think of in terms of finding the best strategy to implement (Dobrescu, 2010), a model which envisages a gradual reduction of all existing inequalities in society along with economic growth and total access to information.

At the core of the country's post-accession strategy lies the formulation of development policies and strategies for each administrative unit, from county to city, town and village, integrated into the national development policy for 2007-2013.

Local development strategies have become essential for administrative reform in Central and Eastern European countries and provide city competitiveness on the urban market, combining competitive advantages and managing to create a diverse and dynamic local economy, ranging from large businesses to SMEs, from foreign to local investment (Smith, 2007).

A city's development strategy considers public administration, economic, social, and cultural issues in a coherent, systemic, and pragmatic manner, seeking sensible answers to the requirements of progress while meeting the needs of a community that is heterogeneous in terms of income, profession, culture, and aspirations.

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The Municipality of Pitesti has set the coordinates of the post-accession strategy of 2007-2013 through a comprehensive study conducted in 2008 by a group of academics from the Constantin Brâncoveanu University of Pitesti, which included two dimensions of the city in a balanced analysis: the European dimension and the national and local one. The two dimensions of the city of Pitesti are visible in the problems that its inhabitants and administrative unit face, adapting the current economic development policy to the conditions created by joining the European Union. Outlined by a well-articulated program including economic, social, and cultural aspects of the development of the city and its inhabitants, this strategy has shown that Pitesti is becoming more competitive in all areas of social and economic life, having all the advantages that entitle it to be a European city

## **2. Pitești - historical landmarks of modern development**

The city of Pitesti, capital city of Argeș county, has the following geographic coordinates: 44° 51' North, 24°52' West and is one of the oldest cities in Romania, with the first historic mention of a stable settlement in a written document signed by Mircea the Elder on May 20th, 1388. Documents of that time act as proof of a prosperous medieval town, a temporary residence used by Romanian rulers. There are also references to the presence of this settlement in notes by travellers, ambassadors, soldiers, merchants, missionaries and scholars of the time: one in 1456 by Giacomo Gastaldi and one between 1710 and 1711 by Anton Maria del Chiaro Fiorentino, a secretary of ruler Constantin Brâncoveanu.

The urban areas of Pitesti were marked by both modernity through a dynamic middle class, the exercise of citizens' rights, the prosperity of handicraft production and by tradition through the religious conservatism of slums or the incomplete drainage and paving policy. Testimonies of the past make note of the old inns, fairs and the secular and religious architecture, while signs of modernity are the Post Office in 1859, a public garden in 1859, a city plan (1859-1863), a market (1861-1864), the repair of public buildings and the systematization of streets as Saint Friday, Calea București, Carol the 1st Boulevard, and the Elisabeta Boulevard, a complete theater and a Bucharest-Pitesti-Buzau railway in 1872.

The city of Pitesti, which up until the '50s was a small town referred to as "*the town where nothing happens*", was perceived in a different manner by personalities of our country. In a paper entitled "Romania as it was until 1881" printed in 1919, historian Nicolae Iorga wrote that Pitesti was located in a: *„...well wooded region of hills... Straight streets, beautiful and well-maintained houses, a complete lack of dust. People are not confined to their houses ... They are in move, dressed up ... lively and cheerful. State buildings: high school, primary schools that are particularly beautiful. In the centre, a public park with old trees, with large buildings on all sides and a very nice hotel, worthy of a capital city."* Mihai Eminescu mentioned in an 1880 edition of the "Time" newspaper: "*Pitesti - this cradle of liberty.*"

In the last decades of the 20th century, the highlight of the city was the diverse industry, with chemical and automotive industry as main components. We must emphasize the complex economic structure of Pitesti and surrounding areas as a prerequisite for significant future growth. Along with the two aforementioned prevailing industries, food industry businesses, vineyards, orchards, and a nuclear research centre existed and partially continue to function today.

After 1965, large economic objectives were built in Pitesti and its close proximity, among which: the Electric Motors Enterprise - 1967 (now S.C. ANA IMEP S.A.), Dacia Car Manufacturer - 1968 (S.C. Automobile Dacia S.A.), the Petrochemical Complex - 1969 (S.C. Petrom S.A., Arpechim Pitesti oil refinery branch (1969)), the Meat Factory (1969), the Bread Factory (1969), the Auto Parts and Metal Products Factory (1969), the Argeșana Textile Factory (1969), the Brewery (1969), the Technical Rubber Parts Factory - 1970 (later S.C. ROLAST S.A.). Currently, aforementioned businesses have had an unfavourable outcome, as some disappeared and some closed parts of the operations, but

the economy of the city and surrounding villages preserved a noticeably livelier dynamism compared to the national average.

### 3. Urban Marketing and urban development

Knowing that, in general, the purpose of marketing is to create, promote and provide goods and services to consumers and businesses, it is considered that the principles of marketing apply to the following ten main entities: goods, services, experiences, events, people, places (cities, states, regions, nations), properties, organizations, information, ideas (Kotler and Dubois, 2000, p.36).

Approaching the design and organization problems of large and small cities, regions or nations, urban marketing, also called strategic urban marketing (Kotler, 1993), requires a community focused design to meet the needs of the main constituent groups within the community (citizens, workers and businesses, visitors, newcomer businesses and investors) concerned by urban development, groups that become, in this view, the main markets targeted by marketing activities. Urban marketing achieves its purpose when the community is satisfied with the socio-economic urban environment and when visitors' and investors' expectations are met.

As indicated by Kranz and Schatzl (1997), *marketing has more to offer than a new term for what is called urban development policy*, although scholarly literature makes no separation between the concepts of *urban marketing* and *local economic development* or *cities' competitiveness*. The role of urban marketing is sometimes limited to the concept of city promotion policy, minimizing the importance of specific activities in the local strategies of economic development. At other times, urban marketing is perceived as a simple strategic planning process and is not integrated into local economic development or city competitiveness.

Different definitions of urban marketing extracted from scholarly literature are shown in Table no. 1:

**Table no.1 The concept of urban marketing**

<b>Authors</b>	<b>Definition</b>
Ashworth, Voodg, 1988	Urban marketing describes various ways in which cities can improve their competitive position in a market... (...) Urban marketing can be described as a process that facilitates the connection between urban activities and the demands of targeted customers, so as to maximize the efficient social and economic functioning of the area concerned in accordance with whatever goals have been established. This idea can be applied at various spatial scales and thus urban marketing can be viewed as a part of the broader regional and even national marketing.
Van der Meer, 1990	Urban marketing can be described as the set of activities intended to optimize the balance between the offer of urban functions and the demand from inhabitants, companies, tourists and other visitors.
Texier, Valla, 1992	Individual and collective actions to attract new business in its territory promote development project companies carrying on business locally and globally promote favorable image.
Kotler, Haider, Rein, 1993	Strategic marketing calls for designing a community that satisfies the needs of its key constituents. Urban marketing succeeds when stakeholders, such as citizens, workers, and businesses derive satisfaction from their community, and when visitors, new businesses and investors have their expectations met. [...] Urban marketing means designing a place to satisfy the needs of its target markets.
Gold, Ward, 1994	City promotion is the conscious use of publicity and marketing to communicate selective images of specific localities or geographical areas to a target audience.
Kotler, Gertner, 2002	Urban marketing is used to accomplish several goals, such as creating a positive image for the community, attracting companies, institutions, tourists and skilled work force, as well as finding new markets for exports and using instruments of strategic marketing management in order to create an urban brand.
Bradley, Hall, Harrison, 2002	Urban marketing is presented more as a strategic process, without being analysed in correlation with local economic development or cities' competitiveness.
Kavaratzis, 2004	The way in which city-brand communication takes place through the choice and appropriate treatment of different variables, which have both functional and symbolic meaning.

As it results from the definition of urban marketing, its main purpose is to attract activities with potentially advantageous benefits for the community and to maximize satisfaction of segments of the target market.

The core of urban marketing comprises a total of four activities (Kotler, Haider, Rein, 1993, p.24): 1) designing a combination of features and community services, 2) defining attractive incentives to current and prospective buyers and users of goods and services, 3) delivering city products and services in an efficient and affordable way, 4) promoting the values and image of the area so that potential users are aware of its distinct advantages.

These elements are the components of the urban marketing mix. By analogy with the traditional mix (Borden, 1964), the following variables of urban marketing are defined: 1) Community goods and services being offered (product), 2) acquisition costs (price) 3) means of access to community goods and services (placement), 4) communication and image management (promotion).

Currently, urban marketing has become a feature of the strategy of local economic development, as the competition between urban communities to attract investment and human resources has intensified in recent years. Cities use urban marketing to achieve several goals (Stănciulescu, 2005): create a positive image of the community, attract national, but more importantly, foreign businesses, tourists, skilled work force, and implement strategic marketing management tools to define a city brand.

Urban marketing communicates the identity of the city to target segments and defines the image of the city, which is fundamental for the future perceptions of potential actors in urban development. A pragmatic approach to urban marketing requires knowledge and managing the development of the place (city, region, country) by local or regional level administration to ensure the production of goods and services that current and potential customers need or want, at prices that are affordable for both domestic, as well as foreign markets.

Urban marketing is a vital element in the strategies of economic development of cities (Kavaratzis, 2004) that contributes to setting the overall vision of the strategy, by achieving certain goals related to development, such as: infrastructure building, the development of tourism, improving the quality of transport and health services, maintaining or decreasing public spending.

#### **4. The Symphony of Tulips, an element of Pitesti's brand**

The 2007-2013 Development Strategy of Pitesti aims to reconfirm the local brand with its Symphony of Tulips trademark event, which is a set of actions and cultural events with annual character. With a history of over three decades, the "Symphony of Tulips" is an emblematic celebration of Pitesti.

Building this local brand started from the idea that there is already an image, positive or negative, to be developed or changed. The image of the city is its collective, overall representation. The aspects that define a city brand are: *the existence of potential, pulse, place, people, basic needs, which form the hexagon of a city brand* (Anholt, 2005).

Figure 1 presents the interest in the word "Pitești" and shows that in the period under consideration this interest is constant, helping to prove that various activities that are of interest to permanent residents and other people are carried out in Pitesti throughout the year.

The development of Pitesti is based on the use of urban marketing in creating effective urban economic structures and promoting the city as a "cultural melting pot" (Kavaratzis, 2004, p. 85), while the Symphony of Tulips is an essential means of implementation. The inhabitants of the city (represented by a sample of 400 people from Pitești and surrounding areas), believe that the specific elements of their city are: the Symphony of Tulips (54%), Trivale Forest, Dacia Renault, the city center, Nicolae Dobrin and the Pitești brandy.

The Symphony of Tulips is registered at OSIM in 2009 as a combined brand (name and color graphic element, under number 102211) in recognition of its unique character. The Symphony of Tulips event is the second oldest dendrological and flower exhibition in Europe, after the one organized in the Dutch town of Tynaarlo, since 1956.

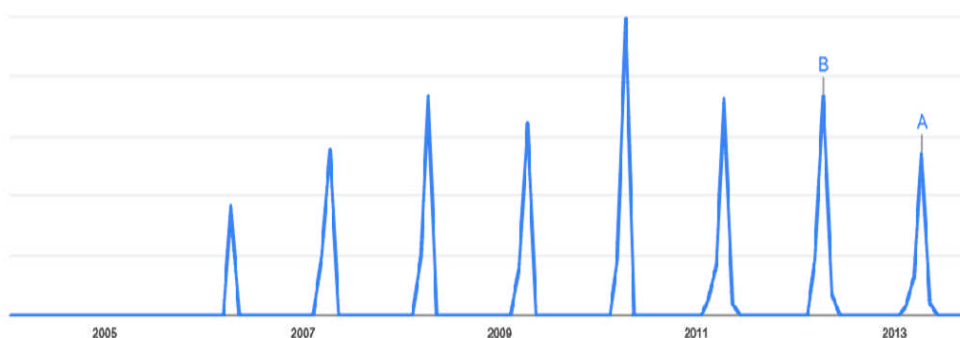
**Figure 1. Interest in the word “Pitești”**



Source: <http://www.google.com/trends/explore?q=pitesti#q=pitesti&cmpt=q>

The **"Symphony of Tulips"** is the most important and best known socio-cultural, artistic, sporting and commercial, dendrological and flower event in Pitesti, because of which the city is known both at home and abroad as the City of Tulips and often receives the name "the Netherlands of Romania." The festival takes place over three days during which there is a series of artistic and cultural events, such as international scientific symposia, a parade of flowers, folklore and popular music performances, a tulips' marathon, fireworks, folk and young music performances, all under the umbrella of the tulip – a symbol of Pitesti.

**Figure 2. Interest in the phrase “Symphony of Tulips”**



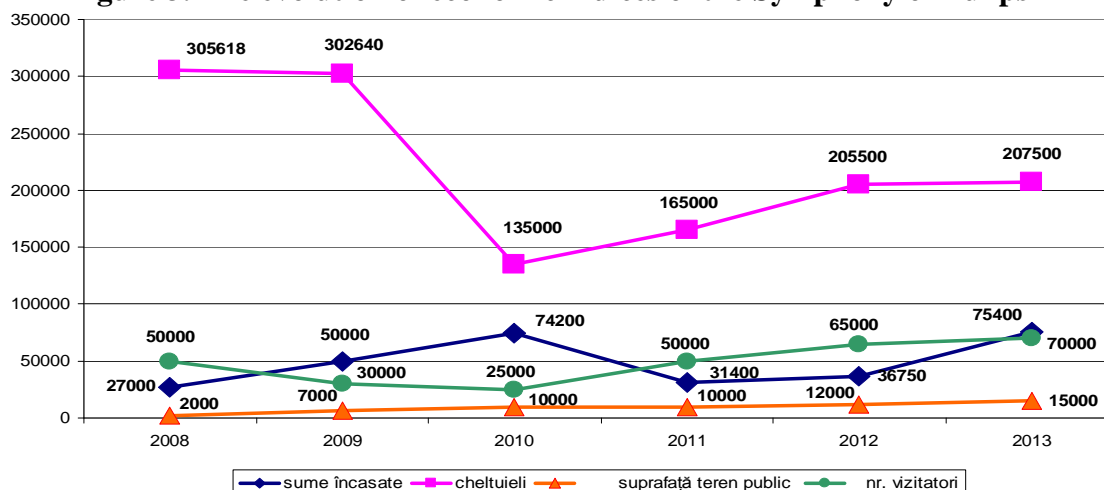
Source: <http://www.google.com/trends/explore?q=simfonia+lalelelor#q=simfonia%20lalelelor&cmpt=q>

Figure 2 shows the interest in the phrase “Symphony of Tulips”, which is strongly influenced by the event’s seasonality, with a record interest around the time of the event.

Analyzing the dynamic evolution of 2008-2013 indicators (shown in Figure 3) that characterize this emblematic event of the city, the following observations can be made:

- 1) The number of visitors has increased annually, except for 2010, changing during the whole period by 40%
- 2) The number of exhibitors has increased every year, except this year when there was a decline of 6% in the number of exhibitors
- 3) The rents cashed from retailers for occupying public place increased annually, except in 2011, seeing an increase of 179%
- 4) The expenses incurred last year decreased by 33% compared to the reference year and marginally increased by only 1% compared to last year.

**Figure 3. The evolution of economic indices of the Symphony of Tulips**



Source: designed by authors

Annually, the Symphony of Tulips has attracted a growing number of visitors and exhibitors, and this can be explained by the increased interest in this annual event that has the features of an important occasion in the life of the community. The event has the advantage of allowing Pitesti an intense promotion in a short period of time.

### Conclusions

This paper is based on the results of a study carried out in 2008, which helped to determine that the inhabitants of Pitesti perceived the Symphony of Tulips as the main identifier of their city. At this stage of research, we analysed the economic indicators of the event and will continue the study through a qualitative research designed to identify the constituent elements of the city's image.

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# EUROPEAN TOURISM INDUSTRY IN THE FRAME OF EUROPEAN INTEGRATION PROCESS

Alexandru, Boboc-Cojocaru

## Abstract:

*Issues of European tourism industry have become to the fore in recent years, partly as a result of political and economic moves towards increasing European integration and unity. Having into considerations these facts, we propose in this article to analyze the importance of the tourism industry in the sustainable development process and to see how peoples choose to spend their holidays in different places of the world, in function of the some factors that assure a sustainable tourism.*

**Key words:** *tourism, sustainable development, European challenges, integration process.*

**JEL Classification:** A0, O1, Q5

## 1. The connection between tourism and sustainable development

In time, the concept of *sustainable development* has witnessed many attempts to define but it seems interesting that the Brundtland Commission that says: „the essence of sustainable development is the way we must organize ourselves so as to consume land resources to satisfy our own needs and aspirations so as to not compromise the expectations of future generations to satisfy at the turn their needs”<sup>1</sup>.

We believe that sustainable development is a very dynamic concept with many dimensions and interpretations, seen as a permanent process of change, very connected to the local area needs and priorities. The fact that many professionals do not need a single definition of this concept leads naturally to an awareness that no matter how we define, the problem is the same and is called: *the need to ensure a sustainable future to the world peoples and to the planet Earth*. To achieve this goal there must be a broad international cooperation, a very careful management of the process, political implication and much dedication. In short, all these involve the changing of behaviors of individuals so as to contribute of an economic growth based on sustainable development. Active involvement of people can be realized:

- Acting for poverty eradication, changing unsustainable patterns of consumption and production, protection and management of natural resources for economic and social development;
- Promoting dialogue and cooperation, regardless of race, illness, religion, language, culture and tradition;
- Acting for stable partnerships with all major groups, respecting the independent roles of each of them;
- Providing assistance and participating in programs of sustainable development.

So, the human resources can contribute to the sustainable development process if they acting on the directions set out above. A very important sector that should be taken

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<sup>1</sup> In terms of this definition, paraphrase, in short – for a clearer understanding – a variant of The Fable of the Golden Duck, of Aesop. Under it, once was a poor farmer that could hardly maintain his numerous family. He prayed constantly for help and in a night his prayers has brought an answer through a dream. It said that the next morning he will have to go to the village and to buy the first duck that he will see and if he take care of it, it will make every day a golden egg which will benefit his children and descendants. The next morning, the poor farmer went to market as instructed in the dream and went home first duck that has seen it in the market. In the second morning, to his great joy, he found near the duck a gold egg, small and brilliant. The same thing happened the next morning. The farmer was now quite rich and happy but soon began to be envious of the village chief who was richer than him. So, he wanted to become the richest with the help of his duck. He had forced the duck, successfully, to make two eggs every morning and then even three. But soon, the exhausted duck has died. The duck from this story is undoubtedly the generous benefits of natural resources. If we use them as required by sustainable development, without avarice, they will satisfy our needs without compromising the ability of survivors and satisfy their needs.

some measures in this regard is the tourism. This is a rapidly developing sphere of human activity, reflecting the changing economic and social conditions which underlie modern views of individual freedom of expressions through consumer choice, and the new technologies of transport and data communications which make it possible for large number of people to spend their leisure in distant places.

All these changes present both opportunities and challenges for the tourism industry. Five key issues or challenges can be identified from the literature (Faulkner, Moscardo, Laws, 2001):

- The need to get more accurate and uniform statistics on the size and economic contributions of tourism;
- Pressure to compete more effectively with other recreational and entertainment options. This is particularly a challenge for many small and medium enterprises that make up a substantial part of the tourism industry in many destinations;
- The need to deal with increasing diversity amongst tourists. We refer here to the fact that the markets for tourism will become increasingly diverse in terms of cultural backgrounds, age, family structures and experience, creating challenges for the development of products and the management of the interaction between tourists and hosts and tourists and other tourists;
- The need to ensure that infrastructure development and maintenance keep pace with growing demand. We mention that, in this case, infrastructure refers not just to the transport systems and built facilities, but also to the training and education of the human resources of tourism;
- The need to ensure sustainable tourism development. This becomes a dominant philosophy, with the preservation of social and environmental assets and the well-being of the host community becoming primary objectives. Hunter C. introduced four different approaches to sustainable development based on the four types of sustainability (Hunter, 2001):

**Characteristics** of the **very weak sustainability** type or tourism imperative scenario

**Status:** tourism at its early stages

**Criteria:** tourism activities do not generate more degradation

**Benefits:** tourism is an alternative form of development; creates more employment; increase environmental protection

**Costs:** creates certain antagonistic impacts

**Characteristics** of the **weak sustainability** type or product-led tourism scenario

**Status:** tourism is developed

**Criteria:** sustain tourism activities and develop new products

**Benefits:** improvement of the local economy and employment; assist preservation practices of surrounding destinations; expansion and diversification of tourism planning

**Costs:** conserve only existing infrastructure and products

**Characteristics** of the **strong sustainability** type or environment-led tourism scenario

**Status:** tourism at its early stages

**Criteria:** environmental management utilization

**Benefits:** environmental quality; economic and employment growth; specialized tourism destination

**Costs:** Only in circumstances lacking focus and commitment

**Characteristics of the very strong sustainability** type or neotenous tourism scenario

**Status:** Tourism at its exploitation and involvement stages

**Criteria:** Absolute preservation of resources

**Benefits:** Protection of renewable and non-renewable resources; long-term environmental attractivity

**Costs:** tourism growth is limited; tourism development is sacrificed in cases where other sectors employ better environmental practices; tourism development is abolished to minimize generation of negative environmental impacts.

Analyzing all these characteristics, we can observe that the tourism sustainability depends by the efforts submitted, by the degree of involvement of the empowered organisms (private and public), the adoption and application of appropriate legislation and regulations necessary for tourism development, the taking of measures that protect the environment, efficient and systematic financing of tourism projects, attracting investments from the private sector to develop tourist facilities and services (by providing investment incentives to attract these investments), training staff and improving all tourist activities – human resources development in tourism, the involvement of local communities in tourism development, tourism marketing and tourism promotion efficiency for all regions and for private firms, an effective and sustained management of the tourism sector. Of the four scenarios of tourism described previously, we consider that the last, which refers to *a very strong sustainability type of tourism* (neotenous tourism scenario) is the most desirable in any European country and not only.

In the context of sustainable development, tourism finds its natural place, bringing to the fore the idea of satisfying the needs of tourists and tourism industry, closely related to the environment protection and to the opportunities for the future. Sustainable tourism involves optimal use of resources (including biological diversity), minimizing the negative impact of economic, socio-cultural and ecological, maximizing the benefits on the local communities, national economies and on the conservation of the nature. As a consequence, sustainability refers to the structures and management to fulfill these goals. The goal of achieving sustainable tourism must be subordinated to national and regional plans for economic and social development.

## **2. The tourism among Europeans**

The sustainable tourism indisputably contributes to the economic development of any state. But to have him, should respect some exigencies (we talking here primarily by an offering to tourists of impeccable conditions, the existence of a clean environment, etc.). In this direction, the European Commission had realized for the year 2009 a report (Eurobarometer). To find the opinions of the population, it was address some questions like:

Will you have the necessary financial resources to be able to afford to take your planned holidays in 2009 ? Which are the factors that determine you to choose a destination ?

The number of persons from Romania who answered at questionnaire was 675. A great part of respondents said they need to make extra savings for to be able to afford to take their planned holidays in 2009 (45,8%), and 23,8% don't have the necessary financial resources for this thing.

Another result of the Eurobarometer refers to the factors that determine the choosing of a destination. The questionnaire was applied to 1726 persons from the European Union. So, when deciding on holiday destinations, most Europeans named the location's environment (for example its overall attractiveness) as the key consideration (31%). Cultural heritage (24%) and the options for entertainment (15%) were the second and third most widespread responses in regard to factors that influenced a choice of destination.

These three categories dominated the responses in each Member State; the rest of the listed attractions were considered as having a major influence on holiday decisions by significantly fewer Europeans (gastronomy: 7%, arts: 5%, festivals, events: 5%). Eight percent cited other reasons and 6% had nothing to say.

An interesting question of the study sounds like: „During 2008, how many times have you travelled for business or private purposes where you were away from home for a minimum of one night ? Did you make a trip in 2007 where you were away from home for a minimum of one night ?”

Analyzing the answers of the European populations (from EU 27), we see that almost nine out of 10 Swedes and Finns (88% and 87%, respectively), and 84% of Dutch, Irish and Luxembourgers had travelled at least once during 2008. In Hungary, on the other hand, only 45% of citizens had made a trip during that period. Other countries at the lower end of the distribution were Romania (51%), Portugal (52%), Malta (53%), Bulgaria (54%), Latvia (56%) and Slovakia (58%). Hungary and Portugal (44% and 37%, respectively) had the highest proportion of interviewees who had not made any trips in 2007 or 2008. In Sweden and Finland, the share of non-travellers was 6% or less. The proportion of respondents who had not travelled in 2008, but who had made at least one trip in 2007 ranged from 5% in Finland to 13% in Romania and Malta.

In Romania, the number of trips is the lowest in Europe because here it is not promoted a sustainable tourism. To can speak about a sustainable tourism we should elaborate a set of strategic objectives which relate to: the encouraging of an tourism favorable of a sustainable local tourism through the involvement of local resources, the predominant participation of local actors, the support of the SME (small-and-medium-sized-enterprise) sector, the market segments that correspond to sustainability (whose behavior and motivations put accent on the respectation of the cultural, social, ecological values of the receiver space), the adoption of a system of indicators for evaluating the sustainability of tourism in the receiver regions, preventing and reducing the territorial and ecological impact of tourism by reducing seasonally, territorial planning, the adoption of some appropriate instruments for the reduction of the territorial disparities, the promotion of a responsible tourism by improving access to tourism, the stimulation of new behavior of production and consumption, the improving trening and the level of life of workers in travel, etc (Pascariu, 2006).

All these objectives wish to materialize a model of tourism development, that to answer of the needs of tourists and receiving regions, preserving and improving the chances of the future generations by access to tourism. These can be achieved through an interaction between public and private institutions, providers of tourism and population. We believe that the most appropriate system for sustainable tourism development, especially in regions in development, is represented by the public and private partnership. In the use of public-private partnerships as a way of promoting sustainable development is necessary to respect the following principles (Pascariu, 2006): the application of an integrated management system of the quality of destination, the conservation of the originality and authenticity of destination, the ensuring of an equilibrium between the economic, social and environmental objectives, the precaution and the prevention in the adoption of decisions, the reporting at the trends in the evolution of behaviors and of markets, the reporting to the permanent interests of tourists and the implementing of a strategy to stabilize the target markets, the information, the cooperation and the transparency, the improving of the free market mechanisms.

## **Conclusions**

Human resource development in tourism industry should be a priority to offer quality services expected by the tourist market and requires a systematic approach to the design needs of staff and establishing ways of training necessary to provide qualified personnel both in the public sector and in the private. It is also essential to use techniques and methods of marketing tourism: setting goals and marketing strategies and developing a promotional program. Marketing activities must take place at the government offices of tourism, the local tourist office and tourism private sector because the development of a positive image of the new tourist area on the tourist potential markets is very important.

Increase tourism product of the values enshrined in the relevant international standards, involves, on one hand, the initiation and promotion of actions which include the conduct of a process of educating and training, a mentality adequate to the current type of development, and on the other hand, the emphasis of a sustainable development. This emphasis involves a balance between negative and positive outcomes of conducting tourism activities.

A priority in the process of sustainable development held in our country is the component that includes the activities of planning, operational planning and tourism as an integral part of sustainable development strategy of the area, region or country. To achieve a sustainable tourism, you need an integrated approach, partnerships with stakeholders.

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# CONSUMER BEHAVIOR AND THE DEMAND FOR CULTURAL INDUSTRY PRODUCTS

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## Abstract

*Necessity for such papers, in which are analyzed cultural influences issues in the consumer behavior and the practical application of management and marketing in sectors of activity like culture, social sector and other areas, it started to impose in our country as a necessity and requirement of the market.*

*The present paper synthesizes the most important theoretical and practical aspects of consumer behavior study of cultural industry products.*

*First part of the paper presents the motivation as part of consumer behavior. Consumer behavior is analyzed both from the psychological point of view as well as from the point of view of decision factors affecting the consumption of cultural services. In this respect it was insisted on the distinction between the buying behavior based on a particular decision-making motivation and the consumption behavior having various reasons.*

*The second part of the paper examines the demand, production, distribution and consumption of the cultural industry products, the paper ending with conclusions.*

**Keywords:** consumer, demand, management, decision-making motivation, cultural industry

**JEL Classification:** J23, M11

## 1. Introduction

For understanding the consumer behavior, the specialists have lent a series of theories, models and concepts, resulting in a series of approaches. Although none of these approaches is not universal valid, they presents the general framework for the research, analysis and understanding consumer and its behavior in the various situations of the buying and consumption.

In the specialized literature, for the research of consumer behavior, there are three main approaches, namely (Peter, Olson's poetry, 2003, p. 5):

- Interpretive approach;
- Traditional approach;
- The approach to the vision of marketing science.

Interpretive approach is relatively new in this field, and has started to impose strong enough. This approach, which is based on theories and methods of cultural anthropology, aims at in depth understanding of the process of consumption and of all its components.

The research methods used are qualitative methods, such as, in-depth interviews and focus groups, aiming in principal, the understanding of the associated significance of consumers with various consumer products and services as well as the modalities of forming of the purchase experience and consumption. Other objectives of such studies may be the research of the way in which the art reflects the significance consumption process or the way in which the possession of a given product influences the own image of the consumer. As a general rule, although such researches do not stay at the basis of the development of success strategies, their implications may be deducted.

Traditional approach is based on theories and methods borrowed from cognitive, social and behavior psychology, as well as from sociology.

The main goal is to explain the consumer's decision-making process and the types of behavior which it shall determine. For these there are utilized marketing experiments and

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quantitative research to explain the process of information and all other decision-making processes of the consumer as well as social nature influences of the consumer behavior. This approach has a significant impact on marketing optics, some specialists focusing on testing of theories and others to investigate various strategies influence marketing on consumers.

The approach in the vision of marketing science is based on theories and methods borrowed from economy and statistics and imply the development and testing of mathematical models to forecast the impact of marketing strategies on the behavior of the purchase and consumption of the consumer. (Peter, Olson's poetry, 2003, p. 29)

## **2. Cultural industries characteristics**

In their multiple forms of manifestation, cultural industries create and distribute a wide variety of products. After Bernard Miège (1997), all of these consumer goods, changing, could be reduced to two major types of products: cultural and informational. Premiums shall be that sets by:

a) Random nature of the utilization value: the object of art won't get rid of wrapping taste and fashion, factors which, even if they are dependent on certain social mechanisms, involves fluctuations variations and even unexpected reactions of public. I don't know that producers a cultural object doesn't live isolated, but as part of a broader categories (style, current); because they cannot guess what will be the title or genre gifted success (i.e. sales-attracting massive profit), they will be launched on the market does not goods isolated, but catalogs of titles. Producers reduced in such risks and limits losses: they hope that, of several titles produced and placed on the market, one will impose and will cover other. For example, 70% of the disks of music produced in one year are scarce, and a manufacturer of discs carried out half of its turnover from the sale of only 3% of the titles on the market, of course, those successful; (Flichy, 1999, p. 42)

b) Limited possibilities to produce such a consumer good: each collectivity posses a certain cultural code and does not accept (understand, consumes) goods produced after recipes of success of other companies. "It is clear that instability of cultural industries have been triggered a series of adaptation strategies put in practice by those who assume the risk to invest the capital here. First a great prudence, issue that explains the slowness of capitalization and trans-nationalization of this sector, a long time reduced to a few pilot products. Then a movement of the consequences of failure by other actors: by artists and performers; by public institutions which finance indirectly production (see, for example, the case of big symphonic orchestras or theatrical troops); by broadcasters of audiovisual, which are found in advertising revenues means to finance a part of the production costs of creation presented in their programs; finally, by the appearance of large conglomerates, specialized in distribution, which does not take only a part of the costs of production, allow the artistic and financial responsibility on the shoulders small producers". (Miège, 1997, pp. 27-28)

In their turn, information goods have the following features:

a) the capacity to be easily copied, duplicated or resold: the same information can be reproduced on multiple media types and can be placed on different markets, to different some consumers (news agencies sell the same news both on the media market, as well as to the written press); the public can purchase from a market or on more than one market: not at the same time buy a newspaper to return on a piece of news which we watched a journal already in the news from the radio or television;

b) the price at which information goods are purchased may have nothing to do with the value of use: every day we buy the favorite newspaper at the same price; however, on some days, it is interesting, and in some others boring;

c) the informational good is substitute (we can replace a newspaper with another one, a show with another); after consumption, it remains available for any other act of



consumption (same paper can be read by more than one person). As a result, "the price fixing at informational products it are realized in accordance with information rules which differ from those generally accepted for type products from the mass consumption". (Mičge, 1997, p. 26)

From a different perspective, cultural industries products can be divided into three categories: editing of cultural goods (books, discs, and video tapes), Flow production (radio and television) and the production of written information (newspapers and magazines). (Mičge, 1997, pp. 105-106)

Patrice Flichy, analyzing the layout built by Bernard Mičge, considers that written press, although fixed on a support and sold on the piece, it is closest to the product flow through the frequency of occurrence count and the importance of financing of advertisements; therefore, It simplifies this model and proposes only two categories: cultural goods (which is mounted on a solid support material flow) and cultural (which distributes products in successive waves and continue). (Mičge, 1997, p. 107)

By taking this perspective, G. Tremblay has defined, the following torques of distinctions between editorial products and the flow products (Tremblay, 197, p. 17):

- durable content fixed on a support / ephemeral content;
- discontinuous content / continuously content (programs);
- duplicated -manufactured in series and distributed gradually / prototypes instantly broadcast;
- direct financing (by purchase) / indirect financing (via income from ads).

In this way, a book contains a message fixed durable on the page of paper; its subject it has nothing to do with the themes of other books edited by the same publishing house; books are duplicated, produced in series-and sold by the piece, which covers the production costs only through the revenues obtained from the purchasers; in antithesis, a television program is not fixed on any durable media (excepting the case in which a viewer record a fragment on a video); it is being broadcast in uninterrupted streaming, as an amount of shows and formats relatively well defined, which are succeeding and disappear one after the other; financing is mainly indirect, the revenues from advertising covering most production costs.

However, the act of creation (intellectual or artistic) cannot be entirely subjected to canons and characteristics of industrial production; next to the specific notes it presents a number of specific features, resulting from its uniqueness: creation and distribution of symbolic goods. These global notes can be synthesized according to the phases and the essential factors of any industrial production process: demand, production, distribution and consumption.

### **3. The motivation – factor of endogenous influence on consumer behavior**

Variable which focused attention of several specialists, being considered long time the only one that occurs between stimuli and behavioral response of the consumer, it is motivation. This implies that behavioral manifestations of an individual in the buying and consumption process of the goods and services are generated by the existence of a state of tension (a physiological imbalance), because of the existence of unsatisfied need, which puts the body in action up to her disappearance. (Cătoi, Teodorescu, 2004, p. 72)

The reasons are not anything other than consumers' motives underlying at the purchase and consumption behavior. They represent the resultant of complex factors of biological, social, physical nature. Proposing to discern why consumers buy a product or services, which are therefore motives that decision to purchase, a marketing research will discover that, at the bottom of the choice process are different reasons. Their knowledge can help improve to meet consumers' needs.

Consumer represents a universe of motives, which may not be observed directly, and because of that it make it more difficult their research. To facilitate their investigation,

researchers have proposed different modalities for the classification of reasons. (Cătoi, Teodorescu ,2004, p. 74).

After their origin, the reasons are primary (biological) or secondary (psychological), likewise the needs upon which are based.

Primary reasons are related to the biological existence of the consumer and underlie at the satisfaction of the physiological needs.

Secondary reasons are generated by leaving in society of the consumer and shall have as objective the satisfaction of the psychological needs of the customer (fame, recognition by our fellow human beings, belonging to certain groups). Any human need not only of materials goods which ensure survival, but also of "aspiration to fame" or "need not be ruled out" (Huet, 1978, p. 93).

It should be noted that the reasons are distributed in a well-defined hierarchy, depending on the category basis needs. As the needs situated at a certain level are satisfied, the reasons situated at the level immediately following becomes important.

Identification the reasons equivalent answering to the question "why?"

The tensional statuses which are the basis of reasons are expressions of the existence of certain needs or associated consumer needs, constituted in a system which confers motivation, therefore, a relative stability in the course of time. Marketing activity carried out to satisfy the needs of the different categories of needs have to take into account their special features, as well as powerful interactions between them. A specific product, through the qualities they possess, can satisfy both needs physiological and psychological needs. The need for food, for instance, is satisfied with a particular product, it is coupled with the need for prestige, satisfied by consumption product in question in an establishment catering to a category select it.

The classification in fundamental and selective reasons is important for the marketing activity. Fundamental reasons are associated with the idea of satisfaction of need for a product or service (for example, wine) and, in the case of selective reasons stay at the basis at the election of a certain a trade mark of the product or service in question (for instance, "Feteasca Neagra of Transylvania" ). This aspect has a great importance, especially for promotional activity.

The reasons which are at the basis at the consumer behavior of the purchase and consumption can be classified in rational reasons and emotional reasons. (Huet, 1978, p. 67)

The rational reasons are based on customer rationality, among these enrolling functionality, durability and economy. Such grounds dominate, in general decisions for products and services of current use, with a purchase frequency relatively high.

In their turn, emotional reasons are closely related to the satisfaction of psychological needs of individuals (personal pride, ambition, the statutes or conformism), which are dominant in the new products and services or luxury, for which frequency of purchase is reduced. An interesting classification is the one in which it is made a distinction between reasons of buying a product or a service and those which determine its purchase at a given location. (Cătoi, Teodorescu, 2004, p. 74)

For example, to meet the need for accommodation, a tourist chooses a hotel or another according to the position of a few attributes that they consider most important. By the manner in which it is realized the distribution of the product or service in question, it is influenced the purchaser's decision. For the design of effective marketing policy it is important to keep in mind the fact that the reasons are taught and have stability in time, and it is quite difficult to change.

For marketing activities it must be removed the barriers that block the satisfaction of some reason, in order to avoid the emotional reactions of dissatisfaction and the generation of conflicts reason, which may cause serious injury upon to the position on the market of firms.

Motivation, in a general approach, it is, therefore, a inside state, which mobilize a body, with a view to achieving a specific purpose. (Cătoi, Teodorescu, 2004, p. 75)

The reasons have a highly multidimensional character, as noted in the definition consumer behavior, being established between biological and social, between internal pulses and knowledge, between subjective necessity and value as the reference system, between relations with objects and connections with the people etc, and, therefore, cannot be reduced to any of the factors which cause them and influences.

#### **4. The demand, production, distribution and consumption of the cultural industry products**

The demand of a product is, in this segment, extremely unclear: no research and no producer's intuitions may not provide a clear configuration of consumer needs and expectations. Taste and fashion rapidly evolving; some trends disappear, others are transformed into phenomena. In addition, the time that some people devote relaxing (through consumption of cultural products) is a value hard to estimate in economic terms. Creators found some "recipes" of success, but, as well as pitcher which does not go many times to water, they often prove to be misleading. Unlike other economic areas, where the quantum of production can be planned (due to the fact that consumer need and the resources utilized to meet these needs are clear), in cultural industries, the wishes, this engine of consumption (and implicitly of the production), are often a mystery.

In a famous book (*L'empire de l'éphémère*), french thinker Gilles Lipovetsky examined the mechanisms by which they are renewed, constantly, curiosity and desire for cultural consumption. He claims that today, "mass culture is a consumption culture, manufactured entirely for immediately pleasure ". How the object and the pleasure are consumed through consumption act, both products, as well as their interest in they must be constantly refreshed; that's why cultural industries are closely related to the systems of advertising. They create waves of successive "mode" which, in their turn, always produces new needs of consumption; because of the advertising system, the request shall be periodically roused to life, the products are absorbed and cultural industries may produce further.

To stimulate public curiosity, the major groups in this area, invest huge amounts in promotional campaigns: they hope that in this way to fix or to amplify the request. Their investments in attracting public are more important when, in the sphere of consumption culture, the demand is inelastic: the time and energy budget is not unlimited; its borders are drawn by the time required for the work, transport, various domestic activities and, obviously, sleep; in addition, other forms of relaxation, as travel, sport, hobby, take a part of precious moments that could be utilized for consuming the products of such industries.

On the other hand, the statistical data as well as sociological surveys often reveal differences between the assigned objectives and the true situation. One of cultural policy priorities is "improving access and participation to culture", including through programs aimed at the "Reinventing libraries" and for some projects such as the project "By reading to culture". But from research statistics of the National Institute of Statistics on the "Cultural artistic units activity " shows that in 2012, when economic crisis had begun to materialize, the number of libraries has decreased by 130 units against 2011, of which 11 are public libraries. Also, the number of volumes which have been placed in libraries, especially in the municipal and communal has dropped by about 1.276.000 units. It also has dropped the number of readers from villages and urban areas. The books price has increased concurrently with the reduction people's income, and it would have had to lead to tapping our readers in libraries. In these circumstances it returns perpetual question: are buyers/consumers of culture a secure source for cultural production?

Production of cultural goods, in an industrial regime, is characterized by the introduction principle of chute, which implies serialization, standardization, global product decomposition in clear units, carried out by groups of trained people, and put together by other specialists. Whether it is about the book industry, music, film or press - in each of them, such procedures are generally applied to lead to efficiency increasing and to reduce costs of production. We must not forget, however, that in other areas of culture, like theater, museums, exhibitions, these aspects of industrialization are much less present: here individual creation, "manufacturing", unpredictable, is dominant. On the other hand, because at the artistic level, did not have invented techniques to increase productivity, the manufacturer's efforts for the profitability have focused mainly on the performance; as a result, it becomes more and more different than design.

In a production process dominated by technique rationality, the status of labor force is extremely precariously: between glory and huge revenues of stars and the anonymity and modest wages of the various specialists (which contribute to star propulsion) distance is huge. On the other hand, the assembly of those involved in cultural industries is very heterogeneous: we meet here occupations associated with creative universe art (writers, composers, painters, artists, actors and performers), next to the occupations typical of world production: engineers, accountants, marketers, high skilled workers. Method of payment is also heterogeneous: from copyright up to payment by the hour, there are used all possible forms of remuneration.

Distribution is the key of success for a cultural product: a show or a movie has the same costs, regardless of whether they are seen by a million or a thousand spectators. A good distribution, supported by a successful promotion campaign, ensures the depreciation of production costs, and obtaining profit. (Kotler, 1997, p. 89)

In this configuration, marketing and advertising plays a primary role. In France, the cost of a music album varies between 250,000 and 450,000 francs; the campaign of advertising can cost between 100,000 and 400,000 francs; in the USA, the production of film cost, on average, 35-40 million dollars, Distribution 30-35 million dollars, and about his promote campaign swallows another 30 million dollars; revenues from sale of a CD are divided as follows: 20% for promotion, 10-20% for design and packaging, 10-20% for recording, 10-20% for the various production costs, 5-15% for the payment of copyright, 30-40% for distribution costs of the companies which broadcasts and sell the product and 30-40% for CD maker firm.

The financing of cultural industries products may be achieved by the following means: a direct payment of the consumption act (buying at the piece of books, newspapers, racks, disks or purchase of the right to access to the cinema hall and at the coded television); subscription (tv stations by cable); taxes (specific for the financing of public TV stations and radios); subsidies granted by the state or philanthropic organizations; revenues from advertisements, sponsorship. The most important source of financing is at present, advertising. This creates a system of double correlations: on the one hand, of the magnitude of the timing and the amount of income from advertisements and, on the other, between the structure of products and of the programs and the place or time of placing of advertising messages.

The costs for inserting advertising can be incredibly high, if the product media concerned offer, through the dissemination and geographical area covered, access to an impressive number of consumers. The producers seek to obtain large distributions as hoping that achieving huge audience will entail large-scale advertising recipes, which will cover the expenses and will generate profit.

On the other hand, the interests and the requirements of those who places advertising messages lead to change of some shows, grille on the reorganization of programs and, not once, to change cultural sports events. Thus, episodes of serial films are constructed in episodes of 10-15 minutes action units, to allow story and introducing advertising insert in

the moments of suspense. At the request of television channel TF 1, matches in the important French football championship have been programmed at the time 8:45 PM, in order to leave 10 15 minutes for advertising in prime time journal of the sports news and the show. In American basketball, halves of 30 minutes have been divided into two, which has led to a further two intervals for publicity; in tennis, the tie-break has been entered to short the match duration (which no longer disturb the programs grilles) and provide maximum moments of interest before breaks (when changing terrain) opened to advertising messages.

Consumption of cultural goods is directed to perishable products, which deplete messages (and meanings) very quickly, and which must be replaced with other, identical or similar. Making of such circuit also involves (and this is an essential condition) free access to the market on which it is moving and it sells merchandise cultural, in other words, it calls for democratizing the access to culture. Industrial logic entails destruction of barriers which block or limit the contact between public masses and cultural values. They can be "consumed" in the original (and in particular in museums painting, sculpture times in theatrical performances), but especially in duplicate (albums, books, documentary films or art, discs and tapes, newspapers and magazines).

Prices which provide "access" to cultural object decreased continuously: input tickets at the theater or at the exhibition, the cost of books, magazines, cassettes, as well as your subscription at the television programs, radio, e mail (including the amounts for the purchase of radio receivers, television, computers, tape recorders, video recorders) does not represent today the impassable obstacles in front curiosity or a need for the provision of information and relaxation.

Because on the cultural goods market penetrates more consumers, producers are forced to conceive goods on the basis of purchaser's applications. Most often, they make an appeal to cultural industries to fill free time, to rest and to relax, and to your needs and aspirations related to primary consideration of rest and fun. These consumers come from all social classes, from all regions, and even continents, of all religions and cultural layers.

The proportion of young people among cultural goods market is incontestable. This is why managers' of public structures, as well as those from the commercial sector of culture are interested in knowing the demands and their aspirations, concerns and their satisfactions, on grounds of frequency of specific services and certain values. Studies of cultural policy include among the strategic priorities the objective to satisfy the youth demands. (Moldoveanu, 2010, p.69)

Consumption of cultural and information goods cannot be developed (and cannot create a dynamic market) only if the products offered have the capacity to meet all expectations, to suit all tastes, to be explained and to roust the general interest. To achieve this objective, in the act of industrial production cultural values are simplified, reduced to accessible diagrams and packed in attractive forms: "popular" versions for the major musical themes, soaps and movies built around classical works of literature or games on your computer with heroes of symbolic repertoire classic.

At the same time, because they are accessible (in terms of their content and price), because it can be fixed to easily transportable supports and because they are broadcast at home, these cultural creations begin to be consumed on an individual basis, in the privacy of your preferred room. From the book read in the bedroom up to listening to your headphones to your favorite music, the systems and modern consumption technologies have led to the progressive abolition of individuals and intermediate institutions: theaters, concert halls, movie theaters, public markets are emptied, and artists become far away presences and inaccessible, whose messages are transmitted to us by media or immaterial supports. It is clear that in this way it will disappear also the communication between consumers and producers and the solidarity of those who have experienced artistic act

together in classrooms, cenacles, exhibitions, museums or stadiums. In such intimate places, in such moments of relaxation, the purpose cultural consumption is no longer information or self-education, only the relaxation: thus, cultural practices are decisive anchored in entertainment practices and evasion.

## 5. Conclusions

This conversion shall have the effect that, in the act of consumption, the intellectual side (the force required to understand and to memorize, the critical analysis of the product quality, its integration in a class and comparison with other cultural categories) will lose importance in favor of emotional dimension (identification with the message, or with protagonists that embodies the message, interpretation by personal experience perspective, the overlap between artistic with every-day reality).

Since a significant part of these products have a standardized character (they are type formats with stories or type structure, which can be realized by type manufacturing processes), they are able to meet emotional and cultural horizon of some big segments of the population: so-called 'the logic of the lowest common denominator' concerns the construction of messages around common values or feelings, as close as possible to the general human interest. This trend makes it easy reception and understanding of products, increase the consumers number bringing profit, but placing all at the level of a common human, can equalize the values, behaviors or human aspirations.

Recent investigations have shown that the power of modeling of the products of cultural industries is not complete: consumers develop not only the home strategies and acceptance, but also techniques to counter.

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# MARKETING IN THE PERFORMANCE OF SME'S

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## Abstract:

*In the business environment troubled by the economic crisis with major changes occurring in the national, European or world economy, small and medium enterprises have acquired additional concern since they are regarded as the key to economic dynamism and they build up a field whose features are diversity, dynamism and flexibility. In such a context, the role of marketing to manage such enterprises' performance is highly important. Successfully implementing marketing methods, optimally using marketing techniques and instruments, understanding the objectives and assessing the outcomes are essential steps to almost all important decisions in a company. Marketing provides information on the market, customers, competitors, suppliers and the business environment in general, it allows the planning of activities and the preparation of successful strategies.*

**Keywords:** *small and medium enterprises, marketing of SME's, marketing mix, marketing planning, marketing strategy.*

**JEL Classification:** L26

## 1. Research Methodology

This paper envisages the identification of the main entrepreneurial marketing elements that are required by small and medium enterprises in the current economy, in order to increase their competitiveness, to improve customer relations meant to provide efficient planning in the field. It is the reason why the authors herein have undertaken a study of specialty literature in the field of marketing in connection with the performance of small and medium enterprises so that to highlight the sector's and surveys' importance regarding the management of SME's.

## 2. Place and Role of SME's in an Economy

The share of small and medium enterprises in the market structure has increased over the last decades. Since they used to be regarded as an economy's growth engine until 1970, large companies have lost some of their share to the benefit of SME's which have become major source of employment, entrepreneurial, innovative skills, making up the proper environment for employees' training and also a significant economic and social cohesion factor as the sector of SME's is today a strategically interesting field to any economy.

Having its positive effects upon the national, European and world economies, by having improved its competitive environment, by creating development and flexibility opportunities while adapting to new technologies, to the actual market requirements, occupying market segments that are non-profitable to large enterprises, the chance to quickly meet local demands efficiently capitalizing opportunities by the use of local resources, the SME sector contributes in ensuring balanced economic and social growth.

SME's by their small dimensions but large number emphasize the market's atomicity lowering the influence of large enterprises and weakening their monopoly over the prices.

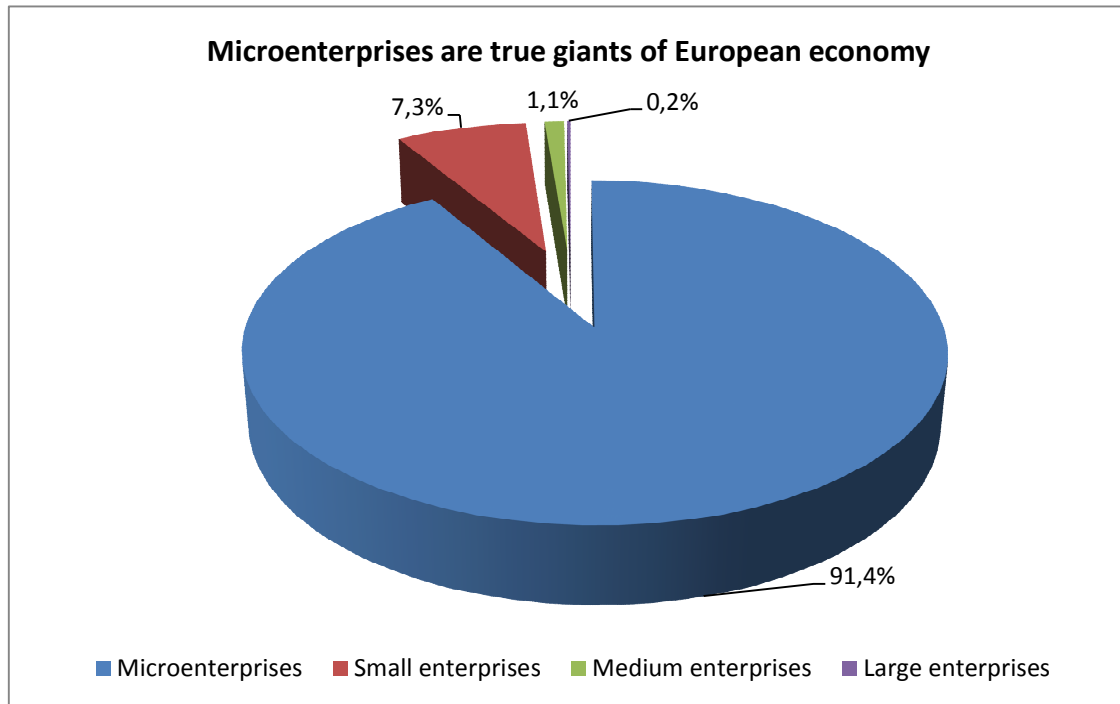
ACS and Audretsch (Zoltan Acs and David B. Audretsch, 1990) outline the existence of six major factors underlying changes in favor of the SME sector: i) flexibility to implement new technologies, develop transportation and the technology of information and

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communication; ii) globalization of markets; iii) changing structure of the labor force; iv) consumer preference to differentiated products which has led to market fragmentation; v) government deregulation at market level and vi) a time of “creative destruction”. The objectives of the European Union envisage the preparation of coherent national policies to allow SME’s to turn environmental challenges into opportunities, to facilitate the access to grants, revealing the importance of small companies in the European economic progress.

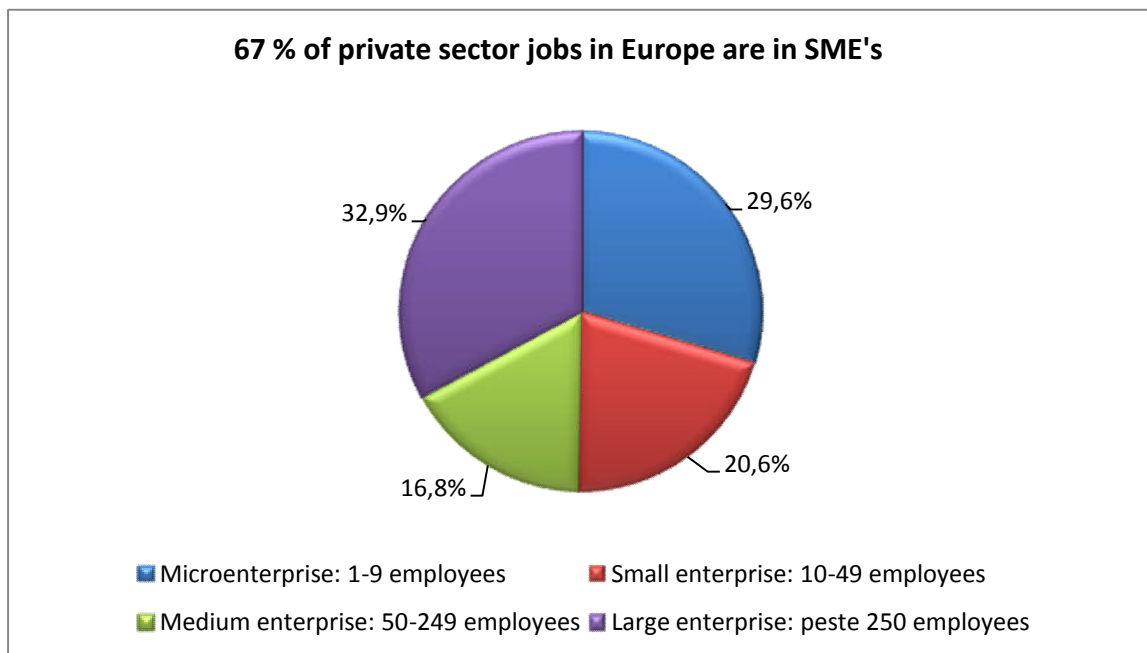


Source: Eurostat

More than 23 million small and medium enterprises in Europe are the living force of the European economy, ”Small and medium enterprises (SME’s) make up the backbone of the European Union economy – namely 99.8 % of financial non-enterprises, that is 20.7 million enterprises. The vast majority, 92.2%, are microenterprises and the remaining 6.5% are small and medium enterprises, with only 1.1% medium-sized. As far as labor force employment is concerned, SME’s own about 67.4 % of jobs outside the financial sector, two thirds of the jobs in the private sector and they generate more than half of the value-added tax. Therefore, SME’s can be regarded as factors of prosperity and economic growth that have a major role in innovation, research and development” (EU SME’s in 2012, p.17). The ”2020 Europe” Strategy and the European economy largely rely on capitalizing the potential small and medium enterprises have (SME’s). That is why, the first comprehensive policy framework for SME’s was set up in 2008 in the European Union and its member states by the initiative called ”Small Business Act” (SBA) for Europe. (Ciochină I, Pănoiu L., 2013)

One of the top priorities at European level is to encourage individuals’ strong endeavors to become entrepreneurs and the European Commission closely collaborates with the national authorities of the European Union to reach this goal. Günter Verheugen, the former Vicepresident of the European Commission in charge of enterprises and industry, stated that ”Entrepreneurs are the economic DNA needed to enhance competitiveness and innovation in Europe”.





Furthermore, they are regarded as being very important to promote countries' regional growth. The European Union has developed instruments to encourage regional growth, to support the initiatives of regional market players and to promote network collaboration among various regions in the EU. Such instruments encourage entrepreneurship, help new enterprises and make SME's more competitive.

### **3. The Need for Marketing in SME Performance**

In order to help them become aware of their growth potential, the European Union acts so that to promote entrepreneurship and to create a business environment that is more favorable to small and medium enterprises. Ever since 2005, the EU has placed SME's in the heart of the Lisbon strategy for growth and employment (COM (2005) 551 Lisbon community program final version, 10 November 2005).

However, the difficult accessibility to financial resources, lower demand, paperwork, slower economic growth at world level, excessive taxation, inflation are all major obstacles that SME's still face and they cause troubles regarding the overall development of the national and international business environment as they operate in a marketing environment coping with a lot of uncertainties.

In such a context, better understanding the key factors that may influence the performance of SME's is primordial and marketing may be the key to successful business and play an essential role. The research in the field has shown that in order to meet their organizational goals, SME's do not adopt the marketing concept as well as large companies do (Pollard, D.J. and Jemicz, M.W., 2006) and that marketing practice in SME's has several peculiarities as to the application and efficiency level. "However, it is well-known that marketing is not fully understood in an enterprise. An entrepreneur participates in marketing network where he/she interacts with network players: customers, suppliers, competitors, business partners and employees so that to meet company requirements (Gilmore, Audrey, Carson, David and O'Donnell, Aodheen, 2004).

The marketing of SME's is not conventional marketing due to resource limits that are inherent to all SME's, due to the little awareness on marketing planning and because an owner or an entrepreneur acts differently when making decisions as compared to

conventional decision-making in large companies. Proper marketing relies on their features, sizes, limited resources, entrepreneur influences, strong emphasis on sales, good awareness of formal marketing aspects and personal contact networks in order to properly assess the ability of marketing planning (Audrey Gilmore, David Carson, Ken Grant, 2001).

The role of marketing is:

- to support SME's so that they should benefit more from market opportunities and develop long-lasting innovations;
- to achieve better market ranking of business;
- to create sustainable competitive advantages.

Marketing in Romania is little represented in the sector of SME's as one's perception of it confines to communicational policy elements that seem accessible to everyone.

#### **4. Marketing Performance in SME's**

To many people running their business included in the category of small and medium enterprises, marketing is a timid subject which mainly happens in large companies. Yet, practice has shown that any subject uses "instruments" to adjust to any business structure, thus emphasizing the elements applicable to SME's and identifying the key points of supply and demand and orienting business activities according to the features of its environment.

Entrepreneurial marketing becomes true in the pro-active identification and use of opportunities to attract and keep profitable customers by the innovative approach of risk management, the most efficient use of resources and the set-up of a higher value to customers. Entrepreneurial marketing lies on the buffer between entrepreneurship and marketing protecting the emergent prospects of marketing. (Foltean Florin, 1/2007)

As a science and a "business philosophy", marketing involves the knowledge of those who start and develop business both on theoretical scientific concepts and on practical aspects. The successful application of methods, the optimal use of objectives and the assessment of outcomes are all essential to each important decision that must be made in a company. Marketing provides information on the market, customers, competitors, suppliers and the business environment in general, it allows planning the activities, preparing successful strategies and better competitiveness.

Marketing is involved in three key fields when it comes to these companies: 1. Product/service innovator. 2. Positioning itself in the focus of customers in a marketing vision correlating customer needs with company offers. 3. Ability to make changes in the market, competition, consumer behavior, to direct business towards progress (<http://claudegeynst.tumblr.com/>). The marketing performance of SME's can be divided into five categories ([www.abce.org](http://www.abce.org)):

1. *Tasks focused on customers and prospects*
  - Face-to-face meetings with customers;
  - Commercial events;
  - Studies on consumer behavior;
2. *Instrument-related tasks*
  - Documentation;
  - Websites;
  - Preparation of sale supporting materials;
  - Selection of distribution channels;
3. *Product-related tasks*
  - Research on various products;
  - Testing various products;
  - Examination of competing products;

4. *Environment-oriented tasks*
  - Environmental studies;
  - Research on market diversity;
  - Competitive and technological intelligence;
5. *"Mass marketing" tasks*
  - Qualitative market studies;
  - Public relations;
  - Public campaigns.

In the current context where the business environment faces quick sometimes unexpected changes, the research on how SME's should be managed shows that by their marketing performance companies need to consider changes as opportunities to reach better outcomes and not the opposite idea.

The main directions identified therefore which marketing should envisage in SME's are:

**A. The market.** Considering customer needs and competitors' strategies, a company aims at two main goals: market position evaluation and market strategy preparation. The SWOT analysis and the identification of competitive advantages allow better company ranking, activity planning focus in order to efficiently capitalize all opportunities and decrease the effects of environmental threats. A company and its environment set up a system of relations that mark their entire marketing performance and the way company policies integrate and combine related to a product, price, placement and promotion leads to company success or failure in the market. The domestic environment of SME's is complex and the markets where they operate have few convergence elements. Thus, some SME's manufacture high-technology goods which they retail in very narrow market breaches and which they possibly improve by additional services. Other SME's particularly address some clientele which they provide with products meeting specific requirements, appealing to specially developed technology. (Ph.D. Professor Someșan Cornel, 2008)

Market analysis and consumer behavior examination offer a company the chance to prepare strategies meant to ensure the rapid adjustment to the changes occurring in the environment, to quickly meet consumer needs and the principles of making them loyal.

**B. Activity Planning.** A well-defined marketing strategy may improve profitability, including longer lives of customers, as shown in Diagram 1.

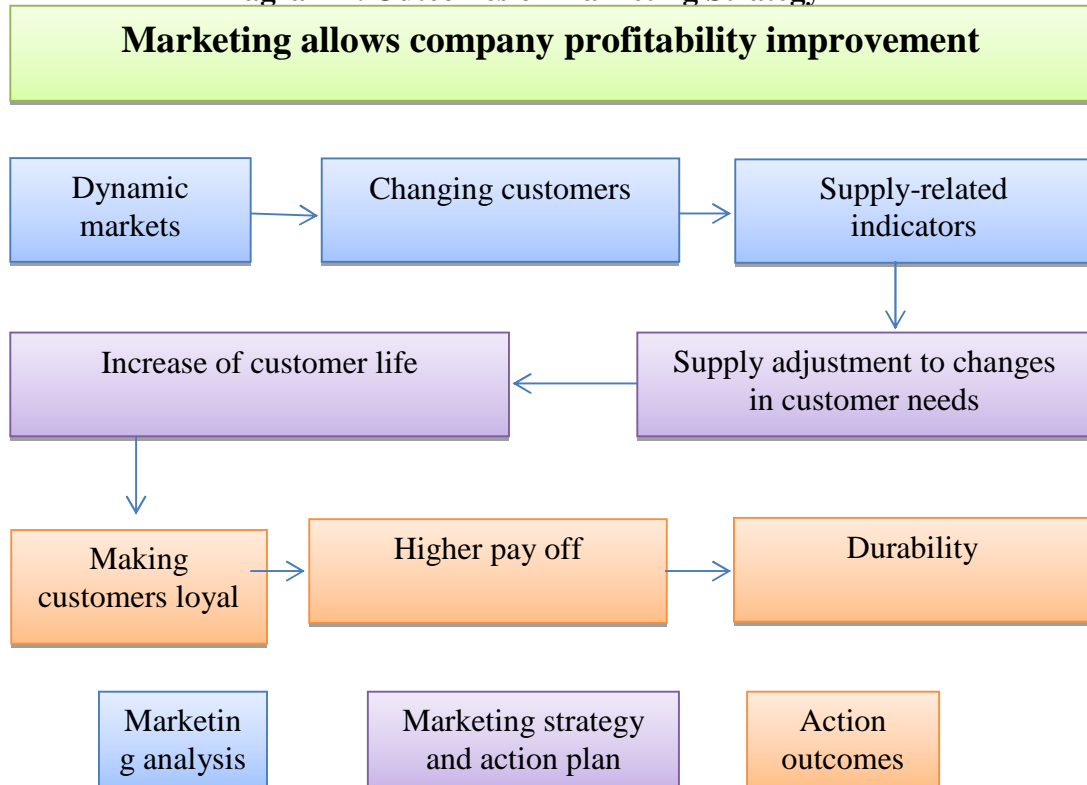
Applying a strategy requires the set-up of the best techniques to ensure the optimization of marketing efforts regarding goods, services, prices, communication, placement and adjustment to various types of customers, it triggers resources and means to accomplish performance and competitiveness goals.

Defining the marketing mix is an important feature in marketing strategy. The most efficient marketing endeavors end up with more satisfied customers and the right profits to a company.

Nowadays, innovation is more important than ever since it is about business survival and progress and it means the starting point in any business opportunities so that to identify new ways to promote a product or a service. Often lacking financial resources and internal expertise to do research, SME's find it difficult to implement innovative ideas.

**C. Sustainable Profitability.** The European Union encourages SME's to engage on the path to sustainable growth both from the environmental and social perspectives, as a solution for economic growth and competitiveness in the Union. Sustainable growth considers three aspects: sustainable economic growth, environment preservation and social responsibility. Romanian SME's have made progress when implementing environmental policies in the field of risk prevention and waste management.

**Diagram 1. Outcomes of Marketing Strategy**



Source: [David AZOULAY](http://www.marketingpourpme.org/xwiki2/bin/view/NBAccueil/), Pourquoi élaborer une stratégie marketing pour mon entreprise ou mes domaines d'activité ? (Why Prepare a Marketing Strategy for My Enterprise or My Fields of Activity) , <http://www.marketingpourpme.org/xwiki2/bin/view/NBAccueil/>

According to "SME'S and the Environment in the EUROPEAN UNION", a study on SME's and Environment in the European Union laid down by the European Commission ([http://ec.europa.eu/enterprise/policies/sme/business-environment/environmental-challenge/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/business-environment/environmental-challenge/index_en.htm)), it is shown that they need financial support and consultancy in order to accomplish marketing campaigns for the promotion of ecological products, for the certification of such product's manufacturing and retail. Environment management systems are too costly and too complicated for microenterprises or small enterprises which would rather resort to cheaper solutions and easier, more accessible technologies.

**D. Customer Relations.** A customer is the focus of a company's marketing vision. The main marketing goal is to know and understand customers and their needs for prospects with the purpose of developing new products and service that easily meet their requirements and wishes. Identifying such needs can often make the difference from competition. In order to increase company competitiveness in the current environment, the customer relations management is highly important in the field of sales and marketing.

Customer relations management helps a company quickly understand and cope with the changes occurring in consumer behaviors, achieve products adapted to targeted customer segments. Managing such relations well allows the anticipation of customer needs, offer differentiation from the products or services of competing companies, attracting new customers sooner or improving the methods to make current customers more loyal, it generates the improvement of how a company is viewed. Keeping customers by making them more loyal shall decrease costs and ensure a true and fair view of a company. A survey made by Fred Reichheld de la Bain & Company shows that a 5 % increase in the loyalty level of current customers generates an average profit increase of

more than 25 %, whereas attracting a new customer triggers six or seven times more resources (money and time) than in keeping an already existing relation. The strategy of making customers loyal has often been neglected or even absent in small and medium enterprises as an entrepreneur is not concerned with the "growth" policy of their own customers. Fred Reichheld, "The best way to measure loyalty is to simply ask people an easy question which I call the ultimate question: "Can you recommend us to a friend ?" ([Fred Reichheld](#), 2006)

## 5. Conclusions

Marketing blends with other activities in the performance of SME's but it is essential to understand its context especially referring to customer involvement, entrepreneurial innovation and marketing approaches. Developing marketing plans and efficiently communicating to target consumer segments are difficult tasks to entrepreneurs but the quality of such services directly influences a company's outcomes. Marketing allows better ranking and better promotion of a company. Moreover, creativity and innovation are essential elements in entrepreneurship which usually generates a market competitive advantage of a company. The heterogeneity of SME's requires the presence of a large variety when it comes to the strategies that can be applied to their activities in the context of the current economic crisis. SME's should be supported so that to take steps against the crisis grouped under two comprehensive categories: incentives for the demand and increase in competitiveness. In addition, it is necessary to provide general information and guidelines, consultancy and counseling to improve entrepreneurship, to help small and medium enterprises analyze and evaluate their capabilities of using various marketing techniques, methods and instruments so that to raise their profitability, to rank better, to contribute in regional growth.

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# THE MARKETING OF COOPERATIVE SOCIETIES

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## Abstract:

*Cooperatives have proven to be a business model that has endured over time, even during the economic crisis. Even if they don't have the scale of large companies, they manage, through their ability to adapt, to overcome challenges offered by the market they are acting. The fact that their members are working in these cooperatives makes them to engage more actively in cooperative work and also to be more responsible, in the end, working for them. Even if they don't have marketing budgets, cooperative societies have understood, during time, what brand strength means, and especially how to maintain it over time. Thus, without much knowledge of modern marketing, they were positioned on a particular market segment and, through their work, they manage to fulfill as good as possible, the promise to that segment. This work aims to analyze the marketing of cooperative societies and how they used it to sell their products.*

**Key words:** marketing, positioning, cooperative societies

**JEL classification:** M31, P13.

## 1. Introduction

Emerged as a form of protecting people from the middle class, the consumer cooperative has marketed, before the communist period, commodities like salt and kerosene. Many people could enter into this form of association, as founders, because they had the opportunity of sharing both monetary capital and different goods or equipments. During the communist period the consumer cooperative sector is increasing, holding the monopoly on trade and services on the rural area.

In the rural areas the consumer cooperative had shops and services, and in urban areas had storage and processing facilities for agricultural products purchased from its members. It was a so-called system of "exchange of goods between villages and towns" by which plant and animal products were purchased from members, then processed and then introduced into the state trading system, or even exported, this acquisition system allowing people from rural areas to harness their production, the products being taken directly from the farm. In exchange for goods, people received money (Petrescu, 2011).

The requirement from the Romanian state to sell the products on imposed costs during the period 1990-1992, the increase of inflation, and the introduction of VAT, which eliminated direct purchase of animal and vegetable products from the cooperatives' members, are just some of the causes that led to the decline of the consumer cooperative system, after 1989.

In advanced market economies, the cooperative system is an important component, the cooperatives conducting extensive activities, by which they are contributing to the development of the economies. Within the European Union, cooperatives may perform in any sector of activity, according to the cooperative members' interest, and can be divided into three broad categories: cooperative of customers, producers and cooperatives owned by employees. They hold a significant market share in core economic sectors, particularly in the following sectors: agriculture, construction, health, education, insurance, banking and commerce. In Romania, the cooperatives are present in commerce, manufacturing, banking, credit unions and very few in agriculture (Cucu, 2011).

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## 2. Principles and characteristics of cooperatives

The cooperatives' principles as they are defined in art. 8 of Law 566/2004 of agricultural cooperatives and art. 7, paragraph 3 of Law 1/2005 regarding the organization and operation of the cooperative, are guidelines by which cooperatives put into practice their own values:

a) *the principle of voluntary and open association* according to which the cooperatives are voluntary organizations that are created based on free will and are open to all the persons that are able to use their services and are willing to assume the responsibilities of a cooperator membership, without any discrimination on grounds of nationality, ethnicity, religion, political affiliation, social origin or sex.

b) *the principle of democratic control from the cooperative members*, according to which the cooperatives are democratic organizations controlled by cooperative members who participate in setting policies and making decisions. Persons acting as elected representatives are responsible to the cooperative members. In the cooperative societies of grade 1, members have equal voting rights, each having one vote, regardless of the number of shares held.

c) *the principle of economic participation of cooperative members*, according to which members contribute fairly to set the property of the Cooperative, exercising democratic control over it. At least a part of this property is indivisible. Cooperative members normally receive a limited compensation in cash or in kind, from the profit based on the annual financial statement and profit and loss account in proportion to the share of equity participation. The cooperative members allocate from the net profit of the cooperative society amounts needed for the following purposes: developing the cooperative society, rewarding cooperative members in relation to participation in the cooperative society and supporting other activities approved by the cooperative members.

d) *the principle of autonomy and independence of cooperatives*, according to which the cooperatives are autonomous organizations based on self-help and are controlled by their members. Establishing legal relations with other persons or entities, including the Government, or attracting external financing it is realized by ensuring the democratic control of the cooperative members and by maintain the autonomy of the cooperatives.

e) *principle of education, training and inform the cooperative members*, according to which cooperatives ensure that the education and training of their members, elected representatives, managers or employees so they can effectively contribute to the development of cooperatives to which they belong. Cooperatives inform the public, especially youth and opinion leaders, about the nature and benefits of cooperatives.

f) *the principle of cooperation between cooperatives*, according to which cooperatives serve their members and strengthen the cooperative movement. Cooperatives work together in local, national, regional and international bodies.

g) *the principle of concern for community* according to which cooperatives work for the sustainable development of the communities to which they belong, through policies approved by their members.

Romanian Cooperatives presents a number of features through they are defining as an important component of civil society (Petrescu, 2011; ICA, 2013):

- they are present in locations that are not profitable for private companies;
- cooperatives are economic agents able to generate profit and to provide, every year, new jobs;
- the cooperative is one of the few segments of the national economy that provides, on an organized bases, stable jobs for hundreds of people with disabilities, offering them the chance of decent work, by making low-complexity products in units specially organized or protected;
- handicraft cooperatives which are producing object of folk art and artistic crafts represent a means of promoting Romania worldwide through products incorporating specific tradition and national creative genius, the cooperative artisans effectively contributing to the perpetuation of the Romanian folk traditions;



- they are buying locally produced goods;
  - they are selling at low prices in low-income communities;
  - through their business model, the cooperatives create a much larger economic, social and environmental sustainability;
  - cooperatives give people an income, but also are a way to gain control over the conditions under which they are working, providing a "decent work" (Johnston, Hammond, 2009).
  - cooperatives are better because they are a business model that puts people at the heart of economic decision-making and bring a greater sense of fair play for the global economy.
- The main activities of the Romanian cooperatives are:
- production of light industry goods: textile and hosiery garments (apparel clothing, knitwear, sports articles), leather clothing, footwear, leather bags, purses, etc.
  - wood products: small furniture, carved furniture, beer sets, toys, "sewing box" and so on;
  - folk art and crafts: tablecloths, embroidery, scarves, towels, tapestries, icons painted on wood, folk dolls and so on;
  - glass and ceramic products: Christmas tree ornaments, interior decoration and so on;
  - metal: workbenches, tools and accessories, garden furniture, tool boxes etc.;
  - provision of services to the public and third parties: personal hygiene and human aesthetics, household electrical appliance repair and other durable goods, car maintenance and repair etc.;
  - supplies on the European Union market and outside the EU market;
  - wholesale and retail.

### **3. Cooperatives worldwide**

The cooperatives from the all sectors provide over 100 million jobs around the world, with 20 percent more than multinational companies. These include both their members and workers from the firms that supply goods and services to cooperatives.

It is estimated that worldwide approximately one billion people are members of cooperatives.

In 2011, the top 300 cooperatives have achieved a total turnover of 1.6 trillion dollars. This is how the size of Canada's economy, the tenth largest economy in the world, and almost the size of Spain's economy.

In Kenya, cooperative enterprises have the following market shares: 70% of the coffee market, 76% of the milk, 90% of the pyrethrum and 95% of the cotton.

In the United States, cooperatives control about 80 percent of milk production, while in California, most of the specialty crop producers are organized into cooperatives.

In Colombia, the National Federation of Coffee Growers provides production and marketing services for over 500,000 coffee growers. This contributes to the National Coffee Fund, which finances research and development of coffee-growing communities.

Dairy cooperatives in India with 12.3 million members, has achieved 22% of the milk produced in India. 60% of their members are landless or have very small plots of land. Women represent 25% of members.

In Brazil, cooperatives are responsible for 40% of agricultural GDP and 6% of total agricultural exports.

In many countries, cooperatives are primarily agricultural. In Vietnam, 44% of all active cooperatives are in the agricultural sector. In India, more than 50% of all cooperatives serve mainly as agricultural credit societies or provide marketing, storage and other services to their producer members.

In Kenya, 924,000 farmers earn income from membership in agricultural cooperatives, in Ethiopia around 900,000, while in Egypt, about 4 million (FAO, 2012).

Globally, there are three countries that have more than half of the population as members of cooperatives and they are all in Europe. They are Ireland (70%), Finland (60%) and Austria (59%).

However, the countries with the most important number of cooperative members are predominantly from Asia and America. These are India (242 million), China (160 million) and the USA (120 million) (Co-operative UK, 2012).

One in five people across North and South America is a member of a cooperative.

### ***Cooperatives behind the brands***

Behind some of the best known brands are millions of farmers around the world who have formed cooperatives to get a place in the supply chain to support their business and be able to keep brands alive.

Half of all British farmers are members of cooperatives, allowing them to survive in a competitive market.

Fairtrade was started by cooperatives in Mexico. Now a global phenomenon, 75% of all Fairtrade goods are produced by cooperatives of small farmers and producers, helping 887,000 small owners worldwide.

Lurpak. One of the most popular brands of butter from Europe, Lurpak is produced and owned by 8,000 dairy farmers in Denmark, Sweden and Germany.

Ocean Spray. A cooperative of 600 family farms from the U.S., Ocean Spray produces well-known cranberry products that are found on shelves around the world.

McCoy's. A cooperative of local potato growers provides the McCoy's chips.

Danish bacon. Danish bacon sold in every supermarket in the UK and exported to over 100 countries, is entirely produced by cooperative farmers in Denmark.

Ribena. Ribena current fame would not be the same if it had not been the blackcurrant growers Association, a cooperative of farmers who provides the most of its blackcurrants they are producing to Ribena.

Birdseye. Green Pea Company is a cooperative of farmers in the UK, providing peas for one of the most popular brands in the UK.

Colman's English Mustard. Mustard Seed Growers Cooperative is a cooperative of local farmers who provide the majority of the mustard seed for Colman's English Mustard.

Champagne is one of the most famous and most exclusive in France. Almost all French champagne is produced by small cooperatives of vine growers.

Parmesan. 90% of this classic Italian cheese is made by a cooperative of small farmers and producers from northern Italy (Co-operative UK, 2012).

## **4. Cooperatives in Romania.**

Data regarding the Romanian Cooperatives were taken from the 2012 Statistical Yearbook of the National Union of the Handicraft Cooperative UCECOM.

Of the 524 cooperative entities associated on 31.12.2011 to the National Union, 38 are representative crafts cooperative entities, respectively 22 county unions and 16 associations of cooperatives. Also, at the national level are associated 486 cooperatives, 40 of them opted for direct association to UCECOM and 446 cooperatives are associated to the territorial level, thus indirectly to the National Union of the Handicraft Cooperative.

Of the 486 associated cooperatives, 455 submitted financial statements for 2011. The 455 cooperatives analyzed according to EU criteria on the number of personnel are classified as:

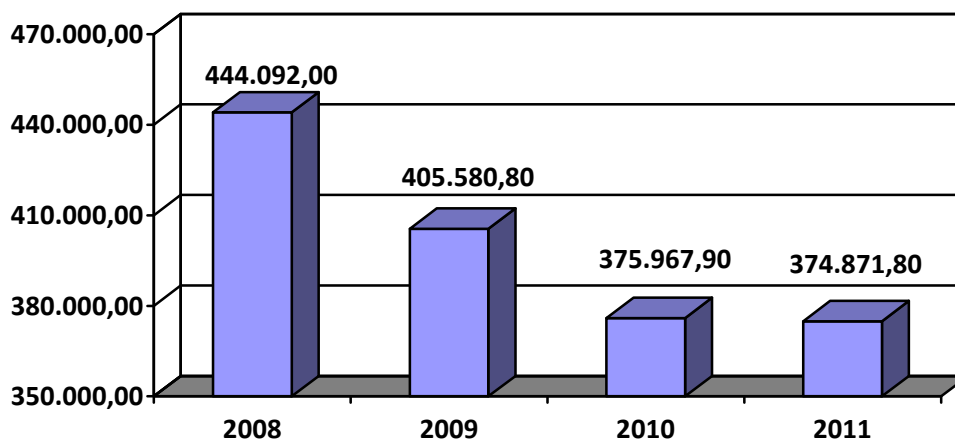
- micro class (<9 employees) - 112 cooperatives;
- small class (10-49 employees) - 242 cooperatives;
- medium class (50-249 employees) - 98 cooperatives;
- large class (> 250 employees) - 3 cooperatives.

**Table no. 1. Total production of cooperatives**

*thousand lei*

Year	2008	2009	2010	2011
Value	444.092,0	405.580,8	375.967,9	374.871,8

**Figure no. 1. Total production of cooperatives**



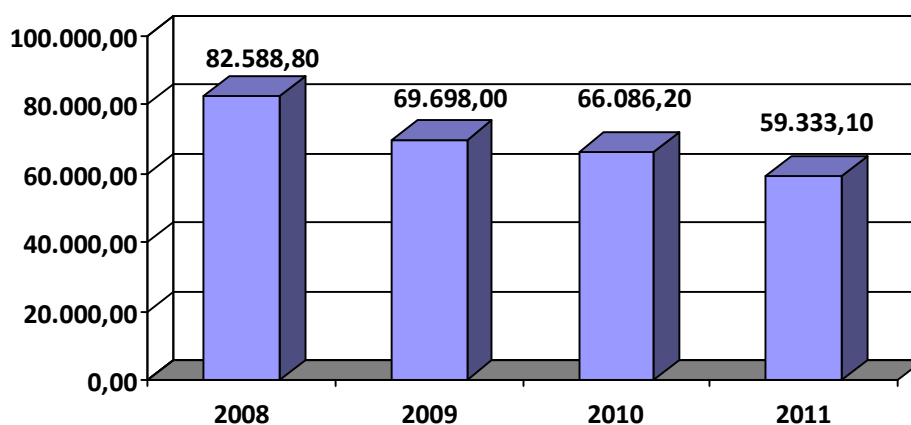
As can be seen, both in the above figure and the table, the total production of cooperatives has declined in the recent years. From 2008 to 2010 the decline was a sharp one, but in 2011 it is more temperate. Thus, in 2011, the total production of cooperatives was about 84% of the 2008 level.

**Table no. 2. Retail conducted by cooperatives**

*thousand lei*

Year	2008	2009	2010	2011
Value	82.588,8	69.698,0	66.086,2	59.333,1

**Figure no. 2. Retail conducted by cooperatives**

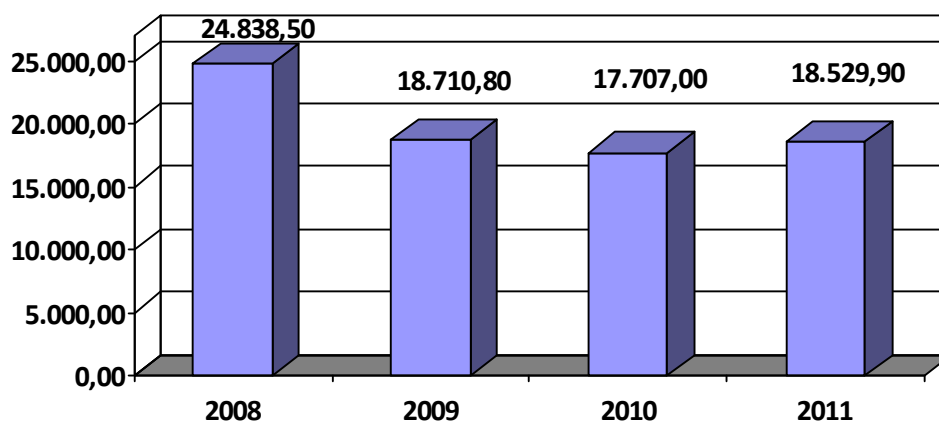


The retail of cooperatives has also decreased reaching, in 2011, about 72% from the level of 2008.

**Table no. 3. Inside and outside EU market deliveries made by cooperatives**  
*thousand euro*

Year	2008	2009	2010	2011
Value	24.838,5	18.710,8	17.707,0	18.529,9

**Figure no. 3. Inside and outside EU market deliveries made by cooperatives**



**Table no. 4. The situation of deliveries, on inside and outside EU market, made by cooperatives, in 2010 and 2011, by product groups**

No.	GROUP	2010		2011	
		thousand euro	thousand USD	thousand euro	thousand USD
1	Textile confections	11.959,4	0,0	12.633,9	0,0
2	Knitwear	1.136,3	0,0	742,8	0,0
3	Footwear	1.734,2	6,6	1.993,1	0,0
4	Leatherwear	98,7	0,0	105,9	0,0
5	Furniture and other wooden items	2.216,0	0,0	2.558,3	0,0
6	Basketry	0,0	0,0	0,0	0,0
7	Carpets	88,3	0,0	80,7	0,0
8	Handicraft	0,0	0,0	0,0	0,0
9	Toys	0,0	0,0	0,0	0,0
10	Pottery	0,0	0,0	0,0	0,0
11	Christmas tree ornaments and other glassware	0,0	0,0	0,0	0,0
12	Metal-chemical articles	367,5	0,0	296,0	0,0
13	Electrical items	0,0	0,0	0,0	0,0
14	Miscellaneous	106,6	0,0	119,2	0,0
	<b>Total</b>	<b>17.707,0</b>	<b>6,6</b>	<b>18.529,9</b>	<b>0,0</b>

Even though the total production of the cooperatives and the retail decreased, the deliveries made on inside and outside EU market have increased in 2011 after a continuous decline since 2008, which means that the cooperatives' goods are appreciated abroad. Looking at the table above, we see that the sales of furniture, wood items, textiles and footwear have increased over the previous year.

**Table no. 5. Economic indicators by region in 2011**

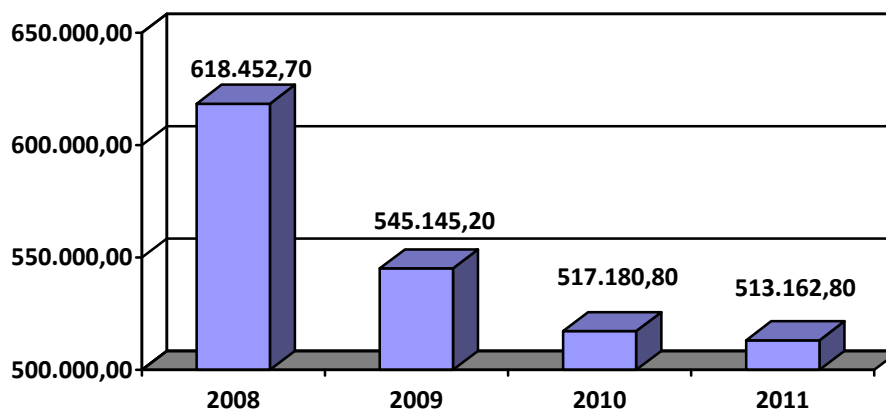
No.	Region	Total production (thousand lei)	Retail (thousand lei)	Investments (thousand lei)	Deliveries made on inside and outside EU market (thousand euro)
1	North-East	40.658,5	16.655,1	1.200,0	546,7
2	South-East	66.205,0	8.055,3	2.263,8	4.300,5
3	South	57.056,1	2.337,1	781,3	2.440,7
4	South -West	37.049,3	3.012,7	1.964,0	2.146,7
5	West	30.162,8	21.291,2	881,7	274,9
6	North -West	57.888,4	1.948,4	1.207,1	5.076,7
7	Center	30.797,6	3.053,9	383,9	3.133,0
8	Bucharest and Ilfov	55.054,2	2.979,6	1.483,9	610,7
	<b>Total</b>	<b>374.871,8</b>	<b>59.333,1</b>	<b>15.001,2</b>	<b>18.529,9</b>

**Table no. 6. Total income generated by cooperatives**

*thousand lei*

Year	2008	2009	2010	2011
Value	618.452,7	545.145,2	517.180,8	513.162,8

**Figure no. 4. Total income generated by cooperatives**



**Table no. 7. Economic and financial results of handicraft cooperatives from Valcea County**

*thousand lei and persons*

No.	The handicraft cooperative	Net turnover	Total revenues	Gross profit	Average number of employees	Equity	Capital
1	Certa Grup Rm. Vâlcea	2.355,6	2.396,2	15,7	71	3.081,9	441,9
2	Lotrul Brezoi	328,0	328,1	- 66,5	14	274,0	45,0
3	Blănarul Drăgășani	10,0	10,0	6,0	0	12,1	3,4
4	Ceramica Horezu	348,3	364,7	2,6	20	622,6	16,7
5	Auto Grup Horezu	36,0	36,0	0,0	4	-8,9	0,5
6	Tineret 94 Rm. Vâlcea	557,4	606,7	79,0	5	224,8	2,5
7	Constructorul Budești	75,8	116,2	3,5	2	4,2	1,8
8	Moda Lux Rm. Vâlcea	354,9	513,0	1,2	15	17,4	0,3
9	Moda Sârgunța Rm. Vâlcea	1.726,7	1.804,0	53,4	40	3.236,0	247,2
10	Progresul Rm. Vâlcea	1.851,5	1.891,9	64,4	140	2.406,3	459,3
11	Avimoda Drăgășani	0,0	0,0	0,0	0	-92,7	2,2
12	Marcomex Rm. Vâlcea	242,2	242,8	15,9	5	139,0	16,0
13	Oltul Rm. Vâlcea	868,2	874,8	- 1,0	46	786,0	20,6
14	Oltețul Bălcești	11,0	140,4	14,3	5	240,3	6,3
15	Prestarea Drăgășani	778,4	800,9	40,1	43	1.535,5	80,0
	<b>Total</b>	<b>9.544,0</b>	<b>10.125,8</b>	<b>228,6</b>	<b>410</b>	<b>12.478,4</b>	<b>1.343,5</b>

Currently, the Romanian cooperatives are, in their majority, the remaining of the ones existing before 1990, but they are continuing to demonstrate their viability. Their brands are those with old names such as for example Prestațiunea Iasi, Deservirea Caracal, Arta Modei Focsani, Sarguinta Ramnicu Valcea sau Staruinta Craiova.

Their workforce is a qualified one, a large part of the workforce being formed by the old employees that have experience in their profession. In terms of funding, mostly finance themselves and try not to use credit, preferring to reinvest profits (Hrițcu, 2010).

### **5. Cooperation in marketing - a path to follow by the Romanian cooperatives**

The role of marketing inside of a firm can not be denied today. Therefore it is necessary also for the cooperatives given that the consumer behavior and consumer preferences are changing quickly.

It is true that marketing activity involves costs but cooperatives can jointly carrying out this activity. Thus, they can cooperate in marketing, sharing the costs between them.

Among the benefits brought by cooperation in marketing, we can mention (West, 2008):

**Economies of scale.** There are economies of scale that can be achieved by joining forces and marketing activities and act as a group. When supply, cooperatives can group together and order a larger quantity and thus the purchase price will be lower than the individual supply.

**Bargaining power.** A group of cooperatives can combine purchases of the product or can group the offered services, which allows the increase of the bargaining power of the group. This bargaining power can be used to gain additional scale economies especially in the case of bulk purchase.

**The product stream.** Retailers need some consistency in the flow of products for their units. Retailers are looking for suppliers that can provide a steady stream of products daily, weekly, or monthly. The cooperative units that produce a small amount that does not attract the retailers may group and the quantity offered is a much larger, managing to capture the attention of retailers, on the one hand and will be able to negotiate a price as a group, on the other hand.

**Keeping markets.** Many companies are seeking to reduce costs of obtaining products or services. These companies are seeking to acquire goods or services but, in the same time, they want to do it from only few people and to reduce the number of contracts maintaining the same amount of products sold through their units. The cooperatives acting as a unit can keep, in the future, by a commercial cooperation agreement, many of the markets in which companies are trying reducing the costs associated with the purchasing process of products and services.

**Access to professional support.** Cooperatives are very good in their field, but they are nor always good at the marketing and neither can afford to go to a specialist consultant. The solution of professional marketing for their products is to join a group of marketing cooperation that will hire a marketing director to ensure proper conduct of this activity and to create a good image of the products sold.

**Revenue growth of cooperative societies.** This advantage is in fact a summary of the ones mentioned above. Reducing costs through bulk purchases, entering new markets, maintaining existing ones, negotiating a higher price for the sale of products are just some of the elements that can growth the revenues of the cooperatives.

If we add to the above-mentioned the increase of the value of products sold, the creation of an image and of the brand we have a clear picture of the benefits offered by the marketing cooperation.

## 6. Conclusions

Worldwide, cooperatives act in a variety of fields such as manufacturing, services, tourism, marketing, credit, etc. They are proving to be a viable business model, some countries building their economy on its existence and operations.

In Romania, as presented in this article, their development is not encouraging. Even though many of the existing ones are profitable, their model is not followed by others.

Given the high unemployment rate, they could be the key for increasing the number of jobs and also for the growth of household income.

To ensure a higher power the cooperatives need to focus more on what is needed locally and to do those things well. Only thus they can ensure themselves loyal customers that can bring them steady income.

Also, by setting up their own mixed shops, where the cooperatives can sell their products represent another way to ensure their presence on the local market.

To ensure their future existence, in addition to the above mentioned, cooperatives have to act on two other levels, namely workforce and credit. In order to ensure a qualified workforce as well as the existing one they have to invest in establishing a training center, especially since they still have dedicated staff that can prepare young people, unlike many other vocational training firms that focus mainly on the theoretical side.

In terms of credit, cooperatives may establish, from the resources they are holding a fund from which they can borrow to those in need or the newly created and therefore not to appeal to classic banking system which has high interest rates and difficult conditions in order to take a loan.

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# CONSIDERATIONS ABOUT DENTAL TOURISM DEVELOPMENT AND ITS SPECIFIC MARKETING IN ROMANIA

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## Abstract:

*Worldwide, the "actors" of the tourism market identified new needs, this aspect leading to the appearance of various forms of tourism such as: adventure tourism, city-breaks, cultural tourism, religious tourism etc. At the same time current economic development, marked by the recession of recent years, has led directly to the emergence of a social phenomenon: increase of unemployment rate in developed countries with major implications manifested from one to another in the global economy: incapacity of insurance to cover a wide range of medical services, discrepancy between prices for these services, increasing mobility of citizens. All these are direct causes of emergence, and especially development, of a new form of medical tourism, dental tourism. This form of tourism directing tourists from developed countries into developing countries. Romania has a significant potential to develop this form of tourism, recommended by the following advantages: highly qualified doctors, comparable lower prices, cultural, natural and anthropogenic resources. This paper is an argued proposal for the marketing in this field, which can be transformed into a competitive advantage for Romania.*

**Keywords:** medical tourism, dental tourism, marketing, online promotion

**JEL Classification:** I11, I13, I15, M31, M37.

## 1. Introduction

The 21st century consumer needs have generated and developed into a rapid pace, both new forms of marketing (health services marketing, promotion through social media, IT&C support advertising, rapid distribution, online shopping etc. ) as well as new forms of tourism (adventure tourism, cultural tourism, medical tourism, city-break etc.). New forms of tourism listed above, and others are already supported by government programs, creating in a very short time market niches for developing countries and especially competitive advantage for them in the international tourism market. Countries like India, Hungary, Turkey, South Korea are now in the top of medical destinations, and this competitive advantage is also possible because they are practicing proper and supported marketing. On the other hand, it is well known that Romania is a country with a great tourism potential. Also, it is known the success of Romanian doctors who drain their professional activity abroad. Therefore, we consider that Romania - by practicing a proper marketing - could be mapped into the trajectory of countries that are in the top destinations for medical tourism as, for example, in the adventure tourism Romania is one of the first ten developing countries in the world.

Among all types of specific marketing (services, medical etc.), which is the guaranteed for success "combination" of these tourist destinations for medical tourism? This paper aims therefore to create - for the beginning - a debate framework for this market actor which can bring to Romania a well-deserved place among the destinations for travel combined services and medical treatments. Further we present evolutions and perspectives of the worldwide medical tourism and a number of aspects about dental tourism in Romania, and in the last part of the paper, we propose a suitable marketing for these services.

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## 2. Global medical tourism - development and perspectives

Lately, medical tourism is a peculiar tourist phenomenon who took a global special extends due the increasing of the tourists' mobility, economic changes benefic in some developing countries and unstable economic climate in the developed countries like USA or Germany. In the last decade, the dimensions of this socio-economic phenomenon led to the formation of specialized research teams, using the internet to publish their own studies, providing complete and comprehensive information about medical tourism. One of those is publishing reports named "*Patients Beyond Borders*", thus providing useful information both for actors-consumers (and we propose for that the tourists-patients terminology) and actors-offers of the travel and medical market.

One of the important information provided by *Patients Beyond Borders* is related to the potential of this market, which in 2012 had the structure presented into Table 1.

**Table 1 - Estimated number of medical travelers by country for 2012**

Country	Number of tourist
<b>Brazil</b>	180,000
<b>Costa Rica</b>	30,000-45,000
<b>India</b>	300,000-700,000
<b>Korea</b>	81,000-150,000
<b>Malaysia</b>	670,000 (80%+ patients from adjacent Indonesia)
<b>Mexico</b>	200,000-1,100,000 (higher number is mostly due to undocumented Hispanics in California, Arizona, Texas returning home for care)
<b>Singapore</b>	400,000-610,000 (70% patients from adjacent Indonesia)
<b>Taiwan</b>	170,000
<b>Thailand</b>	920,000-1,200,000
<b>Turkey</b>	110,000
<b>United States</b>	600,000-800,000
<b>All others</b>	800,000-2,200,000 (Includes intra-EU travel)
<b>Total Estimates 2012</b>	4,461,000 to 8,016,000

Source: Patients Beyond Borders - *Estimated number of medical travelers by country: 2012*, [www.patientsbeyondborders.com](http://www.patientsbeyondborders.com)

(Note from the provider of the data: *Please note that some of the numbers have been listed as ranges due to large reporting disparities (e.g. Deloitte, McKinsey, Gallup, Economist, diverse reporting methods at various health and tourism ministries).*)

Analyzing the estimated data on patient-tourists, by country, for 2012, we find that this new form of tourism, the medical one, mobilizing a large number of such tourists, between 4,461 million and 8,016 million people, representing a significant proportion of those who traveled in 2012. Therefore, we consider that, in terms of marketing and potential, it is a growing market that offers to Romania the possibility of "joining" to it.

The team at *Patients Beyond Borders* also offers a top - estimated, of course - of the most popular destinations in the world for this purpose, according to the data into Table 2, among the reasons for which they are claimed (according to [www.patientsbeyondborders.com](http://www.patientsbeyondborders.com)) being the following:

- Government and private sector investment in healthcare infrastructure
- Demonstrable commitment to international accreditation, quality assurance, and transparency of outcomes
- International patient flow
- Potential for cost savings on medical procedures
- Political transparency and social stability
- Excellent tourism infrastructure
- Sustained reputation for clinical excellence
- History of healthcare innovation and achievement

- Successful adoption of best practices and state-of-the-art medical technology
- Availability of internationally-trained, experienced medical staff

**Table 2 – Estimated top destinations by treatment**

Country	Treatment	Comment	Approx savings
<b>Antigua</b>	Addiction and Recovery	Crossroads Centre, a 12-step addiction and recovery program founded by Eric Clapton, has welcomed international patients from 30 countries.	40%
<b>Barbados</b>	Fertility/IVF	Barbados Fertility Centre offers IVF and a host of fertility treatments at 40-60% savings. Success rates are improved over conventional strategies by offering a stress-reduced environment in a resort setting.	40-50% (IVF)
<b>Brazil</b>	Cosmetic Surgery	Luxury medical travelers often visit the world-renown Ivo Pitanguy Clinic.	20-30%
<b>Costa Rica</b>	Dentistry	Dentist's lobbies in San Jose and swanky suburb Escazu are filled with Americans and Europeans seeking savings on expensive restorative and cosmetic work – crowns, bridges, implants, dentures. Meza Clinic is fully accredited by the American Academy of Cosmetic Dentistry.	30-70%
<b>Hungary</b>	Dentistry	Germans, Austrians, Swiss and other patrons flock to Hungary for cost savings on dental work. One town – Gyor – in NW Hungary, boasts more than 150 dental clinics serving international patients.	40-75% (for restorative and cosmetic procedures)
<b>India</b>	Orthopedics, Cardiology	India is the world's medical travel "thrift" destination with savings of 60-90% on an array of procedures. Harvard-affiliated Wockhardt Hospital has performed more than 20,000 heart procedures, with 98%+ success rates (surpassing US and EU standards).	50-85% (for restorative and cosmetic procedures)
<b>Israel</b>	Fertility/IVF	Israel is one of the world's top producers of medical instrumentation, and a well-known center for inexpensive fertility treatments.	30-50% (IVF)
<b>Malaysia</b>	Health Screenings	Malaysia is medical travel's best-kept secret, with fluent English spoken everywhere and cost savings comparable to India in less culturally jarring setting. Savvy patients can obtain a full executive "well-man" or "well-woman" screening - including vision, dental, hearing, MRI, PET Scan - for around \$US1500 - more than enough savings to pay for a vacation in Kuala Lumpur and environs.	70% (Executive Health Screening)
<b>Mexico</b>	Dentistry, Bariatrics	Monterrey boasts four first-rate American-accredited hospitals offering bariatrics and weight-management programs to obese Americans at 40-60% savings. Each year more than 50,000 Americans cross borders into Mexico for dental work alone.	30-60% (Dentistry) 40-70% (Bariatrics)
<b>Singapore</b>	Cancer	Singapore ranks 6th in healthcare worldwide (compared to the US 36th ranking (source: World Health Organization). For cancer, Singapore's clinics and hospitals boast some of the world's best diagnostics. Patients visit for diagnosis, then head home for treatment. John's Hopkins International Medical Centre in Singapore specializes in cancer treatments.	30-40%
<b>South Africa</b>	Cosmetic Surgery, Cardiac	The classic "Surgeon & Safari" cosmetic surgery destination. World's first heart transplant performed at Christiaan Barnard Medical Center in Cape Town	40%

Country	Treatment	Comment	Approx savings
Thailand	Everything	Thailand boasts world-renown Bumrungrad International, the granddaddy of international hospitals and Asia's first American accredited facility, with 225 US board certified physicians and surgeons. BI welcomes 400,000 international patients annually from 120 countries, including 25,000 American patients each year. Thailand also known for meticulous cosmetic surgery, including gender reassignment. Dr. Preecha (the King (Queen?) of transgender procedures, has performed 3500 sex reassignment surgeries	40-75%
Turkey	Vision	Closer to the US and EU and a coveted tourist destination, Turkey has more American-accredited hospitals (41) than any other country. Tourists take vacation breaks for inexpensive eye check-ups and LASIK treatments. Dunya Goz World Eye Centers, based in Istanbul, have centers all over Europe and Asia.	40-50% (LASIK)

Source: Patients Beyond Borders – *Estimated top destination by treatment*,  
[www.patientsbeyondborders.com](http://www.patientsbeyondborders.com)

Looking at the data in the table above, we note – on the practice of dental tourism – that the countries of the former Eastern European communist region, like Hungary are among the top destinations recommended by these specialists.

About the value dimensions of this medical tourism market, globally, this experts group considers that is around 24-40 billion USD, and about 8 million tourists-patients who, on average, spend between 3,000 and 5,000 dollars, an amount that includes health care, transportation, border costs, accommodation etc. Also, it is estimated as an emergent market, with a growth rate of 15-20%, with higher rates in the North and South-East Europe and South Asia. Dental tourism is a niche segment of the tourism industry, with a rapid growth that is still studied globally.

### 3. Aspects of dental tourism development in Romania

In a study entitled “*Romania Dental Market Analysis*”, published by *RNCOS Industry Research Solutions from India* (as the press release) in October 2010, the Romanian dental tourism market has a strong growth potential. At that growth has contributed the current economic recession which, for example, in the U.S. or any other developed country in the world, has led to the unemployment increasing. In turn, the unemployment has, as a direct result, the medical uninsured population growth. The economic aspect is accompanied – according to the authors – by attractive prices for medical services in Romania, thus our country being a strong competition to those already established in the practice of this new form of tourism in the Middle East and Latin America.

Prices attractiveness is complemented by very high specializations, on international standards, of the Romanian dentists, by short period of treatment, by massive investments in new technologies and by the large number of existing dental clinics in Romania, being estimated an increase of about 17 % of the market in 2010-2012. *RNCOS Industry Research Solutions* specialists also appreciate that dental tourism market in Romania is only at the beginning of development, with a great potential.

Moreover, in this report, Romania is presented as one of the most popular destinations for dental tourism in Europe, this form of tourism enjoying government support and promotion worldwide in order to develop this additional dental services and tourism market.

Internationally, Romania is presented as one of the best candidates for dental tourism, according to the UK promoting website (<http://www.dentalimplantro.co.uk/>). Main arguments are: a Romanian valuable specialty educational system, retrieved in eleven profiled universities; quality standards and low prices, many and varied opportunities to practice at the same time leisure and recreation tourism (mountain tourism in the Carpathian mountains, the monasteries of Moldova, castles of Transylvania, the Danube Delta and the Black Sea etc.).

According to the same sources from UK, for many Italian people Romania was an important and preferred destination for dental tourism, promoted by strong Romanian community from this country. In recent years, also increased the number of patient-tourists from Hungary, even this country holds first place where in the dental tourism.

One reason for this sector spectacular growth was the support of the government policy in 1997, after which private dental services are beginning to make their appearance, offering dental services comparable to the international ones, as well as dental implants, aesthetic services. Moreover, for foreign citizens coming to Romania, the dental services are mainly: dental implants, crowns, whitening, facets, dentures etc.

It should be noted the advantage that Romanian dentists are good English speaking persons, communication with foreign patients being not an impediment to the development of dental tourism in Romania.

To support the fact that in Romania the prices for dental services are very affordable, we present comparatively in Table. 3 some prices used for health care in the European Union (Germany and Italy) and in our country.

**Table 3. Comparative prices of major dental services**

Dental procedure	Rates (euro)			
	Italy	Germany	Hungary	Romania
Temporary filling	37	-	free	3,5
Filling	-	100-150	60-80	15-22
Extraction	-	300	70	6-15
Dental implant	-	1,200-3,000	1,000	400
Crown	1,000-1,800	-	255	110-140
Complete prosthesis	2,000	-	560	135

Source: [http://stiri-medicale.clinicistomatologice.ro/turism-stomatologic.html#right\\_col](http://stiri-medicale.clinicistomatologice.ro/turism-stomatologic.html#right_col)

Many studies in the field of health tourism (<http://worldental.org/dental-tourism/cheap-dental-tourism-growing-fast-romania/4025/>) argue that Romania will become one of the most affordable dental tourism countries, because:

- patients will find affordable prices for quality dental services;
- dental treatment periods are relatively short;
- dental offices are equipped with top devices of medical technology;
- specialized staff is highly trained;
- huge innovations in cosmetic dentistry are also possible to be exploited. This is particularly important because cosmetic dentistry is the most expensive in the highly developed countries and, usually, is not covered by a standard insurance policy.

#### **4. Dental tourism marketing**

The proposal of appropriate marketing forms for dental tourism starts from and takes into account *the profile of tourist-patient for dental services and tourism*, result of an American specialist's complex research (research conducted by Vequist on 1,800 subjects). He has the following socio-demographic characteristics:

- gender: female
- average age: 36 years

- education: at least college – for 34% of the investigated subjects
- revenues: high
- marital status: in general, unmarried persons
- living environment: urban

An endogenous feature highlighted by the quoted study, refers to the fact that the profile of this tourist-patient type *develops professional influence* on others around him and, therefore, we can deduce that he is *an innovative consumer*. For marketers this feature is... perfect! Receptivity to new products and services is required by any market actor. If this is complemented by the influence on the group membership, then we can recommend to the medical tourism, particularly to the dental tourism, on *a personal relationship-based marketing*. The more welcome is this feature, the more professional influence reflects on colleagues, meaning people with similar socio-demographic characteristics (often educated, high income etc.), that will positively appreciate and understand the message becoming, in turn, potential customers.

*The marketing types* that can be used, in parallel, in dental tourism based on their interdependence are:

- branding;
- digital and online marketing;
- website development: online advertising, email marketing, social media;
- blog marketing;
- public relations;
- video-marketing;
- event management: event marketing, event branding, event consultation.

## 5. Conclusions

Internationally, already circulate the *dental marketing* expression, with advice like this: “make sure that «online smile» of the company which use online marketing leaves a first good impression to the site visitor”. This advice is based on the adage, now classic, which teaches us that a smile is a good visit card. Also, it matters more the specialists' opinions which practice the *dental marketing* and collaborate with institutions such as the American Academy of Cosmetic Dentistry (AACD). Following studies in the field, AACD showed that nine out of every 10 adults in America consider an attractive smile being an important social asset and eight out of 10 believe an unattractive smile makes a person less appealing to the opposite sex (according to [www.medicaltourismmarketing.com](http://www.medicaltourismmarketing.com)).

In conclusion, Romania must take into account and align to these trends in tourism and health, and travel agencies, tour operators and dental offices conceive but, especially, promote on the online support attractive complementary travel-dental services packages at competitive prices. It would be a real developing opportunity of this new tourism form and gaining the competitive advantage in this market with growth potential.

The health tourism development is seen as a priority by the ministries involved, but tourism infrastructure leaves much to be desired, passing, yet through a period of reorganization, together with the overall infrastructure of Romania, which is one of main weaknesses of tourism in our country. There are necessary an authority concerted effort at all levels and a viable strategy that can be implemented and applied to solve the problem as quickly as possible. It is received a very favorable message from doctors and tour operators, and if it will be supported effectively, not only in words, then in Romania could be attracted significant revenues.

The liberalization of medical market in the EU space would be another strong point for the development of dental tourism in Romania. As in developed countries health tourism brings about 3.4% of GDP, in Romania it can happens too.

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# THE MAP OF SUSTAINABLE EUROPEAN RETAIL

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## Abstract:

*Sustainability has become a topic of great interest to the contemporary world, as sustainable business could provide the resources future generations need for survival and full development. The most important step towards sustainable development is to rethink production processes and current consumption behaviours that are inconsistent with the principles of sustainability. Due to its economic power and privileged position as an intermediary between supply and demand, retail has worldwide influence on the sustainability strategies of producers and on consumption patterns.*

*In this context, this paper aims to measure the sustainability of retail in EU countries by creating an Index of Sustainability of European Retail (ISER). The development of this index was based on a proprietary measurement methodology, using three categories of determinants of sustainable retail, ten variables, content analysis of statistical data retrieved from Eurostat, GFK and Yale University. The results of the study allowed us to evaluate EU countries based on the economic, social and environmental performance of their retail industries and to develop a map of sustainable European retail.*

**Keywords:** *sustainable development, corporate sustainability, sustainable retail, Index of Sustainability of European Retail (ISER), map of sustainable European retail.*

**JEL Classification:** L81, M31, Q01.

## 1. Introduction

The most accepted concept of sustainable development (Baxter et al., 2009) was coined by the Brundtland Report (United Nations General Assembly, 1987, p.8) which claims for a development that “meets the needs of the present without compromising the ability of future generations to meet their own needs”. There are three nested and interdependent spheres where the largest is the environment that provides ecosystem services and natural resources, the middle is society and the smallest is the economy (Baxter et al., 2009). Therefore, sustainable development encompasses three main dimensions: social, environmental and economic (Savitz, 2006).

The environmental dimension encompasses the ecosystem wellbeing, which is a “condition in which the ecosystem maintains diversity and quality, its capacity to support all life, and its potential to adapt to change to provide future options” (Prescott-Allen, 2001, p. 7). The social dimension deals with human wellbeing, how to attend human needs and to increase the opportunities of development equally for all. In other words, it is about equity and quality of life. Finally, the economic dimension focuses on the wealth creation.

An important aspect in the path to sustainable development is the change in our current unsustainable consumption and production pattern to a pattern that reduces the pressures over the environment (resource consumption and waste discharges) while meeting people’s basic needs and improving their quality of life (UNEP, 2011). This change is so critical that it was adopted as one of the main objectives of the 2002 World Summit on Sustainable Development in Johannesburg and the 2012 Earth Summit in Rio.

The retail industry has a significant role to play in the sustainable development process, due to its global economic power and its privileged position between supply and demand. In fact, retailers can influence both the production (Jones et al., 2008; Illes, 2007) and the consumption patterns (Jones et al., 2005; Knight, 2004) all over the world.

In this context, this article aims to serve a double purpose. First, it provides a brief, but clear description of the determinants of sustainable retail in the European Union, through

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analysis and synthesis of the most important papers on the topic. Secondly, this paper builds upon a set of data from reports published by Eurostat, the World Economic Forum, the European Shopping Centre Trust and GFK Geomarketing, Yale University and the Global Reporting Initiative to calculate an Index of Sustainability of European Retail. Based on the values of ISER, we were able to present the current state of concerns of EU organizations from the retail industry in terms of promoting sustainability in their businesses.

## **2. Corporate sustainability**

Although sustainable development is a societal concept, it has been applied at the organizational level under the name of “corporate sustainability” (Steurer et al., 2005), the objectives of sustainable business creation and consolidation being: optimize welfare, maintain the capacity to support life and ensure social equity (Gănescu, 2012).

Since the last decade, notably, companies as key actors in society have been pressured to change the way they do business to integrate sustainable development principles in their daily practices and to disclose their impacts and contributions to sustainable development (Kolk et al., 2010; Smith and Sharicz, 2011). Therefore, a growing number of corporations are undertaking efforts under the umbrella of corporate sustainability (Roca and Searcy, 2012). Practice has proven that responsible organizations secure their long-term survival because they create economic value, healthy ecosystems and strong communities (Bertels et al, 2010).

In this context, sustainable development actions along with transparency have become vital aspects for any company. “The urgency and magnitude of the threats and risks to our sustainability along with its opportunities will transform sustainability disclosure and transparency in a key success factor for any organization” (Global Reporting Initiative, 2012).

Scholarly literature provides fairly divergent definitions of the concept of corporate sustainability: "applying business strategies and activities that meet the needs of today's organization and stakeholders, while protecting human and natural resources that will be needed in the future" (International Institute for Sustainable Development, 1992); “meeting direct company needs and indirect stakeholder needs (shareholders, employees, customers, pressure groups, communities) without compromising the ability to meet the needs of parties who will become interested in the future" (Dyllick, Hockerts, 2002), "proving that social and environmental objectives are integrated into business operations and are in interaction with stakeholders" (Van Marrewijk, 2003), in an attempt to demonstrate that corporate sustainability and corporate social responsibility are synonymous; "the ability to act together by renewing assets, creating and delivering products and services that meet the expectations of modern society, attracting successive generations of employees, contributing to a sustainable environment, gaining the trust and support of customers, shareholders and the community in which they carry out their operations"(Caraianni, et al., 2010, p.80).

Measuring corporate sustainability is one point of great interest to researchers. Veleva and Ellenbecker (2001) have created a set of indicators to assess sustainable production practices. The authors suggested a new methodology based on 22 key indicators (quantitative and qualitative) to assess sustainable production and a guide to implement it, along with strengths and weaknesses of the suggested methodology.

Another study creates a framework of sustainability indicators, comparable with the general indicators proposed by the GRI, as a tool to evaluate the performance of mining companies (Azapagic, 2004). Gallego (2006) showed how 19 companies from Spain apply GRI principles () and identified commonly used indicators.

Ugwu and Hawupt (2007) identify sustainability indicators for South African construction industry. The research was conducted using a combination of structured interviews with the industry professionals, case study project data, existing government



guidelines, literature on sustainability research and questionnaire-based survey for indicator validation. Searcy *et al.* (2007) presented a system of sustainable development indicators for the transmission system for a Canadian electric utility.

Another study (Mocanu-Perdichi, 2009) focused on measuring sustainable development in Romania at regional and county level, and obtained a composite indicator of sustainability comprising of 19 indicators, grouped into four dimensions (environmental, institutional, economic and social), with emphasis on the last one. Another study conducted in 2007 (Nordheim, Barrasso, 2007) aimed to create a set of 34 indicators of sustainable development of enterprises in the European aluminium industry, covering 800 factories and measuring the evolution of these indicators between 1997 and 2002.

A study from 2011 forayed into literature published between 2000 and 2010, providing a basis for structuring a set of 65 key questions for future research (Searcy, 2012). The analysis on 17 corporate sustainability reports of Greek companies (Skouloudis, Evangeline, 2009) studied how economic, environmental, and social performance was presented and identified the most commonly used metrics (total sales, cost of materials, raw materials and services, benefits, donations and philanthropy, water and energy consumption, CO2 emissions).

The way organizations choose to incorporate the principles of sustainability into business strategy will determine their success in achieving long-term competitive advantage. This sustainable approach reshapes the rules of competition, creates new business models, redefines and restructures the markets, generating at the same time risks and opportunities (KPMG, 2011).

### **3. Sustainable retail**

Retailing is a diverse and dynamic industry offering a wide range of goods and services to consumers. The retail sector and the retailers, the latter understood as any organization that sells products to consumers, have an important role to play in changing the current consumption and production patterns to more sustainable ones. This is due to this industry increasing economic importance, capillarity and privileged position between production and consumption influencing both directions (Jones *et al.*, 2005; Erol *et al.*, 2009; UNEP, 2011). In this sense, UNEP (2011) points out that to play this important role retailers should ensure the sustainability of their internal operations and influence suppliers to produce and consumers to consume sustainably.

One must also consider that retailers represent the last stage of the distribution channel and more specifically the fact that the retail industry may drive the whole supply chain process and its economic, environmental and social consequences (Claro *et al.*, 2013). On the other hand, customers everywhere are more aware of the social and environmental activities of retailers, and companies that invest in such activities tend to perform better (Garcia-Gallego and Georgantzis, 2009).

In response to this growing attention, retailers have created corporate programs to collect valuable data and formulate a strategy for sustainability (Iles, 2007). For some retailers, sustainability was built into their core values from the beginning; for others it has been embraced only more recently, through their sustainable business strategies, strategies meant to balance their economic, social and environmental objectives on long term. Regardless of its origin, sustainability is becoming a core consideration for the retail industry, affecting strategy, operations, workforce engagement, and connection to consumers and communities.

In order to play their role, retailers should take three main types of activities (UNEP, 2011):

✓ Management of its own sustainability impacts (stores, headquarters, warehouses.): through the implementation of environmental management systems for energy/water conservation, waste management, recycling programs, etc.;

✓ Supply chain management: through cooperation to develop products with sustainable attributes, to incentive the adoption of cleaner production techniques, the use of sustainable criteria to select suppliers, etc.;

✓ Education of customers: through consumer education about sustainable consumption, incentives to buy eco-friendly products, advices regarding products sustainability aspects, usage and disposal, etc. Such responsibility is increased due the trust retailers won among customers and its increasing economic global power.

Scholarly literature provides some interesting attempts to define methodologies and indicators to assess the sustainability of retail. Heller (2003) analyzed the problems and effects of applying the concept of sustainable development by each category of products, especially food. Rimmington *et al.* (2006) aimed to develop the principles of sustainable food procurement and key performance indicators to measure progress in putting them into practice.

In a 2009 research, Erol developed a guideline to obtain the most suitable indicators for environmental sustainability ('water consumption', 'energy consumption', 'category selection and management' and 'product and packaging recovery'), social sustainability ('customer complaints', 'occupational health and safety', 'NGO–retailer partnerships', 'consumer health and safety', 'private brands', 'training and career' and 'personnel turnover and layoffs') and economical sustainability ('innovative capabilities and R&D expenditures', 'total payment made to employees', 'number of shareholders', 'total payments per share' and 'total tax paid') in grocery retailing (Erol, et al, 2009).

Wiese (2010) reviewed the previous literature on the application of the concept of sustainable development in retail; Yudelso (2010) dedicated his research to the general possibilities of applying the principles of sustainable development in retail, while Lukic (2012) analyzed the achievements and limitations of applying the concept of sustainable development in the Serbian retail sector.

As various indicator systems exist for the individual dimensions of sustainability, research on sustainability indicators has generally occurred at two different levels: macro and micro levels. Macro indicators attempt to measure the sustainability of a city, nation or the world, while micro indicators generally relate to the smaller, more local units such as company, organization and industries (Gray and Wiedeman, 1999). The mainstream literature regarding micro level sustainability indicators includes identifying and selecting indicators in industries and organizations (Erol, 2009).

#### 4. Research methodology and findings

There is an increasing recognition that corporate retail power is the driving force for the whole of the supply chain. In order to materialize this potential, performance in sustainability should be assessed, and evaluating sustainability performance of an industry requires developing a system of performance evaluation framework.

The first step in designing a methodology to measure the sustainability of the retail industry in EU countries was to select a set of variables that highlight the sustainability of this industry in three basic dimensions of sustainable development: economic, social and environmental. These variables are summarized in Table no.1.

**Table no. 1 Variables of the sustainability of retail industry**

Dimensions of sustainable retail	Variable (unit of measure)	Variable nature	Variable source
Economic Dimension	Retail sales productivity (E/m <sup>2</sup> )	Quantitative	European Shopping Centre Trust and GFK GeoMarketing (2013)
	Sales area in retail (m <sup>2</sup> /capita)	Quantitative	European Shopping Centre Trust and GFK GeoMarketing (2013)
	Retail contribution to GDP (%)	Quantitative	<a href="http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database">http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database</a>

Dimensions of sustainable retail	Variable (unit of measure)	Variable nature	Variable source
	Value added by retail industry	Quantitative	<a href="http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database">http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database</a>
Social Dimension	Employment rate in retail as % of population	Quantitative	<a href="http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database">http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database</a>
	Personnel costs in retail as % of retail turnover	Quantitative	<a href="http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database">http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database</a>
	Ethical behavior of retail organizations	Qualitative	Schwab, K. and Sala-i-Martin, X. (2012)
Environmental Dimension	Number of GRI Reports in Retail	Quantitative	Global Reporting Initiative (2012)
	Number of retail organizations certified ISO 14000	Quantitative	<a href="http://www.iso.org/iso/home/standards/certification/iso-survey.htm">http://www.iso.org/iso/home/standards/certification/iso-survey.htm</a>
	EPI (Environmental Performance Index)	Quantitative	Emerson, J.W., et al (2012)

Source: designed by authors

Defining the Index of Sustainability of European Retail required a research database with values for each variable involved in assessing sustainability in the retail industry, for each of the 28 European Union member states. The lack of 2012 data for Malta imposed its exclusion from the list of states.

The values of variables involved in assessing the sustainability of the European retail industry were aggregated and normalized using the min-max method to maintain order and relative distance between the scores of different countries included in the analysis. To determine the *Economic Sub-index* we used a weighting coefficient of 0.25 and a weighting coefficient of 0.33 for the *Social Sub-index* and the *Environmental Sub-index*.

The Index of Sustainability of European Retail was calculated as a composite index by determining the arithmetic average of three the sub-indexes, using the following formula (Afgan and Carvalho, 2008):

$$ISER = (Economic\ Sub-index + Social\ Sub-index + Environmental\ Sub-index) / 3 \quad (1)$$

The results allowed us to rank EU states in terms of sustainability of their retail industries. The state with the highest index value is the state whose retail industry demonstrated the greatest concern for the sustainability of its activities and results (Table no. 2).

**Table no. 2 A ranking of EU Member States based on the sustainability of their retail industries (Malta excluded)**

No	Country	Country acronym	Economic Sub-index	Social Sub-index	Environment Sub-index	EUROPEAN SUSTAINABLE RETAIL INDEX
1.	Sweden	SE	42,624	35,488	62,603	46,905
2.	United Kingdom	UK	36,522	33,151	68,080	45,918
3.	Finland	FI	43,556	37,668	56,141	45,789
4.	Spain	ES	29,821	19,620	78,437	42,626
5.	Germany	DE	33,390	32,652	51,855	39,299
6.	Netherlands	NL	38,560	37,335	41,348	39,081
7.	Luxembourg	LU	55,230	32,519	23,090	36,946
8.	Denmark	DK	43,571	37,887	23,361	34,939
9.	Belgium	BE	41,537	26,882	31,284	33,234
10.	Austria	AT	41,975	31,991	24,894	32,953
11.	France	FR	39,022	27,731	28,168	31,641
12.	Italy	IT	28,149	9,666	49,282	29,033
13.	Portugal	PT	28,917	19,140	38,109	28,722
14.	Ireland	IE	34,771	29,677	19,966	28,138
15.	Cyprus	CY	35,845	18,621	19,050	24,505

No	Country	Country acronym	Economic Sub-index	Social Sub-index	Environment Sub-index	EUROPEAN SUSTAINABLE RETAIL INDEX
16.	Estonia	EE	24,209	23,324	19,005	22,179
17.	Slovenia	SI	29,872	15,343	21,272	22,162
18.	Greece	EL	24,419	0,000	37,628	20,683
19.	Hungary	HU	21,151	8,828	30,195	20,058
20.	Latvia	LV	21,922	13,984	23,575	19,827
21.	Czech Republic	CZ	23,592	7,054	28,353	19,666
22.	Lithuania	LT	22,628	13,855	22,118	19,533
23.	Poland	PL	19,686	14,525	22,579	18,930
24.	Croatia	HR	23,237	9,327	22,572	18,379
25.	Slovakia	SK	21,084	7,213	24,980	17,759
26.	Romania	RO	9,910	4,141	35,198	16,416
27.	Bulgaria	BG	11,721	8,496	20,799	13,672

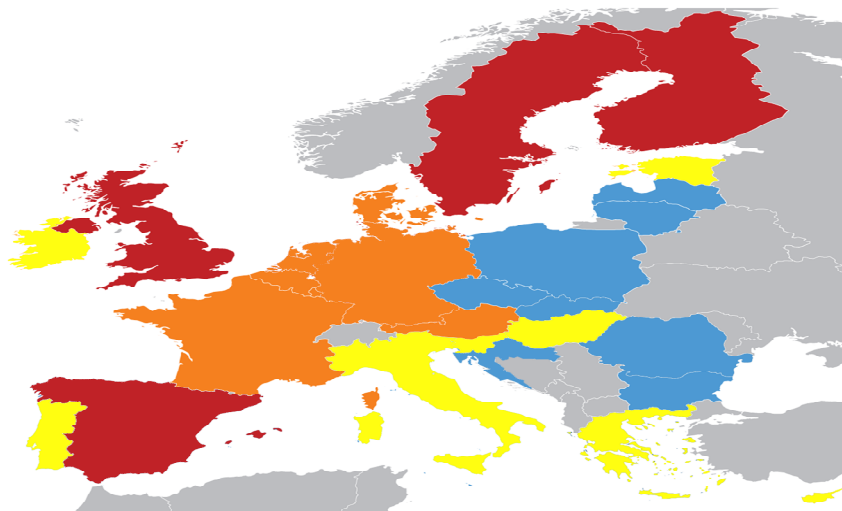
Source: designed by authors

The ISER values helped group EU countries into four categories of performance in terms of sustainability of their retail industries:

- Retail sustainability leaders – Sweden, United Kingdom, Finland, Spain.
- High retail sustainability – Germany, Netherlands, Luxembourg, Denmark, Belgium, Austria, France.
- Medium retail sustainability – Italy, Portugal, Ireland, Cyprus, Estonia, Slovenia, Greece, Hungary.
- Low retail sustainability – Latvia, Czech Republic, Lithuania, Poland, Croatia, Slovakia, Bulgaria.

Leaders in sustainable retail respond to the expectations of contemporary society through sustainable practices, while consumers in these countries increasingly embrace sustainable consumption. In countries from the lower part of the rank, retail industries are in an emerging state and should focus more on sustainable practices regarding business, employees, suppliers and customers. Romania ranked second to last in the overall standings; this is a position justified by the low focus of Romanian organizations in general towards social and environmental reporting. The distributions made based on the ISER values helped created a map of sustainable European retail (Figure 1).

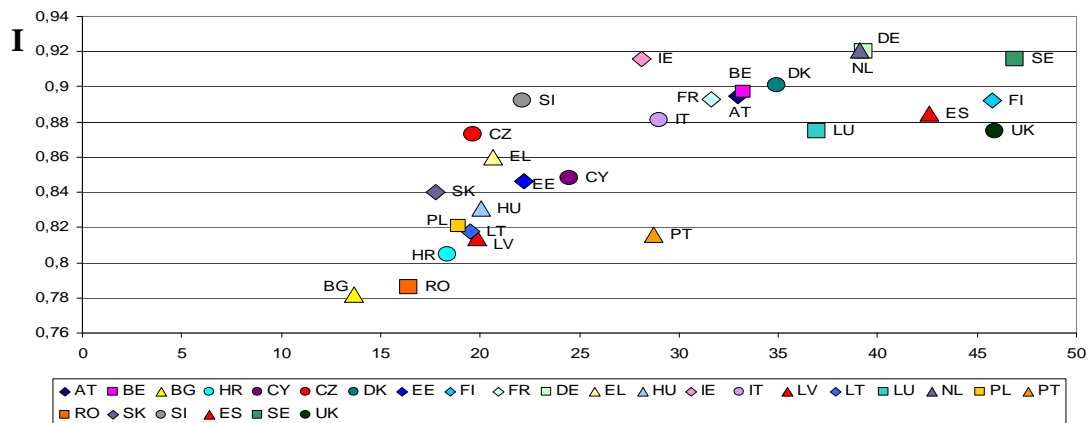
**Figure 1. Map of European sustainable retail**



Source: designed by authors

Based on the values of the ISER, we correlated the sustainable performance of EU retail industries and the level of human development in these countries, evaluated by the HDI (Human Development Report, 2013). We obtained a value of **0.752**, which indicates a strong positive correlation between the analysed indicators and proves that a sustainable retail industry contributes significantly to the enhancement of human development in the community. These results are illustrated graphically using a correlogram (Figure 2).

**Figure 2. Correlogram between the Index of Sustainability of European Retail and the Index of Human Development in 2012**



Source: designed by authors

I

## 5. Conclusions

Sustainability issues are becoming more and more relevant for any retail business. The essence of the sustainable retail concept is that retailers do business in such a way that simultaneously satisfies all three objectives: environmental, social and economic. The concept of sustainable development is treated as a highly effective strategic tool of managing modern retail companies because, among other things, it contributes to creation of significant additional value in the retail sector (Lo, 2010), which is, together with meeting the customer needs, a special goal of business.

Retailing companies have a huge potential to impact on sustainability performance of national economies, due to their global economic power and there privileged position between supply and demand.

Our research contributes new knowledge on contemporary retailing by integrating three dimensions of sustainable development in a system designed to evaluate the performance of retail industries in EU countries. Specifically, this paper identifies the variables that determine the sustainable development of retail industry in the European Union, designs the methodology for the calculation of an Index of Sustainability of European Retail, distributes analysed countries into sustainable retail performance categories, demonstrates the role of sustainable retail in stimulating the process of human development and designs a map of sustainable European retail.

Research limitations derive mainly from the varying degree of reporting economic, social and environmental results among organizations in retail industries in analysed countries. On the other hand, precisely the lack of importance attributed to reporting such results may show the reduced focus of these organizations on the sustainable development of their businesses.

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# EVOLUTIONS AND TENDENCIES IN THE GLOBAL TOURISM TRAFFIC

Carmen, Iordache<sup>1</sup>

## Abstract:

*Tourism is a new social and economic phenomenon that really integrated within daily facts after the Second World War, more precisely in the early 60's. Due to the major changes in the world economy, tourism has had a significant growth, hence its feature given by numerous authors as a "phenomenon typical of the modern world" or a "constituent of daily life". The men of the future consider that XXI century will be the beginning of a post-industrial society, the communications, the information technology and the tourism being the economical leading domains.*

*Resorting to the statistics of the World Tourism Organization, we can notice that tourism generates almost 9,7% of world gross product, comprises around 4.7% of all investment efforts, mobilizes about 12% of population's consumption expenses and provides work places to almost 8.7% of world working people (1 of 12.3 workers are directly employed in the tourist field).*

*The statistics above show that tourism means an important factor in the process of economic growth, and it is essential that such an activity must be analyzed scientifically, objectively, from the perspective of tourist movement indicators.*

**Keywords:** *tourist movement, tourist indicators, arrivals, returns, departures.*

**JEL Classification:** L83.

## 1. Introduction

In international practices (Fridgen, J. 1991)), the statistics used in tourism express the amount of tourist activities by three basic indicators:

- ▶ *the number of tourists*, respectively the total number of people that circulate on tourist purposes within national borders or outside them;
- ▶ *the number of days/tourist* shown when multiplying the number of tourists and the duration of stay (number of days) in a tourist destination;
- ▶ *the amount of tourist consumption* shown in values, seen in consumed or purchased products' and services' values during temporary movements by tourists.

Since the amount of tourist expenses exceeds the amount of cashing reported by service providers statistically, WTO in cooperation with the World Travel and Tourism Council (W.T.T.C) and with the European Union Statistics Office (EUROSTART) have set up the system of tourism satellite account (Ro. C.S.T.).

Tourist movements as well as tourist activities all in all use significant money flows rendered by tourists' personal expenditures, economic agents' returns, salaries, taxes, fees etc. C.S.T. is bound to allow the assessment of tourism share in the world economy in terms of values and concrete dimensions which can be compared internationally (OMT, Madrid, 2001, 2002).

## 2. Quantification units of tourist movement

The basic instruments of tourist surveys are observations of tourist phenomena registered in various places and at various times of tourist consumption. The observation units that supply necessary information when quantifying the tourist phenomenon (tourist movement) can be identified as follows (Iordache C., 2008):

- ▶ **Customs units** where they register the movement of domestic and foreign tourists and travellers according to countries they come from or go to, means of transport or

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purpose of journey; all this information is taken from tourists' declarations or the customs papers connected to border crossing;

► **Tourist accommodation units** which monitor both accommodation supplies (number of accommodation places, types of services requested, data regarding incomes and personnel, juridical status), and demands (number of tourists and nights spent according to origin countries), giving information taken from the registration of people accommodated in those units);

► **Domestic or foreign travel agencies** on national territory which monitor the number of tourists, the share of activities organized, destinations (inside or outside the country) where tourist activities take place, the incomes raised from additional actions. The information is taken by centralizing recreation and treatment tickets (vouchers) or trip registrations;

► **Inquiries about tourist activities** where tourist families participate; they fill in questionnaires on tourist activities, and then, by their centralization, information is obtained referring to the share of tourist expenses in global consumption level, the preferences for certain types of supplies etc.;

► **Financial and banking institutions** which provide information about tourist demand in general and foreign tourist demand in particular: returns, payments, tourism influence upon payment balance, tourism contribution in GDP etc.

The statistical system seems a vast reservoir where all the information and available data referring to tourist activities accumulate systematically, continuously and reasonably.

### 3. Types of tourist flows

A tourist flow is rendered by the "number of people that move between a demand section with rules and economically developed areas, and a supply section with specially attractive tourist regions (exporting areas)".

Tourist flows can be structured *from the perspective of geographic distribution and of the distances between sending and receiving areas*. Thus, there are:

→ *interregional flows* – they are tourists' travels from one continent to countries on other continents and they mean almost 20% of all tourist movements;

→ *intraregional flows* – they comprise movements within the same continent or region (80% of all travels).

*According to their contents* (Gray H.P., 1970), *tourist flows may be classified into two large categories*:

→ *"sunlust" flows* – meaning tourism in the sun or due to other natural conditions (snow, mineral waters) and mainly formed under the influence of prices and distances;

→ *"wonderlust" flows* - meaning tourism of knowledge (cultural and religious tourism, participation in scientific, artistic and sports events) where the decisive factor is the quality of supply and its differentiation from the domestic one.

Mass tourism typical of the 60's and 70's was characterized by "sunlust" flows but once the economic and social dynamism boosted, it was gradually removed and people have started practising a new form of tourism, characterized by "wonderlust" flows. This breakup is rendered by three elements (C. Iordache, 2004):

→ *passive tourism is replaced by active tourism* which means people seek to spend their leisure by doing cultural, sports, craftsmanship activities etc.;

→ *modern tourism pursues a natural, human and social environment of high quality*, a pleasant atmosphere to live in;

→ *tourists tend to divide their holidays*, as they prefer going on trips for shorter periods of time and more often.

Tourism growth in a new approach is closely related to the development of tourist consumption. This development is characterized by the transition from standardized mass tourism (the four S's – *Sea, Sun, Sand, Sex*) to more diverse tourism (Lowry, 1993:183).

Buhalis (1994:261) proposed that the traditional 4S's for tourism be transformed in „*Specialisation, Sophistication, Segmentation, Satisfaction*”. This process started in the late 1980s and it is expected to dominate the transformation of tourism demand as well as the re-engineering of the industry during the next century.

The new form of tourism features the three L's – *Lore, Landscape, Leisure* and emphasizes the search for local traditions, family or group entertainment organized as celebrations, or doing unsophisticated, amateurish sports (MacCannell, Dean. 1976.). This pattern explains the development of various cultural, historical, sports or leisure activities in general which would not have taken place if tourist demands had not occurred (Kotler, Ph., 1998).

Knowing continents, dimensions and tourist flows' orientation is a significant aspect when assessing tourism, its ranking in international exchanges' structures as well as for setting up a growth strategy in the field.

#### 4. Analysis of foreign tourist movement

Setting up any national strategy for tourism growth also aims at knowing the tourist phenomenon in detail at world level and by large tourist regions. In this respect, WTO is the complete and best source in the field of statistical data and medium- and long-term predictions.

The main indicators that characterize the evolution of tourist industry are rendered by the number of arrivals, foreign tourists and foreign currency returns.

**Table 1. Evolution of arrivals and returns in foreign tourism at world level**

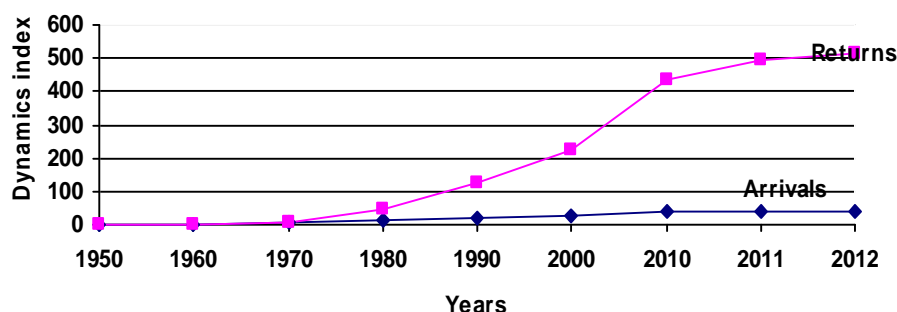
	1950	1960	1970	1980	1990	2000	2010	2011	2012
<b>Arrivals (million)</b>	25.3	69.3	165.8	287.8	458.3	696.2	940	995	1035
<b>Variation to 1950</b>	1.00	2.74	6.55	11.38	18.11	27.52	37,15	39,33	40,91
<b>Returns (billion dollars)</b>	2.1	6.9	17.9	102.0	266.2	475.8	919	1042	1075
<b>Variation to 1950</b>	1.00	3.29	8.52	48.57	126.76	226.57	437,61	496,19	511,90

Source: *Tourism highlights*, 2013, UNWT, Publications Department

One can notice the continuous trend to grow the dimension of the tourist phenomenon which proves that such activities somehow show phenomena resistance characterizing the global environment, respectively economic crises, political troubles, conflicts etc. (table 1).

In the sixth and seventh decades, the tourist phenomenon was on the rise, then it slowed down as a consequence of its reaching its fullest.

**Graph 1. Comparative evolution of indices related to arrivals and returns in international tourism**



If the two indicators analyzed above are compared, one can notice the more pronounced dynamics of returns (511,90% as compared to arrivals – 40,91%, graph 1). Such dynamics is the result of currencies' parity belonging to the main markets of tourists as compared to the US Dollar and does not show the real decrease of tourist expenses.

It is interesting to know the trends at regional level during 1960-2012 (table 2).

**Table 2. Distribution of international tourist movement per areas and its changes along the years**

Area \ Year	1950	1960	1970	1980	1990	2000	2010	2011	2012
<b>Africa</b>									
-arrivals	-	1,1	1,5	2,8	3,3	4,1	5	5	5,1
-returns	4,2	2,6	2,2	2,6	2,0	2,2	3	3	3,1
<b>Northern and Southern America</b>									
-arrivals		24,1	23,0	21,6	20,5	17,9	16	16	15,8
-returns	50,5	35,7	26,7	24,6	26,7	28,7	20	19	19,8
<b>Asia and the Pacific</b>									
-arrivals	-	1,3	3,6	8,2	12,4	17,2	22	22	22,6
-returns	1,7	3,4	6,7	9,9	15,7	18,4	27	28	30,1
<b>Europe</b>									
-arrivals	-	72,5	70,5	65,6	62,2	57,4	51,2	51,9	51,5
-returns	42,45	56,8	62,1	59,5	53,6	48,7	44,2	44,8	42,6
<b>Middle East</b>									
-arrivals	-	1,0	1,4	2,1	1,7	2,6	6	6	5,0
-returns	1,2	1,5	2,3	3,4	2,0	2,0	6	4	4,4

Source: *Tourism highlights*, 2013, UNWT, Publications Department

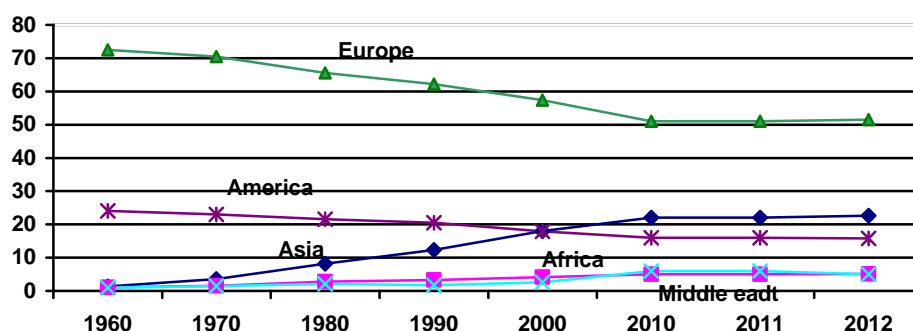
It can be seen that Europe is the region having the biggest tourist activity as it is placed highly specially. It is here that the biggest number of largely industrialized countries have a very powerful tourist value mainly targeted at cultural assets of high historical value as well as famous tourist resorts. It clearly outranks the other regions due to the traditions it has inherited along the decades and it has succeeded in penetrating the main tourist markets by the diversity of its launched and promoted supplies.

In 1960, Europe used to have a 72,5% market share in arrivals and 56,8% in returns; after 48 years of evolution, the continent has managed to have a 51,5% market share in arrivals and 42,6% in returns. The decrease of this region's market share is due both to the progress of Asian countries, and to the economic and political changes within its frontiers, to Eastern countries' collapse as a result of their transition to market-oriented economy, of too much tourist demand in the region, of competitiveness decrease in some resorts or products etc.

However, the European continent has had slight progress thanks to the emergence and attractiveness of some tourist destinations placed in Central and Eastern Europe.

Growing foreign returns cannot only be justified by the growing number of arrivals, stay duration, movement distances, briefly speaking by daily expenses/tourist, but also by inflation, that is the change of national currencies' parity to the US Dollar and the latter's devaluation.

**Graph 2. Evolution of foreign tourist arrivals by regions**

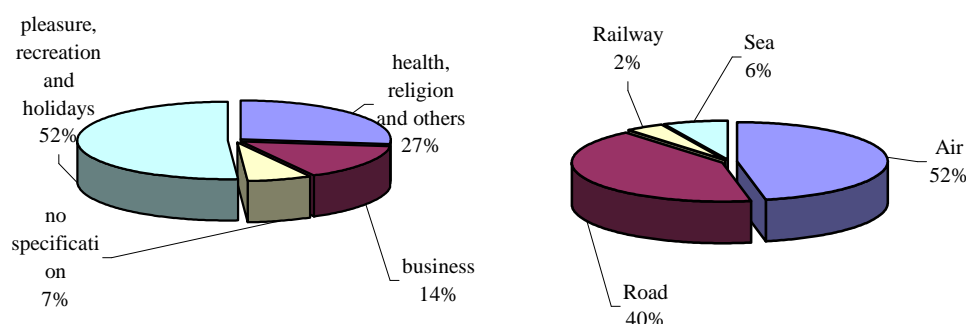


Asian countries have the best figures, that is an increase in their market share both in arrivals and returns, by 21% higher. Eastern Asia and the Pacific are the most dynamic tourist areas in the world, where economic growth has led to 2-3 times higher levels of tourism than the world average (graph 2). Such accomplishments are related to the economic growth of these regions and also to the changes in the level of demand – too much demand in Europe, the search for tourist areas unexplored yet (exploring tourism), the wish to know new cultures, the need for adventure etc.

In 2012, more than half of the total international arrivals were for pleasure, recreation and holidays (52%) – accounting for 536 million (graph 3). Business trips contributed by around 14% and 27% were trips for other reasons, such as visits to friends or parents, religious reasons/pilgrimages, health treatments etc. (240 million).

Air transport (52%) and land transport – either road (40%), or railway (2%) – generated almost equal numbers of arrivals, whereas sea arrivals reached 6% in 2012. The trend over the last three years has been for air transport to grow more than land or sea transport has.

**Graph 3. Structure of tourist movement according to reasons and transport way**



## 5. The main tourist destinations in the world

Although there are major differences as to the types of tourists attracted, travel distances and accommodation costs, it is still interesting to notice that 8 out of 10 countries in the WTO classification regarding tourist arrivals are also to be found among the first 10 countries when it comes to the returns in foreign tourism.

In matter of departures, France takes the first place in front of USA, Spain and China, while, as regards the profits, the same countries appear on their first four places, but with USA on the first place, Spain being the second, France the third and China the fourth (table 3).

It shows the fact that the USA attract a large number of tourists that practice long-term tourism and spend much more than their European competitors who largely depend on short-term tourism.

**Table 3. List of top countries according to the number of foreign arrivals and returns from foreign tourism**

Ranking	Country	Foreign tourist arrivals (mil.)		Market share	Country	Returns (billion \$)		Market share
		2011	2012			2011	2012	
1	France	81.6	83.0	8,02	USA	115.6	126.2	11,74
2	USA	62.7	67.0	6,47	Spain	59.9	55.9	5,20
3	China	57.6	57.7	5,57	France	54.5	53.7	5,00
4	Spain	56.2	57.7	5,57	China	48.5	50.0	4,65
5	Italy	46.1	46.4	4,48	Macao (China)	38.5	43.7	4,07
6	Turkey	34.7	35.7	3,45	Italy	43.0	41.2	3,83
7	Germany	28.4	30.4	2,94	Germany	38.9	38.1	3,54
8	Great Britain	29.3	29.3	2,83	Great Britain	35.1	36.4	3,39
9	The Russian Federation	22.7	25.7	2,48	Hong Kong (China)	27.7	32.1	2,99
10	Malaysia	24.7	25.0	2,42	Australia	31.5	31.5	2,93

Source: WTO, *Tourism highlights*, 2013, UNWT, Publications Department

Germany advanced in the arrivals top, a position in 2012 comparing to 2011, but went down a position in the profits top as a result of the fifth place taken by Macao. The Russian Federation entered the top 10 world destinations, going up 3 positions and taking the ninth place. In the profits top, the ninth place is occupied by a new country – Hong Kong(China), which increased his takings with about 4,6 billion dollars.

The 10 countries that won the most from tourism last year total a half from the whole sum estimated at 1075 billion dollars for international tourism profits, respectively 47,33% from the total.

In matter of spendings, China, Germany, USA and Great Britain are at the top of the list which varies from 102 billion dollars to 26,4 billion dollars per year, totalizing approximately 518,6 billion dollars. These countries represent over a third from the total of international tourism spendings. China recorded the biggest boost as for this indicator in the last decade, going up from the seventh place in 2005, on the first place in 2012, being the biggest consumer of tourism (releasing the old-timer spender- Germany), with a appreciation of 37% comparing to 2011. This boost was stimulated by the incomes boost, restrictions leisure concerning the holidays abroad and national currency assessment.

The spendings from Germany, USA and Great Britain increased with 6%, 7%, respectively 4%, Canada - 6%, Australia - 3% and Japan 2%. France and Italy were the only markets from top ten affected by the decrease of the international tourism spendings. Besides top ten, it's recorded a substantial boost sustained by Norway, UAE, Switzerland, Malaysia, Kuwait, Poland, Philippines, Thailand, Qatar, Ukraine, Egypt and Colombia.

As regards the expenses per tourist, the English spend the most (1,189 dollars), followed by the Germans (1,008 dollars), the Canadians (754 dollars) and the French (595 dollars).

**Table 4. List of top countries according to the expenses for foreign tourism**

Ranking	Country	Expenses for Foreign Tourism (Billion \$)		Market Share
		2011	2012	
1	China	72.6	102.0	6,9
2	Germany	85.9	83.8	5,7
3	The United States	78.2	83.5	5,6
4	Great Britain	51.0	52.3	3,5
5	The Russian Federation	32.9	42.8	2,9
6	France	44.1	37.2	2,5
7	Canada	33.3	35.1	2,4
8	Japan	27.2	27.9	1,9
9	Australia	26.7	27.6	1,9
10	Italy	28.7	26.4	1,8

Source: *Tourism highlights*, 2013, UNWT, Publications Department

Europe is the most visited tourist region in the world, with the widest range and highest density of tourist attractions. Although its growth is lower than the world average, the amount of European tourism is expected to double in the next 20-25 years, with a net increase (in terms of expenses and benefits) of almost 3%/year.

Europe's attractions, its natural richness and diversity can be summarized in the following: "nowhere in the world is it possible to find in such a small area so many different cultures, so much history and such a place where people of various cultures and nationalities make up an integrated society".

**Table 5. The most attractive entertainment and cultural places in Europe**

Place	Country	Visitors (million)		Place	Country	Visitors (million)	
		1999	2000			1999	2000
Disneyland	France	12	12.5	Eiffel Tower	France	5.9	6.3
Blackpool Pleasure Beach	Great Britain	7	6.8	Louvre	France	5.5	6
Tivoli Liseberg	Denmark	4,2	3.2	British Museum	Great Britain	5.7	5.4
Efteling	Sweden	3,2	3.2	National Gallery	Great Britain	4.7	5

Source: *FW International*, 2001

Tourist movement in Europe is rendered by an area's attractiveness which influences tourist arrivals (European export) and European tourists' departures from one country to another in Europe or from Europe to other regions. Thus, approximately 86% of the travels in Europe still happen in European countries, the major flows being "sunlust", oriented towards North and South, and "wonderlust" and "sunlust" oriented towards West and East (table 6). One cannot skip the trips among neighbouring countries, irrespective of their positions or economic growth levels.

**Table 6. Origin of tourist flows**

	1980	1990	2000	2010	2012
<b>Intraregional*</b>	78%	84%	84%	85%	86%
<b>Interregional**</b>	12%	16%	16%	15%	14%

Source : data processed according to WTO statistics - Tourism Market Trends Europe, 2010, <http://etc-corporate.org/reports/tourism-trends>, 2013

\* movements of European citizens within Europe; \*\*movements of non-European citizens within Europe

Europe attracts over half of the tourist flows registered at international level, being the leader on the tourist market even if its share is decreasing (table 7).

**Table 7. Evolution of arrivals and returns from foreign tourism in Europe**

	1990	1995	2000	2005	2010	2011	2012
<b>Arrivals (million)</b>	284,5	335,6	403,3	440,3	485,5	516,4	534,2
<b>Annual variation</b>	62,1	59,2	59,2	54,6	51,2	51,9	51,5
<b>Share in world total</b>	144,6	209,5	244,3	348,8	409,3	466,7	457,8
<b>Returns (billion \$)</b>	53,6	51,5	51,3	51,6	44,2	44,8	42,6

Source: Tourism highlights, 2013, UNWT, Publications Department

The decrease of Europe's market share on the world tourist market is caused by the increase in tourist flows towards Asian destinations, the collapse of Asian countries, the declining competitiveness of services provided and also by the too high tourist demand for this region.

From all regions of the world, Europe was the most affected by crises in tourism, especially the destinations from Central and Eastern Europe. Although, some destinations managed to record positive results: Hungary (+3%), Sweden (+3%), Turkey (+2%) and Italy (+1%).

The EU keeps ranking first in world tourism as a receiver and sender of foreign tourist flows.

*The new monetary unit – the Euro – is not only another payment instrument but also a mechanism of European identity, an element contributing in placing "Destination: Europe" within world tourism.* In addition, removing the costs for foreign currency conversion, banking commissions and other international financial impediments certainly stimulates people's, goods' and capital's movement within the EU, thus also serving as an incentive for tourism growth.

Since prices are easier to compare in a single currency, the Euro leads to more competitive travels on tourist markets, with obvious effects upon the prices and quality of tourist services. As to foreign markets, the Euro makes Europe a more convenient destination and enhances its role as an "umbrella" for promotion and marketing activities, keeping the trends of these areas' tourists to come especially to Europe and not necessarily to a particular country. Due to the fact that not all the EU member states are members of the Euro Zone which might create misunderstandings, the tourist sector should particularly insist upon explaining the existing differences.

## 6. Predictions of international tourism

The tourist world in the year 2020 will be characterized by the use of better performing equipment and technological endowment and people will be more familiar with informational improvement, many tourist services will be automatized, new tourist destinations will be launched which are nowadays considered difficult to access, the need for knowledge, adventure and travel will rise.

Thus, in the year 2020, 1.6 billion tourist arrivals in the world are expected; those tourists will spend an average amount of 2,000 billion USD.

Taking account of the global demographic increase and the future economic performances, the share of tourists' number willing to travel across the borders of their native countries as compared to the total population has been estimated: world level - 7%, Europe - 14%, Eastern Asia/The Pacific - 10%, Northern and Southern America - 8%, Africa 5%, Southern Asia - 1%.

It is estimated that domestic tourism in most countries will have relatively constant levels within the next 25 years, with the trend for industrialized countries to have a limited budget for mass tourism and obey a certain proportion between total population and those who directly participate in tourist demand set-up.

The most significant increase in domestic tourism will be in the countries in Asia, Latin America, Orient, Africa where the population-tourist ratio will be 10:1 up to 10:3 or 4:1 (table 8).

**Table 8. Predictions for 2020**

Rank -ing	Main countries of departure			Main tourist destinations		
	Country	Total world departures (million)	Market share %	Country	Arrivals (million)	Market share %
1	Germany	163.3	10.2	Republic of China	137.1	8.6
2	Japan	141.5	8.8	USA	102.4	6.4
3	USA	123.3	7.7	France	93.3	5.8
4	Republic of China	100	6.2	Spain	71	4.4
5	Great Britain	96.1	6	Hong-Kong	59.3	3.7
6	France	37.6	2.3	Italy	52.9	3.3
7	Netherlands	35.4	2.2	Great Britain	52.8	3.3
8	Canada	31.3	2	Mexico	48.9	3.1
9	Russian Federation	30.5	1.9	Russian Federation	47.1	2.9
10	Italy	29.7	1.9	Czech Republic	44	2.7
	Total (1-10)	788.9	49.2	Total (1-10)	708.8	44.2
	World total	2,000	100	World total	1,602	100

Source: WTO statistics

Nevertheless, in large tourist regions, the trends in the number of tourists who will travel outside the borders of their native countries are much different (table 9.).

**Table 9. Predictions of tourist arrivals by regions between 1995 and 2020**

Rank -ing		Tourist arrivals (million)			
		1995	2000	2010	2020
1	Europe	336	403	486	717
2	Eastern Asia/The Pacific	80	116	231	438
3	Northern and Southern America	111	134	195	284
4	Africa	20	27	46	75
5	Orient	14	19	37	69
6	Southern Asia	4	6	11	19

Source: WTO statistics

At regional level, the European continent will remain a highly attractive tourist area and will grow during 1995-2020 by an average 3.1% per year, yet it will have a slight decrease on the tourist market from a share of about 59% down to 45%. On the contrary, Eastern Asia/The Pacific will have a high growth rate of around 7%/year, whereas tourism in the two American continents will be relatively constant at only 3.8% and will have a share on the tourist market from 27% down to 18%. In the other tourist regions, the yearly growth rate will be low, between 5 and 1% in Africa, Orient and Southern Asia.

The data provided by tourism foreteller Yeoman Ian from New Zealand show that tourism will have much progress during 2020-2030, as the much better political, social and economic changes will lead to an increase in world population's options to travel (table 10).

**Table 10. Evolution of tourist movement in 2030**

Region	Arrivals %	Returns %	Countries	Arrivals %	Countries	Returns %
Europe	41.1	39	China	8.8	USA	11.1
Asia/Pacific	28.8	28.2	USA	6.2	China	5.7
N and S America	16.3	20.5	France	5.4	Spain	5.3
Middle East	8.4	7.4	Turkey	4.8	France	4.6
Africa	5.4	7.9	Spain	4.5	Turkey	3.9
Total	1,897 million of tourists	2,016.2 billion USD	Malaysia	3.7	Great Britain	3.8

Source: Yeoman, Ian., *Tomorrow's Tourist: Scenarios & Trends*, Elsevier, 2008

## 7. Conclusions

The tourist boom has also been generated by the technological aggression and psychological pressures upon people caused by industrialized societies since tourism has been considered the most pleasant and useful way to spend one's leisure.

Tourism has become a strength of social life whereas centuries ago it was a subproduct added to travelling reasons: scientific discoveries, pilgrimages, military conquests etc.

An increasing number of developed and underdeveloped countries have discovered the opportunities and prospects of tourism, becoming aware of them as additional resources in the balance of foreign exchanges and in the creation of an image at world level.

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# THE BENEFITS OF USING TRAININGS IN ORGANIZATIONS AS A WAY OF COMMUNICATING WITH THE STAKEHOLDERS

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## Abstract:

*The use of trainings is widely spread in most of the organizations worldwide. Training is a means of transmitting information and know how, both to the actual employees, but also to the new comers. It is held for stakeholders too, not only for employees like suppliers, distributors and clients as well, bearing in mind the complexity of some procedures, or of some products or services, such as computer hardware and software, etc. Trainings being part of corporate hospitality and events marketing, can be perceived as a must, especially nowadays, when technology is developing at a very rapid pace.*

**Key words:** events marketing, corporate hospitality, training

**JEL Classification:** M31.

## 1. Introduction

Events marketing, is widely employed and intensively used by many organizations, as the impact of the traditional advertising and communication through mass media channels as TV, radio, newspapers and internet has diminished (Ries and Ries, 2009). The effects of using events have a greater and a more profound effect than the other means of communication. The communication is not only unidirectional, but bidirectional, as the feedback can be instant and used by the managers to make the best decisions regarding their stakeholders: strategies regarding the products or services they sell. We are going to take into discussion only trainings as being an important part of the organization corporate hospitality and as part of the event marketing component.

## 2. Corporate Hospitality

According to Bennett's (Bennet, 2003) definition, corporate hospitality represents the source of benefits from which the organization profits due to the participation of current customers, prospects, suppliers, employees, vendors in various events, in order to entertain them at the organization's expense. It is often used by many organizations because, according to psychological studies, people feel pleasure when an organization rewards them in one way or another. The principle of giving someone a pleasant interaction can trigger the process of "love" and there may also begin a kind of relationship.

Corporate hospitality (Masterman, 2006) has long been used by hosts to entertain guests of various degrees of importance, in other words stakeholders, but without any evaluation, and therefore justification of why. There is no doubt that corporate hospitality is indeed a valuable marketing communications tool, but as such, it needs to be strategically selected, implemented and then evaluated alongside and against other tools, like trainings. According to some researches (Bennet, 2003) it has been revealed that most organizations implementing the concept of corporate hospitality will develop relationships with current customers, more than with the potential ones. This does not rule out the possibility that corporate hospitality is a way of attracting new customers. Corporate hospitality aims, at the same time, to entertain, communicate, reward and increase the business unit through trainings. Thus, organizations can enhance employee loyalty towards their organization, can improve relations within the company and increase employee morale as well, when organizing fun events. They can also

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worsen the situation if the proposed events are not satisfactory to employees, especially when they are chosen to please only the executives. There are some objectives that can be accomplished using corporate hospitality (Summerfield et al., 2006):

- a) Developing new relationships and strengthening the existing ones, between the organization and its stakeholders;
- b) Strengthening the reputation of the product, disseminating information and exploiting opportunities to show the audience, the potential customers, how the products work in real time;
- c) Strengthening the corporate reputation by increasing it – done through information dissemination for a better understanding of the organization, by distributors and the selling forces;
- d) Developing domestic relations by enhancing internal awareness and corporate image to meet its long and medium objectives terms - through rewards and information;
- e) Developing relationships with suppliers, both existing ones and new ones by interaction, to increase efficiency and effectiveness, when delivering the materials needed for the processes of the company.

### **3. Trainings as part of the Events Marketing**

Events can be seen as events that address internally, like the employees of the organization, and externally to the other categories of the stakeholders: customers, distributors and suppliers.

Experts predominantly use the term events that address the public from the internal environment. In case of these events participation is often mandatory, given that it is the only way a company's employees can be promoted, can socialize, can attract the sympathy of colleagues, or even to retain their position or job.

Many organizations run events managed and coordinated by the human resources department to motivate staff, strengthen relationships, increase their morale and cohesion. In designing such an event, the data the human resources department has, may provide the demographic profile and show the expectations of participants (Monroe, 2006);

To this end, we can mention the following events: legal and religious holidays, trainings and team building, happy-hour, and others.

The training is described as a systematic process of acquiring new knowledge, skills and aptitudes necessary to meet more effectively the duties of a particular job, at present or in the future. It consists of organizing the transmission of information and instructions to improve employee performance, or to help them reach a certain level of knowledge or skills. Participants are sent information about the main points, training program or agenda in advance.

Training (Hakim, 2012) constitutes one of the most important ways to assist employees in gaining new knowledge, knowhow and skills required to adhere to competitive standards. Studies have suggested that human resource practices such as extensive training would create a sense of organizational support for their own staff, but also for their stakeholders.

Unlike training, which is an individual's opportunity for learning, development is long-term outcome of learning activities. Learning is a permanent relative change of the cognitive (eg, understanding and thinking) that results from experience and influences behavior. Education is different from training and development by the set of knowledge, skills and aptitudes that are more general. It can be done both through learning activities outside the company, but also in the company (eg a language course paid by the company). To better integrate these concepts, it is useful to discuss the training, development and education in terms of their contribution to an individual's professional life. Thus, in a simple way, we can say that:

- training helps the employee to be more effective in a job;
- development is a prerequisite for his promotion;
- education supports individuals to succeed in their career, regardless of the activity.

Through training, the employee acquires a performance-oriented attitude. He also has the ability to experiment in artificial situations, newly acquired skills, so that in real situations he achieves a higher percentage of successes. Participation in training courses for employees is the opportunity to better understand what is required of them and their role within the organization. Increasing employee performance and efficiency has a direct benefit for the clients of the organization. The merit of training is that, by developing new skills, it enhances the understanding of internal customer's needs and helps employees deal with any activity, with a view to the necessity of meeting those needs. In this way, there is an increase in existing customer loyalty and attracting new ones. Participation in training leads to increased employee satisfaction. An employee's work satisfied with the results of his work and satisfied with the results of the company, becomes an important factor in business development.

Trainings may take place at the organization headquarters that realize it, but also other locations that are provided by the company that is carrying out the training. They are most often paid by the organization, and there are exceptions or clauses where the employee may not resign over a period of 1-5 years or even longer, depending on deciding how the investment in employee training will be depreciated. Of course, the employees that want to resign, have to pay the entire cost of the training, or only a part of it.

Regarding the way, the organization communicates about the training with its employees, for those concerned to take part in it, and the fact that the number of people, rarely exceeding 500, their contact details are known by the employer, communication with the employees is much less expensive and surely reaches the receivers. Many organizations have implemented intranet systems, even custom electronic mailboxes that employees are required to use, both in terms of communication within the organization and outside it, but can also be used intrapersonal communication, email, internal memos, the magazine of the organization, telephone and even through SMS, which transmit: the date of the event, its theme, the materials that are needed to be read and known by the participants, or if they need to prepare certain materials in advance.

The other stakeholders like customers, distributors or suppliers can be notified by using direct marketing, sending letters of invitation, emails and even calling them. If in the case of employees the proportion of attendance is most of the times 100% as being compelling, in the case of the others, the message should contain also motives, details of the topic or topics that are going to be discussed, place, date and duration, when they are carried out, ways to reach their destination by public transportation, or by their car, incentives for the participants, detailed information why it is a benefit for the participants to take part in the event.

Another important issue that must be taken into account, is to give a deadline of the RSVP, as it cannot be considered very cost efficient to have rather few attendees or more than the capacity of the place where the event is taking place, in such cases the image of the organization will have to lose.

It is vital for an organization to train and to transmit the information that is delivered by the organization itself, the products or services that they manufacture, not only to their customers, as well as to their own staff, as sometimes there is a lack of information and coordination in transmitting this information to their own employees.

#### **4. Conclusions**

Training (Tabassi et al., 2012) is viewed as one of the most important strategies for organizations to help employees gain proper knowledge and skills needed to meet the environmental challenges, but also to attain effective performance in an activity or a range of activities, or as being an application driven and aimed at sharing skills that are immediately useful in particular situations. That is why employers do not regard as effective the disciplines or curricula studied in school or college, as they are more general and not specific to each and every job attributes, being sometimes impossible to cover them all, furthermore there is a lack of communication between the scholars and the future

employers, as many times when they are asked to answer to different researches conducted by the teaching staff, many of them are pretty reluctant.

Using trainings is in accordance with the final goal of both national and international strategies (Pivoda, 2010) to strengthen an economy based on scientific knowledge, in which the employment of the working force is both total and efficient, not only for the individual, but also for the entire social community.

Besides the obvious benefits, another one is the increase of loyalty (Cruceru and Dumitru, 2008) of the employees, by giving them the sensation, that they are not limiting themselves, but on the contrary, are growing in responsibilities by acquiring knowledge that can be useful not only at the current job but also for future development, no matter if it is about a new foreign language, driving licence, IT technology, or any other skills that they are supposed to develop and must. Many employers do not take into account the school or university background, or the specialization in which they are expected to be specialists, as the person in case, wants to do that job and has also some experience, except for the jobs where it is mandatory to have a diploma in that field like: doctors, engineers, attorneys, teachers. Unfortunately, these trainings, although they are well meant, are not always sufficient to have the desired outcome. As, for the time being, it is still debatable if it is important what the employee has graduated, like the profile of the high school, college or MBA.

For customers, distributors and suppliers, it is a good way of transmitting the right information, assuring that it has reached its target audience and can also get an immediate feedback when the training is occurring.

Under the circumstances, both the corporate hospitality and the brand image of the organization can be consolidated to such an extent that the companies would be considered to take care of all their stakeholders. The trainings aimed at these categories of stakeholders might be different from those which are addressed to the employees, as these can be more fun, relaxing and even taken by them as leisure time.

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# DETERMINING THE MOST RELEVANT CHARACTERISTICS OF A PRODUCT AS PART OF A BRAND POSITIONING ANALYZE

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## Abstract:

*Product characteristics or attributes along with brand meanings are a mix of features ascribed to a brand that are meant to create brand associations and a resulting brand image in the mind of the consumer determining in this way the brand position on the market. This paper is based on a qualitative study (observation followed by questionnaires applied on a restrain group of students) and its aim is to identify which are the most relevant attributes for a book designed for learning a foreigner language. The results of this analyze can be utilized in further studies regarding how to establish the position of this product on the market.*

**Keywords:** brand attributes, brand positioning, observation, qualitative analyze.

**JEL Classification:** M30.

## 1. The context of the research and the product choice

The brand positioning is often analyzed in terms of perceptual maps. They provide an easy way to present the results when the research means to identify the market position of competing brands by one or more data features. Perceptual maps lose their usefulness when you want to position a new product on the market. In the latter case, when the brand is in the process of creation, the research will focus on identifying characteristics or associations considered the most favorable on the market and then based on that will be determine which parity and differentiation items will underline the positioning strategy.

This paper aims to identify the most relevant features for a book for the study of English as a foreigner language and aims this type of products present on Barcelona's market.

In order to define the product a set of basic product characteristics were chosen for this study:

- Language: English
- Level: A1-C2 (beginner - advanced)
- The consumer profile: young people (18 - 25), students
- The book structure: a complete course (grammar, vocabulary, reading, writing) with audio files included

The product was chosen because after consultation with local teachers we concluded that it may be a product of interest to students. Also, talking to young Spanish and Latin, it was found that many did not reach the level they wanted for a foreign language (probably due to excessive translation practiced in Spain / Latin America - doubling foreign films and programs, use of Software translated into Spanish). Although it is expected that among international students segment the level of a foreign language ability (mainly English) is a high one, it will alleviate this issue by providing full range of courses, with options from beginner to advanced. Also it is possible that in this segment most of the students have advanced level of Spanish and not necessarily the English language (such as Latin for example but not only).

## 2. The research method

The research conducted was a qualitative one and targeted a selection of the most important variables for the chosen product and the relevant values for each of these variables on the target market. The research is based on observation followed by questionnaires applied on a restrain group of students.

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### **3. The observation**

In the first phase of qualitative research an observation method was used. The purpose of the observation was to identify associations present in the current brands on the market.

#### **3.1. Population and sample**

The population is represented by all the books accompanied by audio files destined to young people who want to learn or to perfect a foreign language present in Barcelona in both online and in traditional bookstores.

In selecting the sample the most spacious libraries were considered (in order to meet a more diverse offer) and also the most popular among young people: the ones in El Corte Inglés and FNAC malls. From the online environment were analyzed the first 3 pages of the search results on Google España following the keywords: “libro Inglés (English book)”, “CD con libro Inglés” (English book with CD), “aprender Inglés” (learning English).

All results that did not present the product in itself but showed alternatives for it were removed, such as:

- English courses online
- English books that did not included audio files (CD or DVD )
- English books for children
- Dictionaries
- Books in electronic format only, which can be downloaded from the website

Three sites in the online environment were included in the sample:

- [www.casadellibro.com](http://www.casadellibro.com)
- <http://www.uylibros.com>
- <http://www.espirallibros.com/1.-ingles.html>

The unit of analysis for the observation was each package type "book + audio file" that were found in traditional bookstores and online in the sample.

#### **3.2. Data collection**

The observation aimed to achieve two main objectives:

- To identify the characteristics of the product - brand attributes and benefits
- To identify the recorded levels for each of these features

The observation was structured. It was constructed based on the brand associations structure proposed by Keller in order to shape the categories that will fit the associations observed in the units of analysis. The research instrument was the observation sheet and it included the following fields:

- Product-related attributes items
- Levels of product-related attributes
- Features that are not directly related to the product: price and price level recorded; identified attributes related to the package and their registered levels; identified attributes related to the consumer perception and their levels; identified attributes related to consuming conditions and their recorded levels.

At this stage no distinction between attributes and benefits was made. All features identified were registered and divided into two categories: instrumental and symbolic. In the observation were included only books that respected the chosen basic product characteristics with the exception of the characteristic “availability for any level”. This was because each level requires another book and the unit of analysis was the book and not the set of 3-6 books per level from beginner to advanced.

#### **3.3. The results of observation**

The observation aimed at getting a more diverse and broad palette of features present in the brands on the market. In conclusion a data reduction was not chosen, but a record of all identified characteristics. After eliminating duplicates 23 features were retained and validated.

The same principle was maintained for the recorded values of these features with two exceptions however: for the price and for the number of pages.

The price value 89 euro was eliminated since it was considered an extreme value (only one of the 11 entries submitted this value and the offset to the next value recorded was 40 euro, the distance between the two being considered very large). It was also not taken into account a differences less than 3 euro (19,5 euro was considered 19 euro, a value of 33 euro was considered 32 euro, because there were already two records with this amount and a new category for 33 was not created).

For the number of pages has not been taken into account a difference of less than 20 pages, which was considered insignificant. When they appeared, were averaged between values to create a single category.

As a result of the observation a number of 23 relevant characteristics were identified with 83 levels (each of the features having from 2 to 5 levels). These are shown in table 1.

It can be seen that the table contains 87 levels for the 23 characteristics (and not 83 as mentioned above). This is because two levels are ways of evaluating specific to online courses and not to books. These appear in italics in the table (*the possibility to send homework to a teacher and the opportunity to discuss the topic on a forum moderated by a teacher*). Also for the situation of consumer feature - *where you can use the book*, two levels were added: *the subway / train* and *waiting at any time*. These were introduced in the analysis after discussion with other researchers. They will be kept as the purpose of this stage is to explore as much as possible, the most relevant will be selected at the next step.

**Table 1. Characteristics identified through observation and recorded levels of these**

No.	The characteristic	Levels						
1.	Type of the book	General English	Exam Preparation Book (Cambridge / TOEFL)		Business English	Conversation Guide		
2.	The way of presenting the levels	Common European Framework of Reference for Languages (A1, A2, B1, B2, C1, C2)			General reference (beginner, intermediate, advanced etc.)			
3.	Audio files	1 CD	2 CDs		3 CDs	1 DVD		
4.	Number of pages	96	128		160	189	220	
5.	Time necessary to achieve the level	during the summer break	7 days		3 weeks	52 days	3 months	
6.	Exercises	Included in the book	Included in a special copybook			Without exercises		
7.	Evaluation method	Simple Key Answers	Key Answers with explanations	Sending the homework to a teacher		Discussing the homework on a forum moderated by a teacher		
8.	Publication year	1998		2004		2006	2009	2010
9.	Edition	first / not mentioned		second		third	fifth	
10.	Place of publication	Spain - Barcelona		Spain -Madrid		Cyprus	England	USA
11.	Publishing House	Oxford		Burlington Books		Cornelsen	Longman	Assimil
12.	Authors	Spaniards		English / Americans				
13.	Title and content	Exclusive in English		English + Spanish				
14.	Title	Book objective (ex: Improving Your English)		Time required (ex: Learn English in 3 weeks)		User profile (English for Adults)		Other title
15.	Price	19 €		29 €		32 €	46 €	49 €
16.	Book binding - color	blue		red		orange	green	yellow



No.	The characteristic	Levels			
		hardcover	glossy hardcover	paperback	glossy paperback
17.	Book binding - type	hardcover	glossy hardcover	paperback	glossy paperback
18.	Book binding - images	the user	the country	the user + the country	abstract image
19.	User image - sex	female	male	female + male	
20.	User image - presence	one person	two persons	a group of at least 3 persons	
21.	User image - ethnicity	persons from one ethnic group		persons from different ethnic groups	
22.	Usage situation – place	<i>the subway / train</i>	at home / in the library	in a park	<i>while waiting at any time</i>
23.	Usage situation- objective	studies / job requirements	travels	self improvement	

### ***3.4. The limits of observation***

A limit to the observation comes from the observation sheet structure that aims to identify the important elements, which leads to loss of detail. One such example is related to the color. We identified only one dominant color and shades have been eliminated. Another limitation is related to the subjectivity of the researcher's observation. There is a possibility that some items may have escaped her attention.

### **4. Survey on a small sample of students**

The second phase of the qualitative research consisted of a mini-survey. The purpose of this step was to narrow the set of 23 features (variables) with 87 levels (identified in step one) to a set of six variables with two levels each.

The main objectives of the research were:

- to establish an order in terms of the importance of the characteristics listed
- to select the most important six features
- to limit each feature selected to only 2 levels

#### ***4.1. The sample***

The research was conducted on a group of 12 graduate students from the University of Barcelona that were in an advanced academic training program. Students in the sample were those who opted for the optional course in market research.

#### ***4.2. The research tool***

The research instrument used was a questionnaire, which was written in Spanish. Given that the researcher is not a native language speaker of the language in which the questionnaire was written, to remove the problems of "translation equivalence" the following aspects were analyzed following Burca (2004):

- lexical equivalence - if it fits exactly the dictionary translation
- idiomatic equivalence - the language commonly used by native
- grammar equivalence - sentence construction and ordering of words
- experiential equivalence - how the words are associated with subjects experiences.

In a first phase the questionnaire was constructed by the researcher, ensuring compliance and lexical equivalence. Terms unknown were searched in Romanian - Spanish - Romanian dictionaries. Then, in a second phase, the questionnaire was checked by a native speaker of that language to ensure the idiomatic, grammar and experiential equivalence. Where ambiguities arose they were discussed to arrive at a more accurate expression of the concepts and as close to the local one.

The questionnaire followed the observation results. The students were asked to order the characteristics of the product by the importance they ascribe to each of them and then to chose the most relevant two values from their point of view for each characteristic presented.

The 23 characteristics were grouped into two categories. This for two reasons:

- To determine the relative importance of each feature, the subjects had to order them, and assigning an order from 1-23 is an extremely difficult task, which can cause confusion and lead to obtaining different results from the actual ones
- In a future positioning analyze the product characteristics or attributes can be treated differently based on their role: symbolic or functional (instrumental)

Based on the literature [Keller 1993, Bhat & Reddy 1998, Lievens & Highhouse, 2003] two categories have been outlined (table no.2):

- Symbolic attributes – subjective and usually intangible features of the product that attract consumer attention due to their expressive value
- Instrumental (functional) attributes – objective and usually tangible features of the product that attract consumers attention due to their utility

**Table 2 - Attributes with symbolic role and functional role determined on theoretical bases**

<b>Symbolic attributes</b>	<b>Instrumental attributes</b>
1. Price 2. Book binding - color 3. Book binding - type 4. Book binding - images 5. User image - sex 6. User image - presence 7. User image - ethnicity 8. Usage situation – place 9. Usage situation – user objective	1. Type of the book 2. The way of presenting the levels 3. Audio files 4. Number of pages 5. Time necessary to achieve the level 6. Exercises 7. Evaluation method 8. Publication year 9. Edition 10. Place of publication 11. Publishing House 12. Authors 13. Title and content (language) 14. Title – message

#### **4.3. Data collection**

Data collection took place in the first part of the seminar on market research. The students were then asked to rank from 1-9 the first category of attributes and from 1 to 14 the second category, depending on the importance given to each of them and then select each two levels for each feature they considers the most appropriate from their point of view.

#### **4.4. Data analysis and survey results**

All questionnaires were validated.

As symbolic attributes are considered to have a higher influence than functional ones in the mind of the consumer, four attributes were extracted from the symbolic category and two from the instrumental one.

The hierarchy of symbolic variables in order of importance was based on the average rank calculation. The first four positions fall to: the price, the goal (or objective of using the book), the material the cover is made from and images featured on the cover. For these variables the multiple response analysis was performed in order to identify the levels of each variable most popular with students. The results showed that 83.3% of the students (41.7% of responses) consider the price of 29 euro as the most adequate to the product,

followed by the price of 32 euro (50% of the students and 25% of the responses). Most of the students were interested in learning English for their self development (45.8% of responses), but also due to the fact that they considered it as a requirement for completing their studies or for having access to a better job (41.7% of responses). For the cover of the book all the students expressed their preference for a glossy paperback (100% of the cases) and the most appropriate images were considered to be the ones that represent the country where the language is spoken (England or USA) with a percent of 37.5% of responses and the ones that represent both the country and the user (33.3% of responses).

For the instrumental variables the first two ranked variables were "the kind of book" with the preferred values "Exam Preparation Book" (41.7% of responses) and "General English Book" (33.3% of responses) and the level "the language used in the title and for explanations in the book" for which the students made no level choice.

#### ***4.5. The limits of investigation***

Research limitations are mainly related to the volume and structure of the sample and also to the language equivalence. As a consequence the results of this study can not be treated as relevant for the market, but can be used in further quantitative studies for designing a reliable research instrument.

### **5. Conclusions**

The most relevant attributes for a book designed for learning English as a foreign language, on the analyzed market, are represented by the type of book (general English and exam preparation books being preferred by the consumers), the price of the book (the middle price values were considered the appropriate ones – 29 euro and 32 euro were the prices selected by students against the lower value of 19 euro or the higher values of 46 or 49 euro), the objective of the book (most of the subjects being interested in self-development and the opportunities of obtaining a better job due to their English language knowledge) and the book cover (the respondents inclined for a glossy paperback cover with the image of the country where the language is spoken on it).

The characteristics identified in this study for the selected product can be used to guide a further research regarding the positioning of this product on the specified market, but the results shall be treated in the limits of an exploratory research.

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# STRATEGIES OF BRAND CREATION THROUGH COMMUNICATION. ROMANIAN BRANDS

Carmen-Gabriela, Secară<sup>1</sup>

## Abstract:

*In a society where progress brings a high degree of unpredictability it is difficult to create a persistent stability. Behavioural changes of individuals and social groups lead to a continuous flow of alterations at the level of all social areas. Economy, culture, education are characterized by this strong dynamics bringing the social “keep-up” process. For instance, in economy, the main entities of the capital market- corporations and companies are directed to such keep-up process in order to classify themselves within the perimeters established by the consumer society. Ways through which such economic actors keep up with changes focus especially on originality and innovation.*

*“Brand” strategy, which is one of the most innovative techniques through which an organization distinguishes itself both among the consumer market and within the competitive market. This concept is closely related to the idea of brand and involves a high degree of attention to be given to the customer positioning in the centre of actions undertaken and constant loyalty. Major interest of a brand is to create such “customized solutions” type approach, based on providing services that should perfectly meet the needs of the target public.*

**Key words:** communication strategy, brand, branding, rebranding, public relations campaign.

**JEL Classification:** M31, M32.

## 1. Branding strategy of an enterprise and its communication

Brand has become the most important asset of a modern company and it should be the focus of management concerns. In the new corporate culture, brand strategy is often identified with the corporate business strategy.

The strategic brand process begins with the creation of such brand, continuing with its promotion, with brand impact assessment, other management processes supporting the brand, in order that, at the end of a strategic cycle, the process shall be resumed on a permanent basis.

It is commonly met that less experienced companies in branding tend to delegate the management power to a brand, either to the marketing department, or to the designers who can help to create an attractive visual identity. In order that an enterprise or product be appreciated by consumers as a real brand, branding strategy must be led by the team at the highest level of the enterprise. Communication specialists have their role in creating a brand, being made available all the know-how to create, promote, rebrand.

A brand construction is, in fact, a strategic process that involves passing through some several distinct stages. At the same time, the communication campaign for promoting the new product desirable to become a brand is very important, just through the emotional impact it can generate among consumers.

Brand strength consists in perseverance and long-term strategy. To achieve a branding strategy, it is necessary to take into account the following rules:

- it is very important to understand what is branding, so you can make an educated choice if it can be useful for your business;
- the biggest mistake is to believe that branding is limited to the name and logo;
- brand also contains a promise. It is important to know how you keep this promise;
- since we have already a dedicated brand, let us try, as much as possible, not to change its name unless it is absolutely necessary. If you purchase a business, the new name must match the new perspective. The name must be relevant to those to whom you perform the business for, as well as for consumers;

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➤ there are also low-cost solutions for branding, however, expectations should be set accordingly;

➤ branding means behavior and attitude beyond the "shine" from the outside;

➤ strategies are short, clear and leave room for adjustment. Please formulate very clearly what is your strong point and how you use it, so you may get where you want. Branding strategy does not mean setting targets; it is not limited to the identification of targets, but also involves identifying the means to get there;

➤ a branding consultant does not have a vision of a business, does not require its direction, the customer only need to know himself/herself where he/she wants to reach;

➤ for a new brand, there must be brand elements already set prior to building a site. Then you must bring the site into contact with those whom you address. Further, it follows conventional advertising, events, etc. Do not forget that, in order to build a strong brand, you must have in mind: differentiation (what you are different to others), positioning and promise made;

➤ you need to look the branding construction as a business management activity;

To create a brand, communication strategy must comply with effective requirements, such as:

- ability to listen: ability to understand what the customer wants from the advertised product, what needs should be fulfilled;

- ability to ask questions: in this way we are able to cause the advertised product meet the desires of the targeted audience;

- ability to be empathic or empathy: the ability to leave our own logic and transpose ourselves in our interlocutor's logic, in the sense of not outlining a brand communication strategy through what we want, but by what desires the target audience of the product created.

## **2. Evolution of the Romanian brands. Comparative analysis: year 2010 and 2013**

In this chapter, my intention is to underline the positioning of the Romanian products regarded as brands, as well as their dynamics: upward or downward. Evolution of the Romanian brands is based on data revealed by Unlock Market Research for Biz magazine, as well as on Leading Brands 2013 survey conducted by Gemius.

### ***2.1 Top of the Romanian brands in 2010***

Borsec, Dacia and Pro TV are in the leading positions in the classification of the most powerful Romanian brands, according to a survey conducted by Unlock Market Research for Biz magazine. Out of the top 10 of the most powerful Romanian brands, 7 are owned by international companies. The survey was intended to measure the "power" of the Romanian brands from the perspective of trust and affection investment granted to them by consumers.

The research is based on a qualitative study, conducted through a number of 20 in-depth interviews, involving people aged 18 to 45, as well as a quantitative one, conducted via 1,314 telephone interviews. The classification resulted after the research is led by **Borsec** mineral water, perceived as a brand that has maintained its quality over time and managed to impose itself through seriousness. Borsec is bottled by the Romanian company Romaqua Group. On second is situated **Dacia** - a brand which is familiar, popular and adaptable to the desire of succeeding. Dacia is a brand at "second youth", after the infusion of capital, know-how and design made by Renault.

**Pro TV**, ranked on the third place is, according to the research, a professional and modern brand, "fresh", keeping step with the times. It is a television that has remained constant in terms of quality, but always surprising as regards events. Pro TV is part of the Central European Media Enterprises media group.

The fourth position is ranking **Dorna** mineral water brand owned by Coca-Cola Romania. Dorna is perceived as a bolder brand, positioned in tune with the modern world. **Poiana** chocolate, a brand of Kraft Foods Romania, has imposed by its steadfastness over

time, being serious and reliable in terms of product quality. The sixth position is held by the first Romanian beer, **Timisoreana**, now part of the portfolio Ursus Breweries, a subsidiary of SABMiller company. Before being purchased by Ursus Breweries, in 2002, Timisoreana was merely known regionally. The brand was subsequently launched nationally.

**Izvorul Minunilor**, water brand owned by the European Drinks, the company managed by the brothers Ioan and Viorel Micula ranks seventh among the most powerful Romanian brands. According to consumers' opinion, Izvorul Minunilor is a popular, open and handy brand. The eighth position is held by **Cotnari** wine brand produced by Cotnari SA. Cotnari is perceived as a mark of "ancestors", succeeding to last over time. **Ursus** is the second brand of Ursus Breweries which is positioned in the top 10. "King of Beer in Romania" managed to impose itself in the consumers' preferences, in association with ambition and progress. The largest bank in Romania, **BCR**, ranks the 10<sup>th</sup> position in Biz classification. The Bank, part of Erste Group, is perceived as a strong and reliable brand.

## ***2.2. Top most powerful 50 Romanian brands in 2013***

The classification is based on a study conducted by the research company Unlock Market Research for the Biz magazine and was released on Wednesday, September 11, within the conference held by BrandRo.

The first position among the strongest 50 brands Romanian, for the fourth consecutive year is held by Borsec, followed by Dorna, La Dorna, Gerovital, Plafar, Dero, Napolact, Cris-Tim, Pate Sibiu and Zuzu.

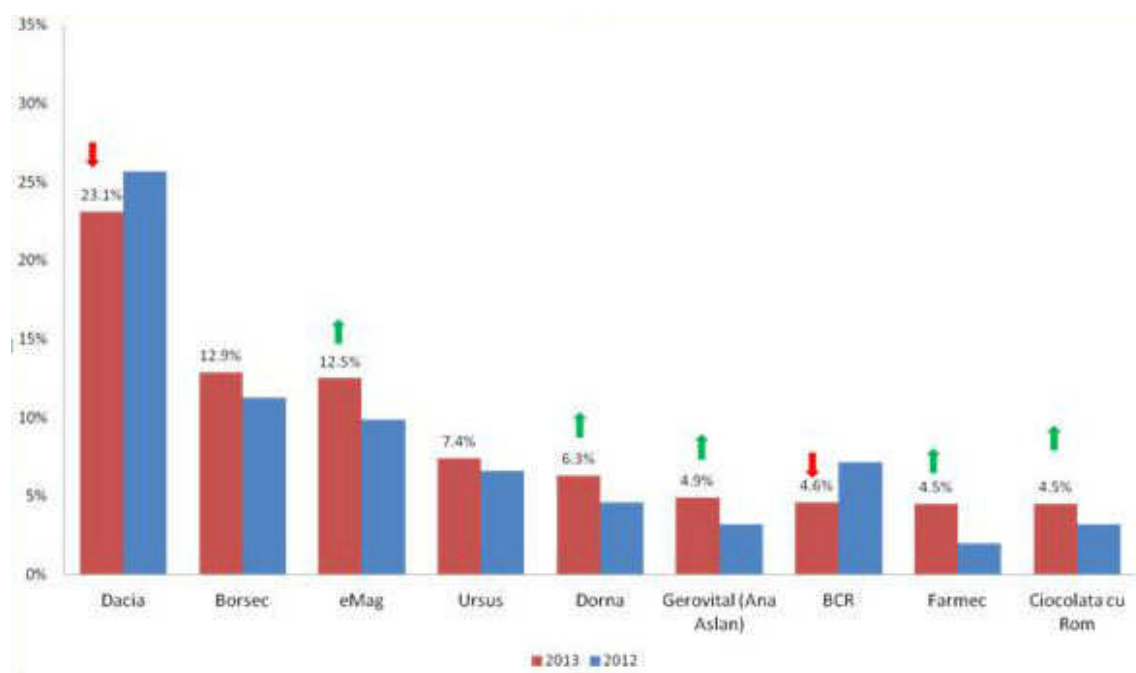
In the top Romanian brands from 2013, there are 5 new entrants: Aqua Carpatica, Delaco, Taron, eMAG and Jidvei. The most spectacular growths came from Caroli, who has got no less than 16 positions, Zuzu (+13 positions), both of them being on the wave, due to the rise of food category and Dedeman (increasing 12 positions), a brand enjoying a continuous and consistent communication. On top of growths is also Dero, Doina, Petrom and Frutti Fresh.

2013 is a value consolidation year for the Romanian brands. People have got accustomed to the crisis, treating it as a normal state of affairs, have adapted their behaviours and found effective strategies to cope with the newly formed context. That is why the top of Romanian brands is more stable, do not longer generate major surprises and confirms trends guessed during the past years: more abstinence, more care for themselves, more pragmatism. The purpose of this fourth wave of the survey was to identify the brand strength and its ability to maintain itself in the top, given that brands operate in a stable economic environment.

## **3. The most visible and appreciated Romanian brands**

The sixth edition of the survey "Leading Brands 2013" revealed the most visible and popular Romanian brands, as they are perceived by the Internet users. In addition, the survey presents the brand top according to the perception of Internet users in Romania on four major areas: Telecom, Automotive, Personal Care and Banking. Following the survey, in all the 3 tops of the Romanian brands, Dacia and Borsec are ranked on the first 2 positions, the same as last year. In the top of the most present Internet brands, the next three positions are held by e-MAG, Ursus and Dorna.

As compared to previous years, for the Internet users in Romania increased the importance that the brand services / products should be innovative, while the weight of notoriety in the calculation of index defining a successful brand, decreased. As regards the characteristics defining online presence of a brand, as compared to previous years, Internet users who participated in the survey, will assign a greater importance to the possibility of purchasing online products / services.



Regarding the perception of Internet users in Romania, as regards online presence of brands in the studied areas, the following results have been obtained: on the top of Banking and Finance area, the first positions are held by ING, BCR, BRD; for personal care, the first positions are held by Avon, Oriflame, Nivea. Orange, Vodafone and Cosmote are the leaders of Telecom industry and BMW, Mercedes Benz and Audi are the most visible in the online environment as regards automotive industry.

"The survey" Leading Brands" conducted by Gemius is among the few independent surveys evaluating the online presence of brands and identifies the top brands on various categories. The results obtained following the survey provide relevant and transparent information both for marketers and companies on the consumer perspective.

Borsec water brand is, for the fourth consecutive year, on the first position among the most powerful Romanian brands, followed by Dorna, La Dorna, Gerovital, Plafar, Dero, Napolact Cris-Tim, Pate Sibiu and Zuzu, according to a survey conducted by the research company Unlock Market Research for Biz magazine.

The classification aim was to identify the brand power in terms of its capacity to remain in the top, under the conditions in which brands operate in a stable economic environment. On the other hand, among the top 50 Romanian brands, there are 5 new entrants: Aqua Carpathian Delaco, Tarom, eMag and Jidvei.

The most spectacular growths came from Caroli, who has got no more than 16 positions, Zuzu (+13 positions), both of them being on the wave due to the rise of food category and Dedeman (increasing by 12 positions), brand enjoying a continuous and consistent communication. In the top of growths there is also Dero, Doina, Petrom and Frutti Fresh.

### 3. Measuring preferences of 18 year old youth as regards the decision of purchasing Romanian brands

Young people who are 18 years old buy Romanian food brands in a significantly lower proportion than those from the previous generations (31.8% vs. 56.2%) and almost half of them say they do not care what kind of brands they buy (according to a survey conducted by Rogalski Damaschin Public Relations).



TOP 50			BRANDURI ROMÂNEȘTI		
Loc 2013	Brand	Loc 2012	Loc 2013	Brand	Loc 2012
1.	Borsec	C	26.	Frutti Fresh	+7
2.	Dorna	+1	27.	BCR	-9
3.	LaDorna	+2	28.	Biborteni	-2
4.	Gerovital	-2	29.	Primola	-4
5.	Plafar	+1	30.	Doina	+8
6.	Dero	+8	31.	Banca Transilvania	-3
7.	Napolact	+2	32.	Arctic	-2
8.	Cris-Tim	-1	33.	Romtelecom	-16
9.	Pate Sibiu	+2	34.	Albalact	-2
10.	Zuzu	+13	35.	Dacia	-16
11.	Pate Bucegi	+4	36.	Eugenia	-5
12.	Poiana	-8	37.	Tarom	N
13.	Elmiplant	C	38.	Dedeman	+12
14.	Fares	-4	39.	eMAG	N
15.	Farmec	-3	40.	CEC	-11
16.	Covalact	+4	41.	Măgura	-7
17.	Petrom	+7	42.	Domo	+4
18.	Perla Harghitei	+4	43.	Murfatlar	-8
19.	Aqua Carpatica	N	44.	Cotnari	-8
20.	Izvorul Minunilor	-4	45.	Ursus	-4
21.	Caroli	+16	46.	Jidvei	N
22.	Kandia	-14	47.	Laura	-7
23.	Delaco	N	48.	Timișoreana	-9
24.	BRD	-3	49.	RoStar	-5
25.	Rom	+2	50.	Bergembier	-7

Un proiect **Biz** și THASD **UNLOCK** HOW YOU KNOW **SIANDIT**

Top general 10 marci romanesti puternice	
Rank	Brand
1	Borsec
2	Dorna
3	La Dorna
4	Gerovital
5	Plafar
6	Dero
7	Napolact
8	Cris-Tim
9	Pate Sibiu
10	Zuzu

Un studiu: **Biz** THASD **UNLOCK** HOW YOU KNOW **SIANDIT**

For the survey "Generatia BAC 2013" responded over 2,000 young people aged 18.

Around 56% of those who graduated high school this year would not make online everyday purchases and are big promotion fans, 91,07% of them saying that they change purchasing decisions in front of the store shelf due to a reduction in some product.

On the other hand, "Generatia BAC 2013" has a sense of pride regarding the European affiliation to a greater extent than the previous generations (77% vs. 69.1%).

Meanwhile, they consider their lifestyle is better than of most people they know (61.02%), with a third more than the previous generation respondents (42.6%). Young people aged 18 say they practice at least 30 minutes of exercise every day, in a significantly higher proportion than the previous generations (45.5% versus 26%). They also consider, to a larger extent than the previous generations that the showbiz world affects our perception on beauty (58.8% compared to 41% for older respondents).

## Conclusions

After presenting the evolution of the Romanian brands, it was noticed that the Romanians would rather prefer food products, especially for the ones having a tradition of several decades (Borsec mineral water, Dorna mineral water, Rom chocolate Rom, etc.), for personal care products (Gerovital Elmiplant). Thus, the tradition of product, along with a correctly targeted promotion, may lead a product identified as a brand on the top positions in the ranking of consumer preferences.

It can be also noticed an approximately constant preference for certain brands, making comparisons with the years 2010, 2012, 2013 (Borsec, Dorna, Gerovital etc.). A significant difference was recorded by Dacia car brand, because consumers are turning to foreign brands established on the automotive market.

Brand strength consists in perseverance and long-term strategy.

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10. \*\*\*<http://www.wall-street.ro/articol/Marketing-PR/151333/studiu-tinerii-de-18-ani-cumpara-mai-putine-branduri-romanesti-decat-generatiile-anterioare.html#ixzz2gdyoJQiv>
11. \*\*\*<http://www.wall-street.ro/slideshow/Marketing-PR/92076/Topul-celor-mai-puternice-branduri-romanesti/2/Aneta-Bogdan-Trei-probleme-ale-brandurilor-romanesti.html#anchor-of-navigator#ixzz2gdzexagg>

# IMPACT OF THE PERSONAL FACTORS UPON THE PURCHASING AND CONSUMPTION BEHAVIOUR IN THE TOWN OF REȘIȚA

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## Abstract

*One of the most disputed subjects within the economic theory, with repercussion both on the economic and social practice and on the political one is the issue of consumption and consumer behaviour.*

*As social practice and experience, the origin and core of consumption is connected to the existence of life itself, consumption being a process linking not only the producer and the consumer, but also the economic and the social activity.*

*Consequently, this paper approaches one of the most stringent issues, which interest specialists, governing bodies, mass-media and, last but not least, population.*

*Concretely, in this paper we analyse the impact of the personal factors upon the purchasing and consumption behaviour in the town of Reșița and in this respect, in the research performed we used structured individual inquiries, based on a questionnaire.*

*The paper ends with a brief presentation of conclusions and suggestions regarding the analysis and improvement of population's consumption.*

**Key words:** *consumption, consumer behaviour, personal factors.*

**JEL Classification:** D11, D12.

## 1. Introduction

The economic theory of consumption, whose foundations were laid especially by Engel and Blackwell (1982), through the theory of demand, has been substantially enriched along time grace to the contributions of modern and post-modern economists – Assael (1992), Becker (1994), Boier (1994), Filser (1994), Miron (1996), Plăiaș (1997), Blythe (1999), Dobre (2000), Marder (2004), Catoiu and Teodorescu (2004, 2007), Zaltman (2007), Tănase (2009, 2013), Anghelina (2011) etc., authors treating in their works complex issues of consumption and consumer behaviour. Obviously, references to this subject are also found in the preoccupations of other authors such as Rîndașu (2005, 2009), Dinu (2010, 2012), Georgevici (2013), who analyse the thorny issues of consumption: the consumption of ecological products, of electoral products and so on, even drug use and abuse.

Although the problems related to consumption and consumer behaviour have enjoyed a special attention from specialists, grace to their wide scope, the study of the population's consumption patterns still remains a field to be explored with much scientific discernment.

Keeping in mind all the above, the present paper aims at identifying the impact of personal factors (with reference to age, gender, occupation, life style) on the consumption of Reșița's population.

In order to reach this goal, in the research conducted we used the questionnaire-based individual structured inquiries and in order to ensure the sample representativeness, we choose as sampling method the quotas methods combined with the areolar survey.

## 2. General presentation of the research

Due to the complexity of consumption, even among a relatively small population group, the endeavour of its empirical study often imposes the realisation of a methodological adaptation, in the context of resepcting the basic requirements of the standardisation of research methods (Stanciu, 2006, p. 7).

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At present, the research of the consumer behaviour is made with the help of motivational research, focused on the aspects of consumer behaviour that are considered the most relevant.

In the absence of sufficient statistic information or representative for the formulation of conclusions related to the *impact of the personal factors upon Reșița consumers' behaviour, a direct research among the population was performed for this purpose.*

The research was conducted in September 2013, relying on a programme comprising the following elements:

- Definition of the research purpose;
- Elaboration of the research objectives and hypotheses;
- Estimation of the value of information acquired from the research;
- Selection of the sources of information;
- Selection of the modalities of data collection and systematisation;
- Collection of information;
- Processing of information;
- Analysis and interpretation of information;
- Elaboration of conclusions.

In order to describe in detail all the previously presented aspects, we made appeal to *methods of direct study of the consumption demand*, grounded on the collection of information directly from the purchasers, i.e. consumers.

*In the case of the present research, considering the research objective, we considered it opportune to conduct a quantitative study, whereas the choice of the investigation modality was that of an occasional inquiry.*

### 3. Determining the sample size

The establishment of the sample size is made in different manner, depending on the *survey rate* (Dobre et. al, 1995, p. 161) - Equation (1).

$$\left( R = \frac{N}{n} \times 100 \right) \quad (1)$$

where:

R = survey rate

N = size of the studied community

n = sample size

○ If the survey rate is < 14.3% of N (1/7 of the investigated community), the sample is non-exhaustive;

○ If the poll survey is > 14.3% of N, the poll is exhaustive.

In the case of our study, we set on the determination of a *non-exhaustive poll*, for which the minimum size of the sample is given by the relation (Cătoiu (co-ordinator), 2009, p. 494-495, Dobre et. al., 1995, p. 161) - Equation (2).

$$n = \frac{t^2 \times p \times q}{e^2} \quad (2)$$

where:

n = minimum sample size;

t = coefficient associated to the probability of guaranteeing the research results (trust or confidence level or threshold) previously set by the researcher (its value is taken from statistic tables).

p = the non-percentile weight of the sample components that are characterised by a certain attribute, in other words, the frequency of apparition for the studied

phenomenon (most of the times the value of  $p$  is unknown and is considered to be equal to 0.50, to make dispersion reach its maximum possible value);

$q$  = the non-percentile weight of the sample components that are not characterised by a certain attribute; it is determined with the relation  $1 - p$ ;

$e$  = the error margin that can be tolerated in research (admitted deviation).

In determining the sample size, we should use all the time a certain error margin, as “samples are rarely perfect miniatures of the universe they are extracted from” (Demetrescu, 1991, p. 29).

In practice, error margins usually range between  $\pm 1$  and  $\pm 5\%$ , “their establishment remaining, as in the case of the probability of guaranteeing results, at the researchers’ latitude” (Cătoi (co-ordinator), 2009, p. 494-495).

In the case of our study:

$$n = \frac{2,17^2 \times 0,5 \times 0,5}{0,03^2} = \frac{4,7089 \times 0,25}{0,0009} = \frac{1,177225}{0,0009} = 1308 \text{ persons}$$

The error margin to use in research will be of  $\pm 3\%$ , which will correspond to a trust / confidence threshold of 0.97. Affluent to this trust threshold, the value of the coefficient will be 2.17.

The survey rate is calculated and we obtain:

$$R = \frac{81521}{1308} * 100 \approx 6232 \text{ persons}$$

As  $6232 < 14.3\%$  of 81521 (1/7 of the investigated community– N, Reșița’s population being of 81521 persons on 1.01.2012), *the sample is indeed non-exhaustive*.

#### 4. Presenting the sample subjected to research

The main criteria of subjects’ selection were:

- a) *the gender criterion* (male and female) – 2 levels.
- b) *the age criterion* (under 20, between 20 - 29 years of age, between 30 - 39, 40 - 49, 50 – 59, over 60) – 6 levels.
- c) *the socio-professional category* (high school students – college students, workers, intellectuals, clerks (secondary studies), pensioners and “other occupations” – 6 levels.

*Additional details:*

- In the categories “*high school students / college students*” we questioned 12<sup>th</sup> grade students and college juniors and sophomores;

- The category “*workers*” includes qualified workers and foremen employed in different fields: industry, constructions, transports etc.

- The “*intellectuals*” refer to engineers, physicians, teachers, IT specialists, economists etc.

- In the category “*office workers*” (with secondary education) we included public clerks, secretaries, operators from banks and synthesis institutions (statistics, financial administration etc.).

- We included in the category “*other occupations*” shop assistants, drivers, taxi drivers, ticket collectors, nurses, hairdressers, barbers, beauticians, tailors, seamstresses etc.

The subjects were not included in the sample randomly, but on the basis of a certain selection procedure, so that the laws of probability become applicable, making possible the statistic inference from the values of the sample characteristics to those of the entire population. (Novak, 1998, p. 23.)

In order to ensure the sample representativeness, we choose as sampling method the quotas methods combined with the areolar survey, aiming at selecting subjects from all the

districts of the town of Reșița, the quotas used being calculated based on the data received from the County Statistics Division Caraș-Severin.

## **5. Interpretation of the study results**

### *1. Subjects' perception related to the category of factors influencing the most the purchasing and consumption decision making*

Almost a third of the total interviewed persons – 32.25% (33.32% of men and 31.19% of women) declare that in general, the factors which influence the most their purchase and consumption decisions are the economic ones (price of economic goods, consumers' revenues, interest rate, unemployment, inflation etc.). The highest share is recorded in this respect among the persons aged over 60 (52.12%), i.e. in the case of pensioners.

On the other hand, the lowest percentages – 11.86% (9.63% of men and 13.78% of women) were represented by those who declare that the factors which influence the most their purchase and consumption behaviour are the social-demographic factors (demographic environment, social class, reference group – family for instance). As regards the age criterion, the lowest weight is represented again by senior citizens aged over 60 (5.12%), in a word pensioners.

We must point out that 16.32% of the questioned subjects affirm that the most important influence on the consumption is represented by cultural factors (tradition, customs etc.), whereas for another 15.42%, psychological factors (such as needs, motivations, personality, self image etc.) are dominant in their market behaviour.

### *2. To what extent subjects consider that age influences their decision of purchase and consumption.*

Most respondents – 59.25% (57.53% of men and 60.86% of women) declare that in general their age influences their consumer behaviour rather much, and this opinion is shared mostly by the old people over 60 (72.69%), in other words pensioners.

At the opposite pole, the lowest percentage – 3.82% (4.44% of men and 3.25% of women) are represented by those who affirm that age has no influence whatsoever in making their consumption and buying decision, the lowest percentage being recorded in this case too by those aged over 60, that is pensioners (2.07%).

We must underline the fact that 20.18% of the respondents state that age generally influences their market behaviour to a very high extent, and only 16.74% of the subjects consider that age has a rather insignificant influence in this respect.

### *3. Subjects' position about the structure of the expenditure incurred*

A percentage of 39.53% (47.86% men and 31.76% women) of the total interviewed persons declare that the largest share of their expenses is allotted for buying food products. The highest percentage is recorded among those aged between 30 and 39 (49.69%), whereas according to the occupation criterion, the highest weight is detained this time by workers (47.56%).

On the other hand, the lowest percentages are recorded by those who declare they allot most of their expenditure to body care products and beauty services – 5.66% (3.80% of men and 7.39% of women). As for the age criterion, the lowest percentage is encountered among people under 20, in other words students and pupils (2.21%).

We must remark that a rather high percentage – 23.01% - affirm that they spend the most for utilities (gas, electricity, telephone, Internet, TV services etc.), the highest percentage being represented by pensioners, and the lowest by students and school pupils; another 15.70% allot the largest amount for clothes and footwear (the highest percentage being encountered among people between 20 and 29 years of age (21.08%) and especially among intellectuals (19.22%), and the lowest percentage is represented, in this respect also, by senior citizens aged over 60 (0.69%), in a word pensioners.

Furthermore, 9.04% spend the most for household and husbandry products and 7.06% spend most of their income on medicine and sanitary services, the highest percentage being recorded in this case too among people over 60 (15.69%), thus especially in the case of pensions, whereas the lowest percentage as regards medicine consumption is represented by young people under 20, in other words school pupils and students (0.21%).

#### *4. Subjects' receptivity to innovating products*

Way more than half of respondents, 61.72% (57.97% of men and 65.64% of women) consider that they are rather receptive to innovative products, this opinion being shared especially by those between 20 and 29 years of age (67.23%) and especially by intellectuals (71.08%).

At the opposite pole, with the lowest percentage, 4.25% (4.46% of men and 4.08% of women) we find those who declare they are not at all receptive to novelty, the lowest percentage in this respect being represented by people under 20, i.e. school pupils and students (1.21%), and the highest percentage is represented by pensioners (9.13%).

We must remark that 21.35% declare to be extremely receptive to innovating products, especially young people, whereas 12.67% consider they are less receptive to novelty.

#### *5. Respondents' perception regarding the extent to which their gender generally influences their purchase and consumption decision*

A percentage of 41.53% of the persons questioned (40.86% of men and 42.21% of women) state that their gender generally influences rather significantly the purchasing and consumption decision making. The highest weight is represented by those aged between 20 and 29 (51.23%) and especially by office workers (54.08%).

On the other hand, the lowest percentages were recorded by those who declare that gender has no influence whatsoever on their consumption behaviour – 1.41% (1.39% of men and 1.43% of women). As for the age criterion, the lowest weight is represented by people aged between 20 and 29 (0.00%) and, as regards the occupational criterion, by intellectuals (0.68%).

We must point out that 30.01% of the subjects interviewed affirm that gender influences their consumption behaviour very much (especially in the case of the youth), and for 27.05% gender influences their purchasing decision to a rather small extent.

#### *6. Subjects' perception referring to the person in their family who generally makes the decisions regarding the purchase of food products*

Over two thirds of the total questioned persons, 68.19% (61.98% of men and 76.45% of women) affirm that in their family the purchasing decision related to food products is generally made by the woman (wife / partner, mother), this being claimed especially by people between 50 and 59 years of age (73.41%) whereas as regards occupation the highest percentage is recorded among workers (74.38%).

Only 8.67% (10.64% of men and 6.71% of women) claim that in their family the purchasing decision related to food products is usually made by the man (husband / partner, father), the lowest percentage being recorded in this respect among those with ages between 50 and 59 (6.12%), while as regards occupation the lowest percentage is recorded in this case by those belonging to the category "other occupations" (5.38%).

Nevertheless, 23.14% declare that in their family the purchasing decision regarding food products is generally made equally by both partners.

#### *7. Subjects' perception related to the person in their family who usually makes decisions in connection with the dwelling arrangement*

Most of the interviewed persons, 63.12% (58.98% of men and 67.45% of women), affirm that in their family the decisions regarding the dwelling arrangement are generally made by the woman (wife / partner, mother), this being claimed especially by the people between 30 and 39 of age (67.21%), whereas in terms of occupation the highest percentage is recorded among workers (71.22%).



Only 16.80% (21.12% of men and 11.71% of women) declare that in their family the decisions related to the dwelling arrangement are usually made by the man (husband / partner, father), the lowest percentage being recorded in this respect by those under 20, thus school pupils and students (12.38%).

On the other hand, 20.08% state that in their family the decision about the manner of arranging the dwelling is usually made by both partners in equal measure.

*8. Subjects' perception referring to the person in their family who generally makes the decision of purchasing electronic appliances*

Most of respondents, 42.16% (51.02% of men and 31.42% of women) affirm that in their family the decision related to the purchase of electronic devices is usually made by the man (spouse / partner, father), this being declared mostly by people aged between 20 and 39 (45.50%), whereas as regards occupation the highest percentage is represented by intellectuals (49.26%).

Only 27.18% (20.14% of men and 34.28% of women) claim that in their family the decision to buy electronics is generally made by the woman (wife/partner, mother), and in this respect the lowest percentage is encountered among those aged between 30 and 39 (21.34%); as for occupation, the lowest percentage is recorded in this case among office employees (22.35%).

On the other hand, 30.66% declare that in their family the decision related to the purchase of electronic products is usually made by both partners equally.

*9. Subjects' perception regarding the person in their family who generally makes decisions related to the common spending of leisure time*

Most of the people questioned, 42.10% (41.05% of men and 43.17% of women) affirm that in their family the decisions regarding the common spending of spare time are usually made by both partners, and those who claim this are mostly aged between 30 and 39 (47.11%); as for occupation, the highest percentage in this respect is recorded by intellectuals (46.92%).

The lowest share, 28.09% (32.12% of men and 26.02% of women) is represented by those who claim that in their family the decisions regarding the common spending of leisure are usually made by the man (husband / partner, father), whereas the lowest percentage in this respect is encountered among young people under 20, in other words school pupils and students (12.38%).

On the other hand, 29.81% declare that in their family the decisions regarding the common spending of leisure time are preponderantly made by the woman (wife / partner, mother).

*10. Respondents' perception about the extent to which their occupation influences their purchasing and consumption decisions when it comes to food products*

The majority of the subjects – 62.24% (60.12% of men and 44.47% of women) declare that in general their occupation influences very little their purchasing and consumption decisions in relation with food products. This purchase and consumption behaviour is specific especially to those between 40 and 49 years of age (67.11%); as regards occupation, the highest weight is represented by those from the category “other occupations” (67.92%).

It is very important to underline that none of the respondents (0.00%) declared that occupation decisively influences their purchase and consumption decisions for food products.

Moreover, we should mention that 24.62% of them declare that their occupation usually influences their purchase and consumption decisions only to a moderate extent, whereas in the case of 13.14% of the respondents, their occupation does not influence at all their consumption behaviour in relation with this category of products.

*11. Respondents' perception regarding the extent to which occupation influences their purchasing decisions for clothes and footwear*

Way over half of the persons interviewed – 58.24% (60.12% of men and 56.30% of women) declare that their occupation usually influences their purchase and consumption



decision in a certain measure when it comes to clothes and shoes. This purchasing and consumer behaviour is specific especially for people between 20 and 29 of age (64.82%), as well as for those between 30 and 39 (64.12%) while as regards occupation, the highest percentage in this respect is represented by intellectuals (68.22%).

At the opposite pole, with the lowest percentage – 8.40% (9.12% of men and 7.62% of women) we find those who claim that their occupation does not influence at all their purchase and consumption decision related to clothes and shoes, the lowest percentage being represented in this case too by those aged over 60, pensioners (2.07%).

*12. To what extent subjects consider that their life style generally influences their purchasing and consumption decision*

Most of the respondents – 62.32% (64.71% of men and 60.00% of women) declare that their life style generally influences their purchase and consumption decision, opinion shared mostly by people aged between 30 and 39 (68.13%), whereas when it comes to occupation, the highest percentage is recorded among intellectuals (67.38%).

An extremely low percentage – 1.08% (1.12% of men and 0.98% of women) is recorded by those who affirm that their life style does not influence at all their purchase and consumer decision, the lowest share being represented in this case by young people under 20, in other words school pupils and students (0.40%).

We should remark that 25.40% of the respondents declare that in general their life style decisively influences their purchase and consumption decision (especially in the case of people under 40) and only 11.20% of the subjects consider that their life style has a little influence, in this respect.

## **6. Conclusions**

After having conducted this survey, we can conclude that the comprehension of the consumer behaviour can be done only by identifying and analysing the factors that mould the purchase and consumer behaviour, and in specific place and time circumstances, these factors have a higher or lower importance, which makes it practically impossible to establish a hierarchy among them.

Nevertheless, we should mention that, although in societies characterised by a low living standard, the economic factors - especially prices and incomes - have perhaps the most powerful influence on the dynamics and structure of consumption, the influence of the other factors (social-demographic, cultural, psychological, and last but not least, personal) should not be neglected by any means.

As for the influence of the personal factors on consumer behaviour, we underline the fact that they lead to rather different manifestations of individuals on the market, in relation with their age, gender, occupation and of course, lifestyle.

Thus, we could remark that young people and especially those with a higher level of training are more receptive to innovating product, compared to older persons.

On the other hand, the results showed different degrees of involvement of men or women in the purchasing decision making, depending on the specificity of products or services. For instance, women are more involved in the buying decision for food products or in dwelling arrangements, whereas men make the most decisions when it comes to purchasing electric and electronic products; it seems that only when it comes to the common spending of leisure time the decisions are made together, in most cases.

Furthermore, occupation is a factor with different degrees of importance. If in the case of food products, it does not trigger much difference from one socio-professional category to the next, in the case of other products, such as clothes and footwear, the behaviour differences are truly notable.

That is why we must understand that the investigation of these personal factors (age, gender, occupation, lifestyle) along with the other influential factors must be analysed with much scientific discernment, because, as it is known, social practice and experience, the origin and core of consumption, is connected to the existence of life itself, consumption being a process linking not only the producer and the consumer, but also the economic and the social activity.

On the other hand, we must keep in mind that, as an essential element of economic activity, consumption synthesises the complex relationships established in the process of satisfying the needs of society on the whole, of economic and social-cultural entities, as well as of each and every individual.

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