

# **STRATEGII MANAGERIALE**

## **MANAGEMENT STRATEGIES**

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## SECTION: REGIONAL DEVELOPMENT POLICIES AND STRATEGIES

### MIGRATION AND REGIONAL DEVELOPMENT

Elena Raluca, Moisescu (Duican)<sup>1</sup>

#### **Abstract**

*The economic process as a whole is influenced by the economic performances of regions within a country. Each region is provided with certain inputs. These differences are reflected in the economic level of a country. There are disparities among regions of our country expressed through different rate of unemployment, migration and different levels of income. This study focuses on the relationship between migration and regional development in Romania, between 2000 and 2010. The purpose of this paper is to see if the interaction between the economy and migration contributes to development of the regions, in the analyzed period.*

**Keywords:** *economic growth, regional development, regional disparities, migration*

**JEL Classification:** *O15, O40, R11*

#### **1. Introduction**

Douglas S. Massey et al. (1993) records that after the Second World War European countries, especially Western ones attracted many immigrants. This led to diversity and multi-ethnic society. There is yet a coherent theory of international migration, but several theories have one link, one of the factors determining migration namely earnings differences between different locations. The authors try to understand migration patterns by looking at the main assumptions and ideas. Although there are a variety of designs, most want to explain the same phenomenon. Neoclassical models are based on the cost of migration, the difference between wages and employment conditions in the countries concerned. The new economics of migration takes into account conditions in several markets, and migration is seen as a household decision taken to minimize the risk to family income. According to neoclassical theory, migration is due to geographical differences between supply and demand on the labor market and migrants are seen as an equity investment in developed countries. In neoclassical models (Sjaastad 1962; Todaro, 1969, 1976, 1989) people migrate because they can get more revenue if they move, but to do this, they first need to suffer costs associated with moving. On the other hand, the basic idea in the new economy of migration is that decisions are not made by a single individual, but more people who form a family (Stark, 1991). Assumptions of these models are different from those of neoclassical models and lead to other reasons: families or households are subjects of analysis, not the individual, and in the lack of wages motivation, households can take the risk of migration, employment at local level and migration are not mutually exclusive, when the differences between wages fade, desire to migrate will not stop, authorities can influence migration policies on the labor market, capital market or through social insurance programs. Both theories are based on models of microeconomic decisions. The differences are found in makers (individuals or households), the unit is subject to maximization (revenue risk), the economic context and the extent to which the decision to migrate is framed in society.

Dual labor market theory derived from labor demand in modern society. Piore (1979) noted that migration is driven by demand in the labor market that is characteristic of developed countries. According to him, migration is based on the country factors that receives immigrants, such as the need for foreign workers. The characteristics of the underlying theory are structural inflation, issues of motivation, economic dualism, demographic division of

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labor supply. The conclusions of this theory can be summarized as: migration is based on the demand of the labor market, differences in wages are not a sufficient condition for migration, low wages do not increase in response to decreasing supply of immigrant workers and the authorities can not influence migration by economic policies on wages or employment.

There is a migration theory in economics, a theory which distinguishes between internal and external migration. Who migrates and why? These are questions which do not receive a response today unanimously accepted by economists or sociologists literature. Bodvarsson and Van den Berg (2013) specify that economists are based on the idea that people migrate in search of a higher income than the cost of relocation. This however could not explain the situation of refugees, migrants or families of migrants although they don't want to migrate. On the other hand, sociologists seek a wider range of determinants. The reasons might be getting a higher price for labor supply, pleasant climate, good schools to benefit from protection authorities, to be closer to friends and family to seek political freedom etc. The Borjas (1987) model explains why the people migrate, but also the composition of migration flows. Arguably the theoretical part is less developed compared to empirical research in this area.

## **2. Literature review**

Before 1960, migration theory mainly focused on internal migration, making connection with economic geography. Even in the work of Adam Smith, *An Inquiry into Nature and Causes of the Wealth of Nations* the "it is included an analysis of data on this phenomenon suggesting that migration comes as a response to imbalances in the labor market, but wage differences may not be the only reason to migrate. In 1932, Hicks stated the same thing, that the differences between wages across regions or countries are a reason to migrate.

Among those who have made contributions to the theory of migration are Ravenstein (1889), Jerome (1926) and Zipf (1946). Greenwood (1997) synthesized the seven laws of migration proposed by Ravenstein: first, most of the migrants moving short distances and in larger cities, secondly, cities that are growing rapidly are populated by immigrants coming from rural areas nearby, thirdly, migration from inside is inversely proportional to migration from outside, fourthly, a wave of migration of large proportions will generate a compensatory counter-wave, fifth law refers to that in big cities these migrants will move a long distance, the sixth law states that rural people migrate more than those in urban areas, and the last law concludes that women are more likely to migrate than men.

Based on the seven laws formulated by Ravenstein, Zipf (1946) formulated the gravity model of migration, an application to Isaac Newton's law of gravity, where the distance is a representation of migration costs. The model also implies that some people will find better pay elsewhere and migrate. While the population of the place of origin and quality employment opportunities increase, those who want to migrate will be more. It can be added the idea that this model has not received as much attention as the first model of gravity of international trade by Tinbergen (1962) which was based on the fact that the link between trade the two countries is directly proportional to gross domestic product or population, and conversely proportional to the distance between the two.

Jerome (1926) has studied the link between employment and cyclical changes in the migration and he showed that there is a strong link between the two variables, noting that migration not only reflect the changes in the conditions of employment, and also that could lead to unemployment.

Other recent studies on migrants focuses on human capital approach, but also as a factor in consumer and producer of goods and services.

To drill the first category, the investment in human capital, labor economists are studying a flow model based on maximizing the utility obtained by choosing that place that



helps maximize revenue. However, it ignores reasons such as religious beliefs, a more attractive culture, political asylum, etc.

Migration can be seen as an investment in human capital if we take into account the costs of migration followed by a payment in the future. Sjaastad (1962) stated that each migrant compares opportunity cost in the country chosen as the destination with the one of leaving the country of origin, choosing instead to maximize his earnings value. He used a representation of distance costs, meaning that costs are higher when the distance is greater. In this model does not enter in migration revenues the benefits such as a better political and social climate, recreation options, stating that these differences are included in the cost of living.

The model does not explain why some people travel multiple times. He explains facets of the decision to migrate. These include the fact that there is an imperfect synchronization between the costs and benefits of migration in time, and also there are differences between gains and cost both in the home country and the one where they came. Among the shortcomings of the model is the assumption that migrants are knowing the variants of the labor market in the desired destination, also it does not take into account the wishes of family members, ignoring uncertainty in the model and the fact that some migrants will send money back home.

The second category of studies concerns migrant as a consumer. In the 1980s, migration theory no longer is based upon revenues or earnings. Greenwood (1997), among others, approaches the equilibrium model, with the central idea that consumption adjusts to the changing in prices, income, services, facilities. When people move the demand for facilities is changing according with economic, cultural, technological changes. This model states that differences in earnings in different locations can be permanent because the differences in facilities tend to compensate for differences in income.

Tiebout (1956) states that a migration factor is represented by the differences in quality between public goods (education, police, roads, health care). There are considerable differences between the developed and the developing countries, between facilities offered by them on a creative environment and a democratic society, a good health system, food quality, all goods that lead to a better living life.

A third category of models are explaining migration as a complement to the above category, the migrant household as producer. The model proposed by Shields and Shields (1989) developed on new household economics, which says that all households produce goods and services for final consumption (cooking, home repair, growing vegetables, childcare). It has found implications for human capital models.

Information and social costs are low and migration is more efficient when there is greater access to friends or family. There are also models that argue that migration can be seen as a decision taken at every stage of life, and not just once. The location features are changed with the advancement in life.

A drawback is that Sjaastad's model considers that migrants find employment on the destination. This does not seem to be realistic. We know that rural migrants were expected to find their jobs in urban areas. One of immigration patterns known is that of Borjas (1987, 1991) based on that of Sjaastad, but it brings some innovative notes. It presents, in addition desire to migrate due to differences in wages, a distribution model where human capital of the country of destination and the home determines the flow of immigrants. His view is that people are characterized by certain abilities, a certain level of education or talents. The decision to migrate can also be made depending on where immigrants could fit using their skills.

The simplified model is based on the assumption that there is one country of destination and people do not return home. There are variations between countries of origin and the destination in terms of earnings, which are seen in the opportunities differences they can have as a migrant. If a destination country for migrant rewards his skills and earnings are higher then the migration occurs.

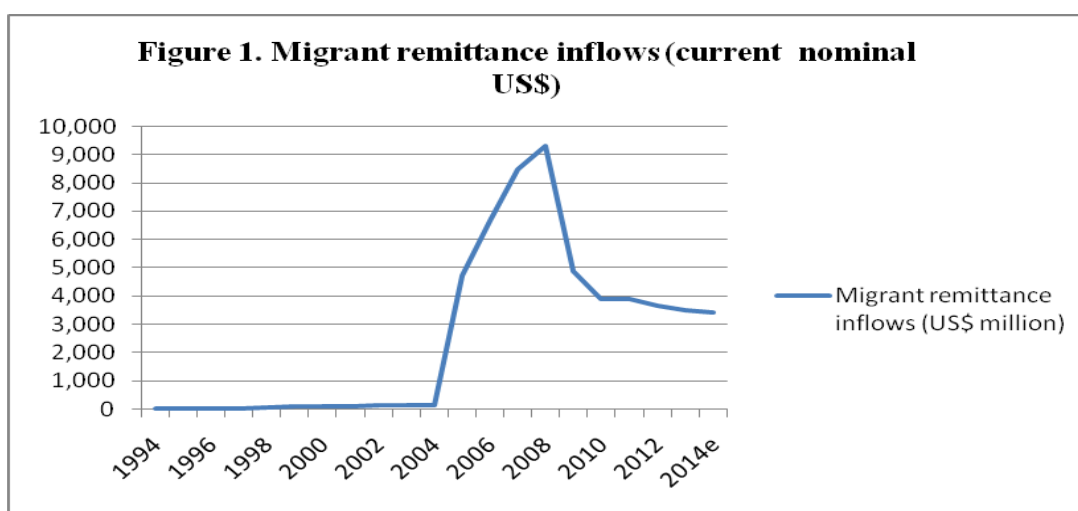
The CHW model (Clark, Hatton and Williamson, 2007) specifies some of the costs of migration: individual costs (costs are lower if migrants have relatives or friends in countries which they want to reach), direct costs (with distance), costs arising from restrictions on immigration and those resulting from immigration policies. There are also models that are based on the idea that reason of migration is lack of family. They have roots in psychological studies.

Besides the theories presented, there is the cumulative causation theory (Massey, 1990) that try to explain how migration occurs in the social context in which decisions are taken. There are six factors that can be impacted: income distribution (refer to data on household income), acquisition of land, the organization of agricultural production (on areas mainly agrarian) culture migration (requires information on the values, beliefs), distribution of human capital at the regional level, social labeling of immigrant labor. This theory suggests that migration tends to create more migration.

While many reasons can sit at the base of migration, conditions may change over time. The fundamental conclusion can be drawn from the study of migration patterns is that all models discusses the differences between the income earned from work. However, there are many other reasons that cause migration: political, social, economic, and institutions that help immigrants.

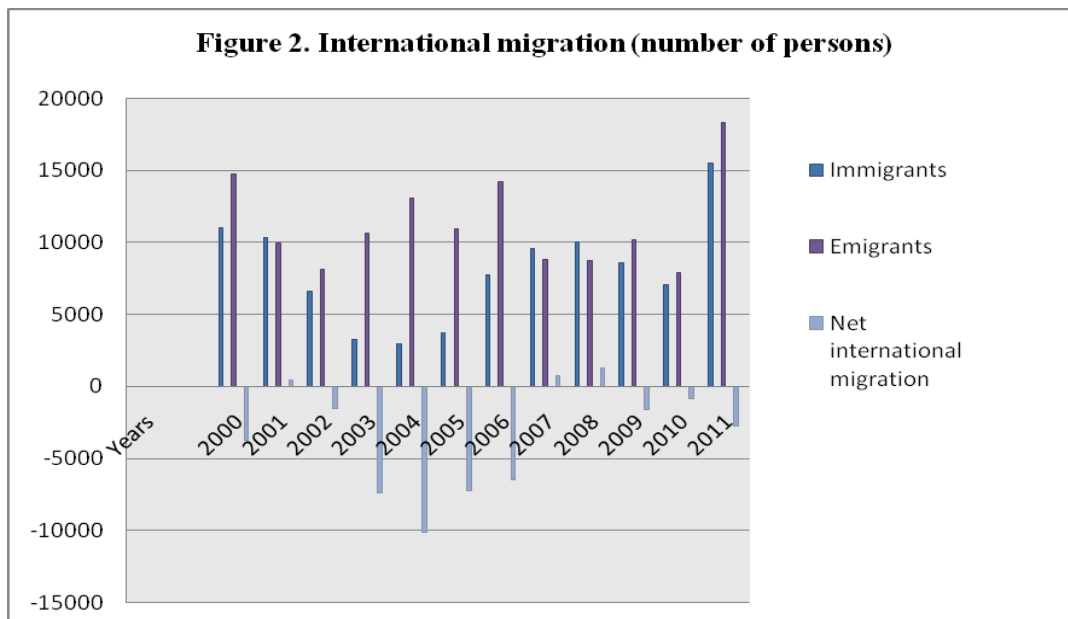
### 3. International migration

Regarded as a form of human capital export, external migration may be associated with benefits when taking into account that the income transferred to family turns into domestic consumer spending, thus increasing domestic demand. For any country, the export of human capital in which it was invested in means a fairly high cost. Constantin (2004) states that for the host country, the consequences of migration can reduce the work deficit, mitigating population aging, contributing to increased production Also for the worker and his family, the effects are: earning a higher income compared to the country of origin, increased capacity for saving and investment, improve the knowledge, skills, civic spirit, community involvement, but also in loss, such as discrimination, difficulties with accommodation.



Source: World Bank Remittances Database, 2015

Regarding remittances to Romania from Romanians abroad in the period 1994-2014 (\$ million nominal value) can be seen (Figure 1), that there has been a dramatic increase in remittances in 2005 (4708) compared to 132 million in 2004. There is a growing trend and the peak is reached in 2008 (9 285 million). Since 2009, under the influence of financial crisis, when it is reduced to half their levels compared to 2008, only 4881 million, we can see that their levels decrease by 2014 from 3431 million US.



Source: NSI data

In Romania, it can be observed that migrants (Figure 2) are a greater number than immigrants, from 14 753 in 2000, reaching 18307 in 2011. Among immigrants, after a decline in 2000 (from 11024) to 2004 (2987), following an increase of up to 15538 in 2011. The biggest difference is observed in 2005, when international migration balance was -10 095 persons.

The resident population in Romania on 1 January 2013 was around 20.01 million inhabitants, almost as in 1969. During the period 1989-2012, Romania’s population decreased by 3.1 million persons. Emigration caused more than 77% of the resident population negative growth. During 1990-2012 the resident population decreased because of the international migration, which led to a cut in population of almost 104200 persons per year, because of family planning reducing the annual number of births, and because of high mortality after 1990. The number of emigrants per 1000 of the resident population was 116.5 in 2012 compared to 48.6 in 2002.

#### 4. Internal migration in Romania

Changes in the spatial distribution of population in a country occur due to internal migration based on characteristics of the economic development process. Bădescu (2011) states that migration is defined as the permanent change of residence place by a person or group. Migration classification is based on several factors, such as internal or external migration, inter- and intra-zonal, actual or potential, leading to urbanization, industrialization and colonization. In Romania, the late '60s meant the start of industrialization, followed by the process of urbanization.

The evolution of external migration in Romania:

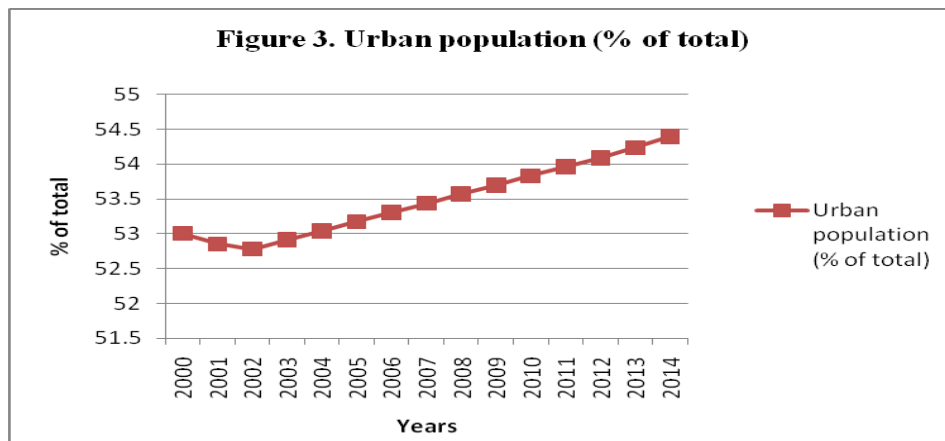
- 1968-1972 represents the first stage and it is characterized by an annual growth rate of migration (338,000 migrants in 1972);
- 1973-1982 - during this period it is stage II, when there was a high point in Romania. The rural population went to cities or looking for a job in industry, construction, and education or permanently.
- 1983-1989 – It’s characterized by a decline in the migration process, with the rate of 196 000 migrants in 1989.
- 1990-1996 - It comes to a figure of 300 000 people per year migrating.
- 1997-2001 – In the fifth stage it is happening for the first time that rural departures to be smaller than arrivals to villages.

- Since 2002, there is a reversion to the figures of the '70s, but the causes are different: those that cannot survive the city seek refuge in the countryside.

The minimum threshold in internal migration was in 1989, and the maximum both in 1972 and in 2004.

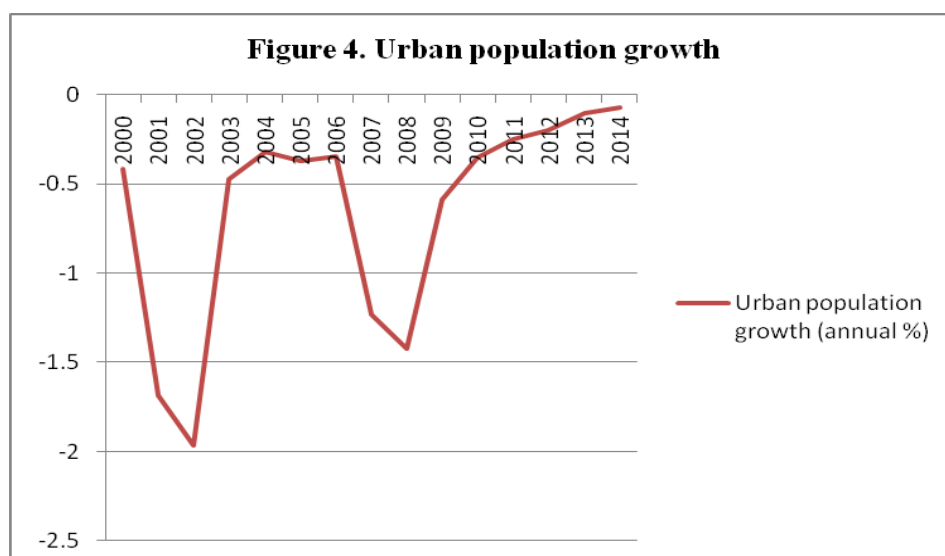
Also in the paper it is specified, that the four-way migration have evolved differently in recent decades: increased rural-urban migration in the early 80s, after which it experienced a decrease, rural-rural migration has declined in the early 80, after which it started to grow, urban-rural migration followed an upward trend since the early 80s, after which it's decreasing, returning to growth in 1996, and urban-urban migration has an upward trend during the studied period.

The next figures shows changes in urban population, mainly due to migration to cities from rural areas, in response to better economic opportunities.



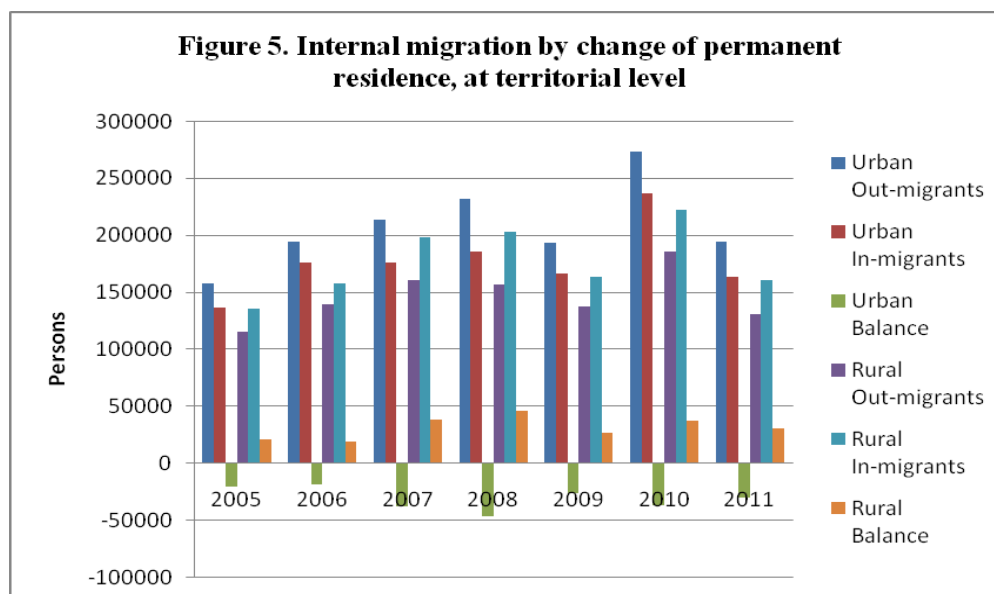
Source: World Development Indicators, World Bank, 2015

Area migration was reshaped following the European integration process. Demographic changes are found in all European societies and are accompanied by changes in values, quality of life. What are the factors that lead people to migrate, why some people choose to emigrate and what effects this process? These are questions that are still trying to find answers.



Source: World Development Indicators, World Bank, 2015

In Romania, at regional level, in 2005-2008 there was an increase in those working in urban areas, from 157377 to 232105 persons. It has decreased in 2009 at 193120 people, after which there was a peak of 273353 in 2010. Also in 2010 it is recorded the highest number of migrants from rural areas, 185642 persons, but also of immigrants, 222493. It is noted (Fig. 5) that the balance remained positive in rural areas, while in urban areas it is negative.



Source: NSI data – own calculations

Considering that individuals take into account the quality of educational services, the medical system, and the income that they could get, the high developed areas are the ones that are targeted by the migrants. Diaconu (2014) finds that among the regions with a positive migration balance are West, North-West and Bucharest-Ilfov due to their opportunities in offering a job and their economic development level. On the contrary, a negative balance it is found in the South West Oltenia, South East, Centre and North-East areas. In 2007, in the South-Muntenia region the out-migrants number was smaller than the number of the in-migrants.

## 5. Conclusions

There is an increase in migration in Europe. Migration cannot be measured easily, even if it has an important role in population growth. Also, migrants are not spread evenly throughout the regions of the Member States. It is hard to determine which are the reasons why someone wants to emigrate. Networks have an important role in international migration (members have the same origin, language and culture). In addition, there are other factors that attract immigrants: economic, social, geographic location, access to utilities etc. The effects on the economy and demography are seen in the countries of origin but also in the destination ones.

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# INTERNATIONALIZATION OF HIGHER EDUCATION: LIMITS AND OPORTUNITIES

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## **Abstract:**

*In the present research we aimed to study how the subject "Internationalization of higher education" was approached by various authors in articles, conference and symposiums or publication in specialized magazines. The question that motivated this research was "How much are the researchers interested in Internationalization of Higher Education?". We searched and we used articles published from 2010 untill 2015. The research method was both quantitative and qualitative, and we used keywords combination for a more effective research. All the results were centralized in tables and charts for a better observation of the development in this research field.*

**Keywords:** *internationalization, higher education, tertiary education, universities, college, faculty framework, case study.*

**JEL Classification:** *I23*

## **Introduction:**

This paper tries to capture the interest of researchers on "internationalization of higher education."

The internationalization of higher education has become a topic recently discussed worldwide.

We started from the idea that scientific and technological progress in the last two to three decades have facilitated the growing use of means of mass communication at a level that goes far beyond each country. The information is transmitted easily and simultaneously can be intercepted anywhere in the world. But, citizens thought to be passive and just receive information is not enough and so appeared the increasing mobility of people, wich led to an unprecedented intensification between different social entities, political, economic, cultural, etc. internationally. This effervescence which some call globalization, internationalization others call it could not bypass the university.

In other news, we should mention that the internationalization of higher education is a term not only our time. If we make an excursion while we see how this institution, university, was born about 920 years ago, Bologna, and then spread to other cities around the world as an intercultural space where students and teachers come from different parts of Europe sought has been known (Pricopie, Nicolescu, p.5).

But what is specific to our time and make the subject internationalization of higher education is a new look and new dynamics of its facets. Regarding the dynamics of internationalization, we see an unprecedented intensification of mobility in higher education, promoting programs taught in foreign languages, diversification the types of international cooperation in order to ensure a certain degree of convergence of public policies in education top.

Internationalization requires a revolutionary development in higher education. Currently in the world there is an increasing demand for higher education, and for lifelong education. In current conditions, are countries where traditional institutions cannot cope. It requires a comprehensive student training to cope with the global requirements of employers.

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Universities must "adopt various plans, policies and strategies to internationalize education, in order to match global requests" (Mitra, 2010, pp. 340-353). Higher education and science have become key factors for society development "(Voroshilova, 2015, pp.1-8).

For example, in Russia, the internationalization and globalization of higher education have the most important impact on ensuring quality management. "The mobility of faculty and students are the basic factors for state accreditation of universities in Russia and an important indicator, showing academic success and prestige"(Voroshilova, 2015, pp.1-8). Most universities have made sacrifices to provide students twinning and international mobility.

## 2. Research methodology

The research methodology consists systemic and comparative analyzing of the researched subject, depending on the purposes and objectives. This research is based on different databases, uses different methods in order to provide a theoretical and practical explanation.

In the paper were used mathematical and statistical methods, such as: classification, synthesis, comparative analysis of results, and graphical representation of events.

The research of economic phenomena can have scientific resonance if we use mathematical and statistical tools, and it is always accompanied by a healthy analytical deductive logic.

Qualitative nature of the work is given by the scientific observations. However, favorite character is the quantitative research. This is given by centralizing research articles written in the field followed by us.

Based on the results we made tables, on which we built graphics, commonly used as a quantitative research methods, their main advantage being that are easy to interpret and understand.

For the research we used combined techniques of documentation, from studying literature in the field, to analyzing the international articles written in the field.

We say that the work has a logical technique, given that after we established our research theme we used a series of steps preceding the desired result. We used the date base B-on.

For the first we have established a number of ten keyword combinations (Table no. 1) that we used as search engines and we have achieved a number of results from where we had to extract the most important and relevant articles related to our subject „internationalization of higher education”.

**Table no. 1**

<b>Keyword combinations</b>	
internationalization tertiary education	internationalization universities case study
internationalization highereducation	internationalization faculty case study
internationalization universities	internationalization faculty framework
internationalization college	internationalization college model
internationalization college case sudy	internationalization universities model

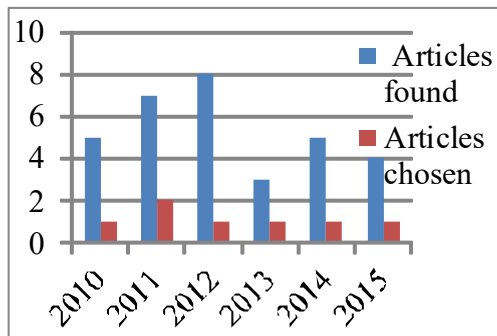
The steps followed were, reading the article, analysing the aproached theme and a new selection of articles for choosing the most important of them.

Using these chronological steps helped us in achieving the desired results and highlighting them in the next part of the research.

## 3. Results and comments

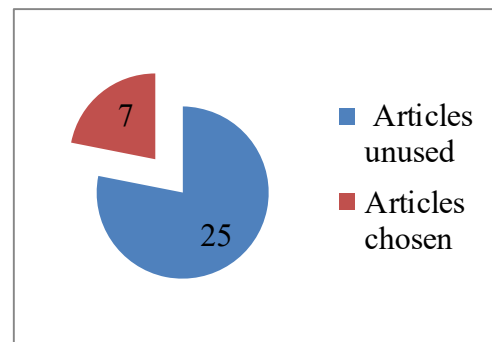
Using the first words combination, "Internationalization tertiary education" we obtained the following results, as shown in Graphs no. 1 and 2.





**Graph no. 1**

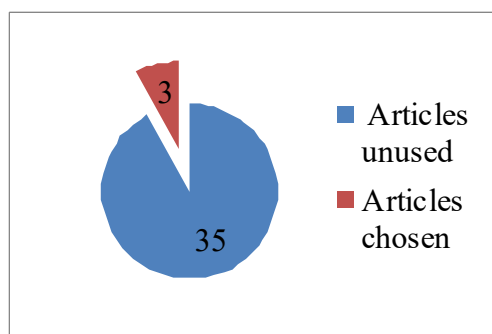
**Internationalization tertiary education**



**Graph no 2**

As shown in Chart no.1 using the keywords "internationalization tertiary education" it conducted to 35 results, and the biggest number of results is in 2012. It is noted an upward trend for research on this subject in the period 2010-2012, after which we noticed a decline in interest on the research subject. After an analyse of the second graph we can see how only 22% of the items found our research subject.

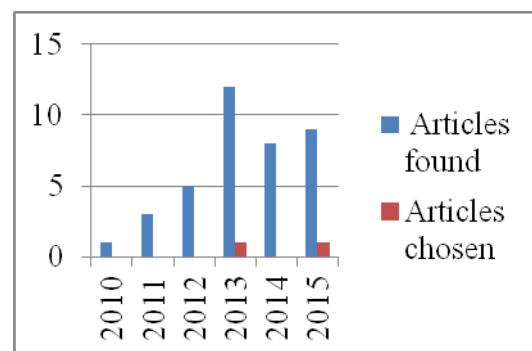
The results obtained by using the second group of keywords "internationalization higher education" can be seen on the following charts:



**Graph no. 3**

**Internationalization higher education**

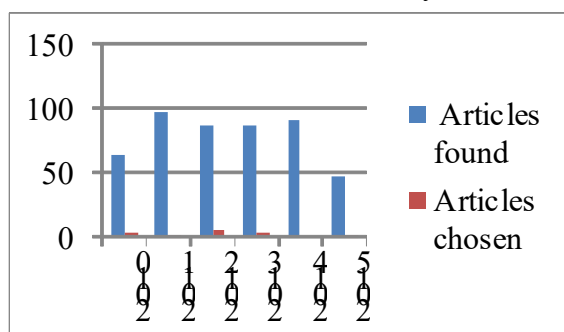
**Graph no. 4**



We notice in Chart no. 3 a growing interest for this subject in period 2010-2013, which is actually the culmination of research in the field and in the period under review, followed by a slight decrease of interest in 2014 and an increase in 2015.

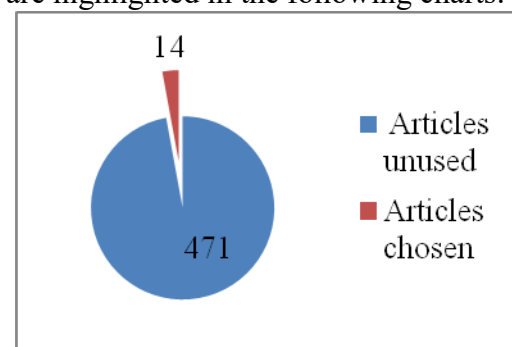
On the other hand, in the Chart no. 4 it is noticed how, out of 38 articles found in the analyzed period using the keyword group "internationalization higher education", only 8.6% answered our research question.

The results of the third keywords combination are highlighted in the following charts:



**Graph no. 5**

**Internationalization universities**

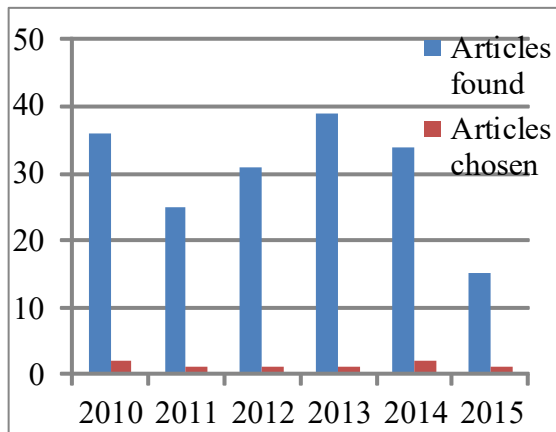


**Graph no. 6**

If we make a brief analysis of research on the internationalization of higher education, we see that using the keyword group: "internationalization higher education" we can find a total of 485 articles, more than 100 of them being from 2011.

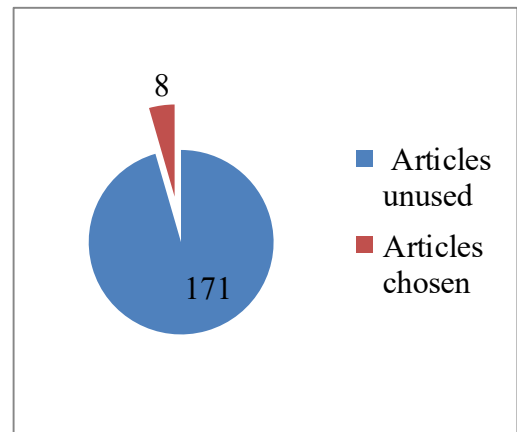
Research evolution shows a tendency to increase with a decrease by half in 2015. In the graph no 6 it can be seen that we chose 14 items, about 3% of those found.

Another group of keywords, the fourth "Internationalization College" can be explained in the following chart:



**Graph no. 7**

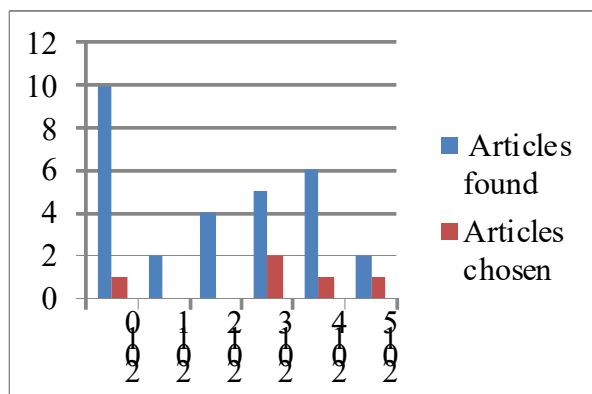
**Internationalization college**



**Graph no. 8**

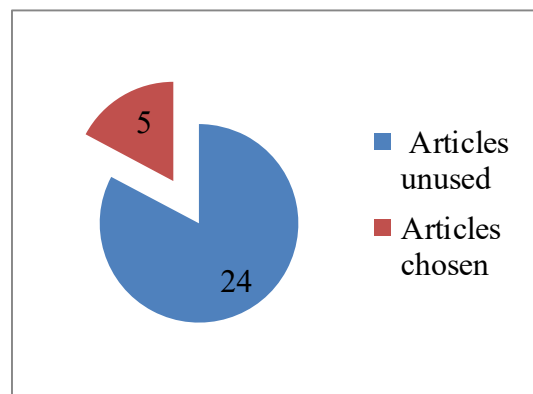
The results shown in the graphs above show that the number of items in the period 2010-2015 is increasing, and we selected eight articles that we consider relevant to our research, out of a total of 179.

The fifth keyword group "internationalization college house study" used in the research shows a culmination of research in 2010 followed by a big decline, which is trying to recover starting from 2012 to 2014, and in 2015 it returned to 2011 levels, as shown in the following charts:



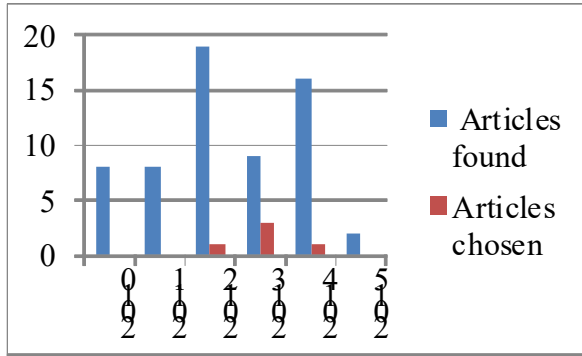
**Graph no. 9**

**„Internationalization college case study”**



**Graph no. 10**

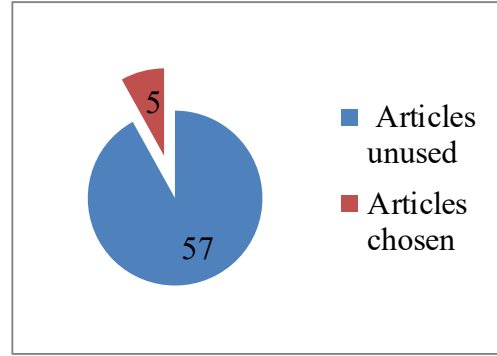
Using the keywords "internationalization Universities case study" we noticed a growing interest in the topic during 2010 - 2012, 2012 stands to be the most prolific year in terms of research on internationalization of higher education, then we see a decline in 2013, followed by 2014 when the number of articles on this topic was doubled. The results can be seen in the following charts:



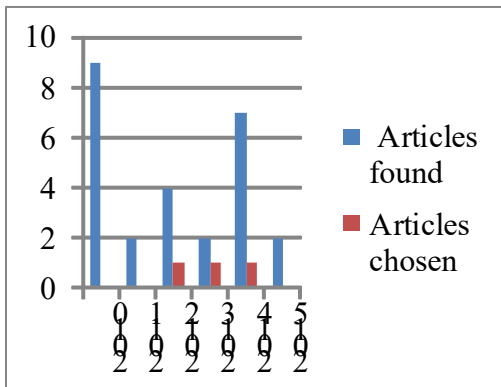
**Graph no. 11**

**„Internationalization universities case study”**

**Graph no. 12**



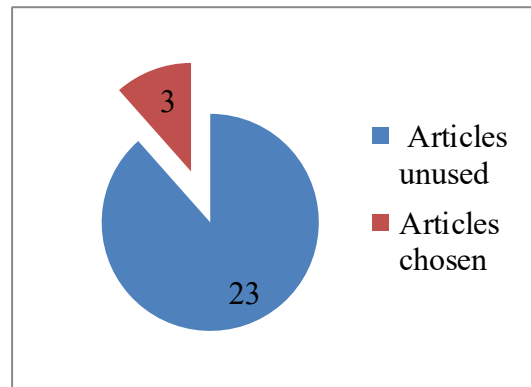
Regarding keywords "faculty internationalization case study", following graphs show that most articles were found in 2010, yet we have not selected any article from that period. We consider that they are out of our research area.



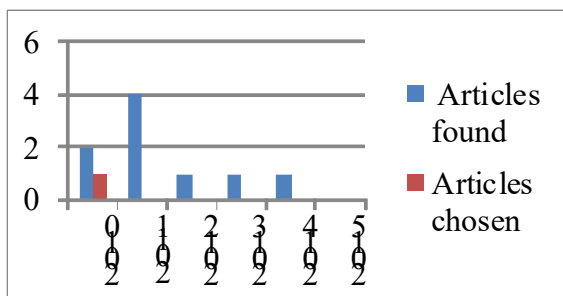
**Graph no. 13**

**„Internationalization faculty case study”**

**Graph no. 14**



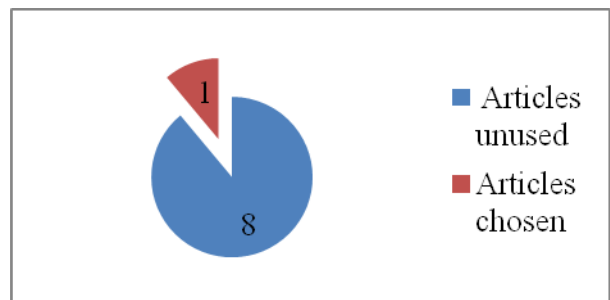
As can be seen using this keywords results are modest and we selected only 3 articles. For keyword group "internationalization faculty framework", as can be seen in figures no. 15 and no. 16 results are more modest than those obtained previously. We found 8 articles from which we extracted only one.



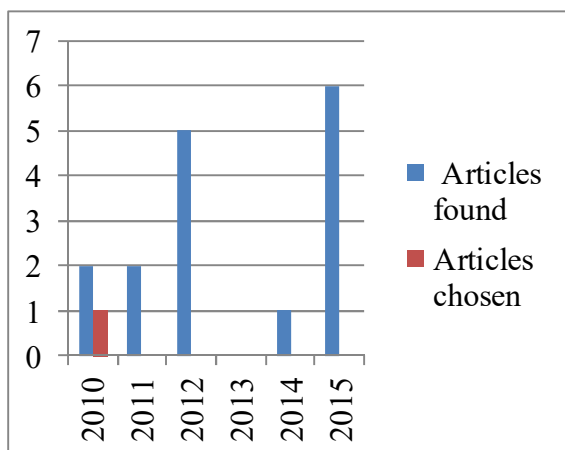
**Graph no. 15**

**„Internationalization faculty framework”**

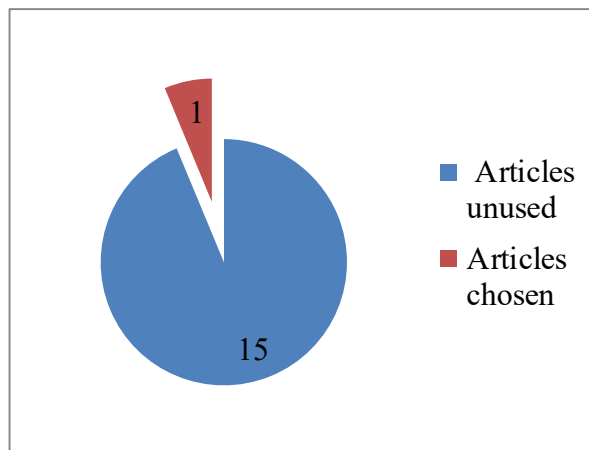
**Graph no. 16**



Another group keyword "internationalization college model" shows the following situation:



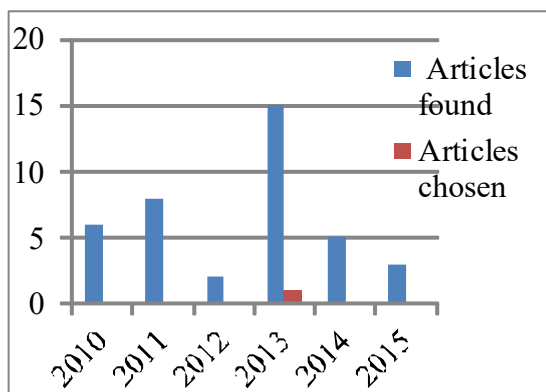
**Graph no. 17 „Internationalization college model”**



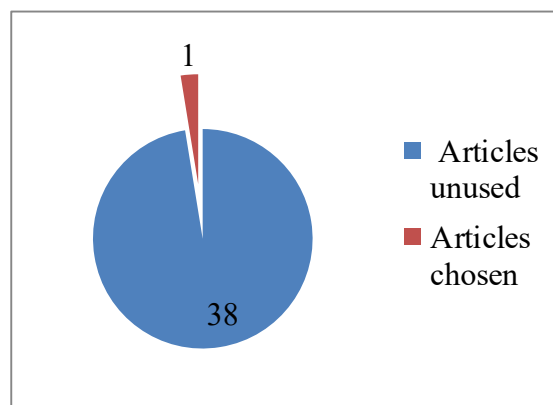
**Graph no. 18**

We see in the chart above as a number of articles in the period is increased, exception being 2013, the year we did not find any articles using this search engine and 2014 when the number of articles was quite low, but the surprize occurred in 2015. Even though we found 16 articles we considered that only one should be chosen and analysed.

The last keyword group was "internationalization universities model" where we found 39 articles in this period and we selected again only one article.

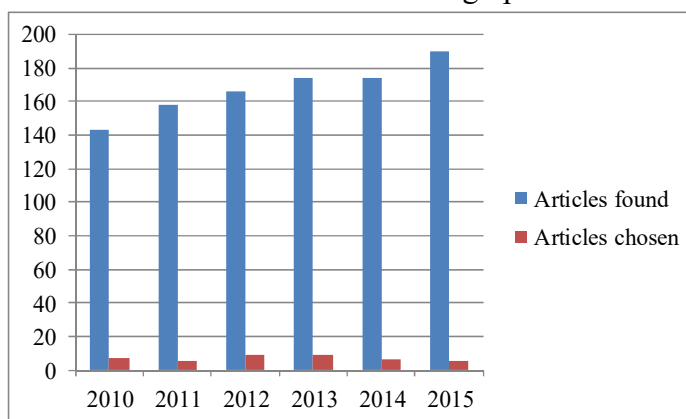


**Graph no. 19 „Internationalization universities model”**



**Graph no. 20**

We followed an evolution of the articles by years found and selected, using the ten groups of keywords. The results can be observed in the graph no 21:



**Graph no. 21 The evolution of research about the „internationalization higher education in the period 2010-2015”**

The results showed an increasing trend of research in this period. As shown in the graph above during the period analyzed overall we found 1005 articles, of which we chose as relevant to our research only 34.

In the following we extract a series of concepts with regard to internationalization, globalization, internationalization of education, mobility of faculty and students after we analyzed article by article.

Moreover, we note that approximately 4 % of the items have significance for our research and we conducted a brief analysis of the selected articles to see the concepts of the authors about internationalization.

Internationalization has attracted the attention of several researchers over time, but in the present research we will stop at the period 2010 - 2015. Among the chief researchers of this topic we mention: Hui-Lin Hung, Eunsook Hyun (2010), Subrata Kumar Mitra (2010), Jarle Trondal (2010), Cynthia Miller-Idriss and Elizabeth Anderson Worden (2010), Nick Adnett (2010), Sue Saltmarsh and Teresa Swirski (2010), Rui Yang and Fang-fang Qiu (2010), Xiaoping Jiang (2010), Glen A. Jones, Anatoly Oleksiyenko (2010), Sheila Trahar and Fiona Hyland (2011), Gavin Sanderson (2011), Shaozhuang Ma, Virginia Trigo (2011), Mahsood Shah and Chenicheri Sid Nair (2011), Santhi Ramanathan, Seethalechumy Thambiah, Kavitha Raman (2012), Chen Linhan (2012), James Otieno Jowi (2012), Andrea Bernhard (2012), Ana Mosneaga and Jytte Agergaard (2012), John D. Palmer, Young Ha Cho (2012), Gavin C. O'Connor, Kent A. Farnsworth, Mary E. Utley (2013), Erlenawati Sawir (2013), Sue Pattison & Sue Robson (2013), Young Ha Cho, John D. Palmer (2013), Dorothy I-ru Chen, William Yat Wai Lo (2013), Peter Garrett and Lidia Gallego Balsà (2014), Miri Yemini, Vered Holzmann, Dalia Fadilla, Nazeer Natur and Anat Stavans (2014), Helen Haijing de Haan (2014), Hannah Rose Mendoza and Tom Matyók (2014), Jacqueline Stevenson (2014), Anna A. Voroshilova (2015), Ian Crawford and Zhiqi Wang (2015), Ane Larrinaga and Mila Amurrio (2015), Gifty Oforiwa Gyamera (2015), Olivier Bégin-Caouette, Véronique Angers, Kimon Niflis (2015).

Thus, we have focused on article written by Subrata Kumar Mitra (India, 2010) beginning from the research question: "What are the needs and demands of Internationalization in Indian Higher Education?". And we get the result that "India Needs Bigger investment Needs for Higher Education and to open the boarder for foreign universities". Also relevant is the article wrote by Jarle Trond (Norway, 2010) that tries to answer the question "How are patterns of internationalization among academic staff at Universities?". The conclusion of his research is next "Collaboration between university leadership and academic staff is a key condition of internationalization".

Nick Adnett aims "The import of Higher Education from poor or Developing Countries" and concludes that "The economic gains from the Internationalisation of Higher Education are distributed unevenly between developed and developing countries" (Adnett, 2010, pp. 393-409).

Saltmarsh and Swirskip consider that the academic mobility is on a high level in Australia and is also supported by the government (Saltmarsh, Swirskip, 2010). Also, Rui Yang concludes that "Their Australian experience and all their connections with their country is linking China more closely to the international scholar community" (Yang, 2010, pp. 291-301).

In New Zealand, Jiang considered that the universities have to revisit neglected social and cultural dimensions to support higher education services (Jiang, 2010, pp. 882-896).

The year 2011 is characterized by a number of 166 articles, of which we selected only 9 items, to use them in the present research. As a result of research done we observe how Sheila Trahar and Fiona Hyland (2011,UK) are asking "What are the experiences and perceptions of the people to be in an international environment?". They used qualitative research methods, better focusgrupul and get concluded that "people have the same opinions, with some differences. It is necessary to be create a truly international higher education landscape".

Also, Sanderson in his article tries to answer the question “How are patterns of internationalisation among academic staff at universities?” (Sanderson, 2011, pp. 661-676). This article has developed a framework that can be used by university teachers and academic developers to instigate reflection and discussion around the internationalisation of teaching. It is suggested that addressing seven foundational criteria – five from the profile and two arising from research on the Profile – could form the basis of good teaching practice in this area.

Shaozhuang Ma, Virginia Trigo (Portugal, China, 2011) have in their article “an overview of the internationalization of MBA education in China”.

Shah and Nair (2011, Australia) observe how higher education that survives only from student fees ends up closing many degree programs.

Santhi Ramanathan (2012 ) follows through research to answer the question “How is it perceived by the internationalization of higher education in Malaysia, which are efforts and how are they perceived these efforts?”. Authors conclude that “the degree of perception of the internationalization importance by malaesyian academicians is higher than the perception of the degree of internationalization implementation”.

Chen Linhan (China, 2012) tries to answer the question: “What are the consequences of internationalization of the higher education system in China?”. The author concludes that “the existence of international colleges is extremely significant in order to develop and cultivate human resources in China and to improve the quality of Chinese population”.

James Otieno Jowi (Kenya, 2012) asks “How has developed internationalization in Africa and what are its consequences on the African Universities?”.

It is a fight with the future. Internationalization and new issues raises many questions about the potential and the future of higher education in Africa, and if Africa is going to be a real player in the processes of knowledge worldwide. We observe also how researchers were interested in publishing articles that could really help those who are interested in internationalization.

For example, an author (Bernhard, 2012, 153-169) considered that the results of his study will help decision makers from higher education staff (administrators and researchers), quality assurance agencies, organizations, and other interested parties who are involved in quality assurance to familiarize themselves with different systems, approaches to quality assurance and to judge future developments in this area.

Analysis illustrated the way in which universities have formulated strategic interests in internationalization and in recruiting international students and accepts the importance of competing on the international market (Mosneaga, Agergaard, 2012, pp. 519-538).

Internationalization of teachers training is an effective way to meet the challenge of globalization, intercultural and international. (Be´gin-Caouette, 2012, pp. 568-583)

Competitiveness and investments are concentrated to principles for higher education in Asia. Asian excellence initiatives are already hunting for talent globally. Their ability to deliver supportive work environments and good infrastructure, and to offer agreeable salaries, makes them a formidable competitor to western institutions for the best people (Hou, et. all, 2012).

We observe in a study (Pattison, Robson, 2013, pp. 188-202) that british universities should translate internationalization as "academic development and intercultural skills".

“Internationalization or commodification?” is the question they asked themselves two researchers (Chen, Lo, 2013, pp. 33-41). They presents a case study of internationalization practices in Taiwan’s higher education, including international mobility, curriculum, design and administrative support. Foreign students tend to be with foreign students and Korean students with Korean students. Koreans, believed that the internationalization policy has surrendered the quality of university in favor of the number of foreigners, EMI courses, and publications in English.

Participants had a strong sense of having learned through their experience about other students and cultures and viewed them as being different but equally valuable.

Although drinking and partying are considered by international students as important aspects of social life in campus, these activities are usually prohibited in Taiwan's campuses and are not welcomed by the local students.

The experience of Madison Area Technical College has been a gradual but strategic effort that has drawn upon best practices in comprehensive internationalization.

The results of the research of art as the four institutions analysed are risk-averse, the main factors that we can influence the decision for the better are your reputation, prestige and international mobility. Also, an important role in the penetration of new markets they have international money and Government support.

The results of a research reveals that being a global citizen in an institution of higher education from Thai assumed to think, communicate and behave globally.

Education development international in Missouri colleges involved assume a total on the part of the Administration, but also to those involved in the educational process.

Erlenawati Sawir considered that "the international student is a cultural and educational resource for the academic staff for the purpose of applying the international curriculum" (Sawir, 2013, pp. 359-378).

### **Conclusions**

The conclusions that we have drawn by realization of this research have shown us firstly that Australia is the most developed country and it is also very well organized in terms of internationalization of higher education. It also attract many teachers to work there. As can be seen in our research Australia is the country of origin most articles on internationalization.

Based on the analysis performed, we can say that involves the internationalization of higher education, while a number of challenges but unfortunately a number of risks. The challenges of internationalization are, first, the ability to mobilize adequate financial and human resources to build sustainable public policies conducive to increasing internationalization of the campus. Although expressed generically, this challenge takes different forms in different states, namely universities different. Not all states go in this competition internationalization of your access line home. There are states that already have years of experience in this field, their policies in the university sector is linked to other policies promoting the language, culture, research centres, tourism etc. There are also varying degrees of political maturity on the understanding, ownership and support of appropriate public policies.

Turning now barrier, relatively fragile, the challenges and risks should be noted that, unfortunately, as the forms of internationalization of higher education are diversifying and witnessing the multiplication of the types of risk associated with this process.

If we look back about a decade, where countries of origin of international students, the most important risk was related to the possibility of losing by migration an important resource of human capital. For example, internationalization was seen then as a way through which the redistribution of global talent in most cases to the detriment of developing countries. Similar situations have encountered in developing countries now.

But if we look back we see how countries that were considered beneficiary or absolute winner of the internationalization process were subjected to acts of international terrorism.

Another conclusion that we pulled it is that, China has one of the strongest economies and over time could become a "global education center." Also, we found that a very important point of internationalization would be treating the foreign students as part of the community to make for a better integration.

Also, through internationalization we must not only understand international professors, international school programs, international curriculum but we should talk also about international culture and international social life.

We believe that in addition to this internationalization lesson that academic environment should learn it should be taught to every student. That is to be open to new

things, to acquire social, cultural, public and international academic experience.

We believe that nowadays is a fight with the future in terms of accommodation and the potential of developing countries to cope with academic internationalization of developed countries.

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# VAR / VEC: FDI – NET EXPORTS ROMANIA

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## **Abstract:**

*We consider it important to analyze FDI-NX relationship in Romania, in terms of econometrics to demonstrate if there is one relationship between the two indicators investigated, and how this relationship works.*

*Econometric methodology used in this study is the vector autoregression (VAR). The choice of methodology is justified by the nature of the investigation. Macroeconomic phenomena manifest as complex dynamic systems with feedback and mutual causality. Consequently, the only type analysis system (simultaneous equations) are able to capture the interconnections between macroeconomic variables. Given that cointegration relationship exists between the two variables, we constructed the VEC model.*

*The main result of this study was that the FDI inflows and exports are cointegrated in the period of analysis. The finding that the time series variables were cointegrated implies that there was a long term relationship between them.*

*For the cases analyzed is confirmed generally valid hypothesis that there is a correlation in both direction between FDI and NX.*

*In these circumstances, the government must find solutions to attract FDI because in this way and net exports will increase which will contribute to the economic development of Romania.*

*For rapid expansion of exports, trade liberalization policies have to promote on sectors that will trigger FDI inflows to Romania.*

**Key words:** VAR; VEC; FDI; Net Exports; correlation; cointegration

**JEL Classification:** F14, F21, C320

## **1. Literature Review**

In empirical literature the role of FDI in exports promotion is controversial. Many studies (e.g. Pfaffermayr, 1996) find positive effect of FDI on exports. The main reason underlying is the export oriented TNCs. Since government provides facilities for export promotion, such facilities also attract foreign investors. In order to promote exports government can adopt FDI led export growth strategies with twin objectives of capturing the benefits of both FDI inflow and exports growth.

Hoekman and Djankov (1997) analyze the magnitude of change in the export structure in Central and Eastern European countries. The objective of the study is to find out common determinants of exports and FDI. The study also explores the relationship between export and FDI whether both are substitutes or compliments.

Such studies point out that the role of FDI in export promotion in developing countries remains controversial and depends crucially on the motive for such investment. If the reason behind FDI is to capture domestic market, it may not contribute to export growth. On the other hand, if the motive is to tap exports markets by taking advantage of the country's comparative advantage, then FDI may contribute to export growth.

It highlights several types of models that measure FDI correlated with indicators of foreign trade, export orientation from the host country and its correlation with exports growing demand (Jun and Singh, 1996; Rob and Vettas, 2003), FDI and heterogeneity of firms export, and export them (Greenaway and Kneller, 2007).

There is one way causality from FDI through exports accordingly to a study of 8 countries during 1986-2004 using VAR analysis (Hsiao&Hsiao, 2004). A positive causal relationship from FDI to exports in Mexico, results from VAR analysis, data set for 1980-1999 (Alguacil, Cuadros & Orts, 2002).

There is certainly a national tradition, relatively small, of econometric models relating to FDI, both as an exogenous variable, as well as endogenous variable. Investment

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phenomena appearing in Romanian academic literature, the models described either in terms of limiting attitudes, enjoying a special inertness (Pecican, 1994), or, mostly, targeting diverse and varied as multifactor models utility (Pecican, 1996, 2003, 2007; Voineagu, Țițan, Șerban, Ghiță, Todose, Boboc and Pele, 2007; Andrei, Stancu, Iacob and Tușa, 2008), emphasizing the importance of harnessing some modelling packages econometric software (EViews, Excel, SPSS, Statistics etc.), others addressing deep structural modelling (Pecican, 2007) or modeling combined indicators focused on reconstruction of comparable variables (Andrei and Bourbonnais, 2008).

## **2. The Importance of Analysis**

We consider it important analysis conducted further research thesis on the study of FDI-trade relationship in Romania, in terms of econometrics to demonstrate if there is one relationship between the two indicators investigated, and how this relationship works.

It stands more or less degree high relativity of results of different theoretical and/or empirical FDI flows, as well as the international trade, as emphasized diversification and increasing complexity in time and space operations financial/investment /trade.

Foreign trade data, as long as no efforts are focused on the elimination of double entries (imports or exports) of amounts not covered by payments/receipts international or subassemblies corresponding intermediate goods flowing to/from different customs territories, can not foresee a true picture of it, and no configuration actual financial impact of the current account of balance of payments at national and /or global (IMF, 2011).

The issue of increasing the level of low relevance data occurs in the case of foreign investments, for example outputs the difference between FDI flows and inflows (theoretically equal) globally to over \$ 170 billion in 2011. According to UNCTAD experts (2012), these differences are caused by: inconsistencies in data collection and data reporting different methods (eg on recording FDI transactions, treatment reinvested earnings, exchange rates used for conversion into national currency or vice versa); changing nature of transactions (foreign investment from indirect sources, exchange of shares between investors and acquired companies) and their increasing complexity (may involve funds from parent companies, private or government loans from assistance programs etc.); distinction between FDI transactions regarded as portfolio investment and / or to have speculative character (hot money); sustaining and in this respect the effects of the global crisis by showing a volatility of exchange rates in relation to data reporting times.

Considering these aspects, we called on the official data of the National Institute of Statistics (NIS) for net exports and official data of the National Bank of Romania (NBR) for foreign direct investment to ensure a better compatibility and a higher degree of relevance in achieving the econometric model proposed. Difficulties are here, because until 1999, data were established only in US dollars, 1999 to present are in euro.

Econometric methodology used in this study is the vector autoregression (VAR). The choice of methodology is justified by the nature of the investigation. Macroeconomic phenomena manifest as complex dynamic systems with feedback and mutual causality. Consequently, the only type analysis system (simultaneous equations) are able to capture the interconnections between macroeconomic variables.

Analysis of vector autoregression (VAR) has become macroeconometric studies starting in the 70s, its main promoter was Christopher Sims. VAR is a type analysis system, where all the variables are, a priori, endogenous and therefore modeled together.

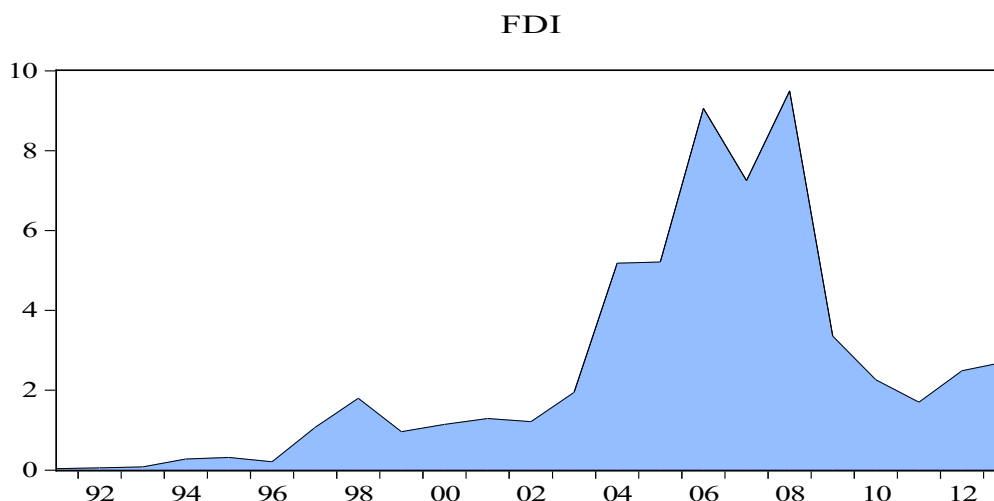
VAR models focuses on the analysis of "shock" on the variables studied. Shocks or "innovation" is the part of the one variable that can not be explained by history (past values) that variables or other variables in the system. An innovation appears as the error term (residual) in equation stochastic system.

Vector Error Correction Model has been proposed and applied in the economic literature with the papers by Sargan (1964), Davidson et al. (1978), Hendry (1981) and has been given a formal mathematical treatment by Granger (1983). The main idea of VEC Model is to include an error correction term which adjusts short-run fluctuation, thus enabling the model to capture both long-run and short-run properties. Engle and Granger (1987) pointed out that if non-stationary variables are cointegrated, VAR would be a misspecified model, and cointegrated non-stationary variables can always be expressed by VEC Model. Given that cointegration relationship exists between the two variables, we can then construct the VEC model.

### 3. Analysis VAR/VEC

#### 3.1 Description of the variables

Foreign direct investment (FDI) had an extremely low volume in the period 1991-2003. In October 2004, Romania received the status of a working economy, giving it a positive signal to foreign investors, which was reflected in the exponential growth of inward FDI in 2004-2008. Unfortunately, this "heyday" was interrupted by the outbreak of the financial crisis in 2009, which was reflected in the significant reduction in FDI inflows in the period 2009-2013, FDI fell by more than 70% of the average 2004-2008.



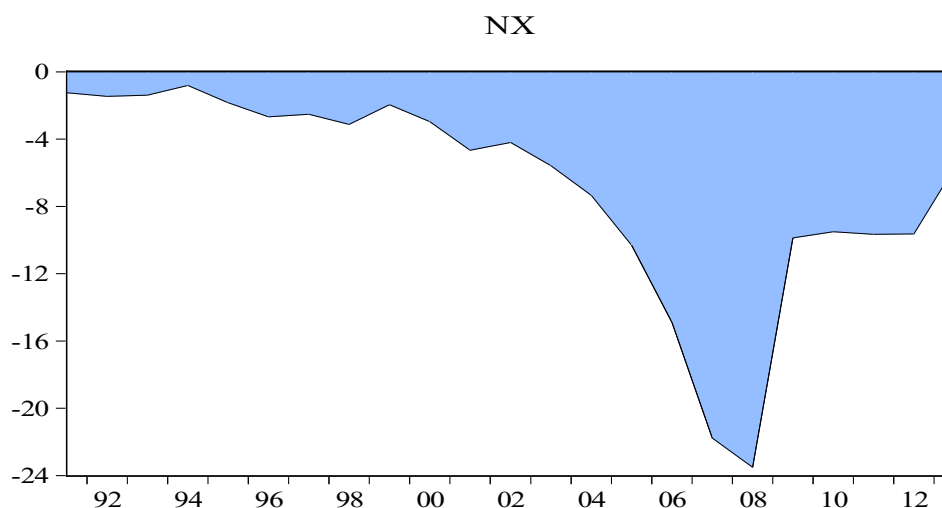
**Figure no. 1 Evolution of Net FDI in Romania during 1991-2013**

*Source: processed by the author with Eviews 7.2*

For highlighting the relationship between FDI and foreign trade, it should be analyzed data on external trade made by TNCs in Romania, unfortunately the data are available since 2006.

In these conditions, we used NIS official data on Romania's external trade balance for the period 1991-2013, as according to NBR Reports – TNC's activity has an impact of more than 2/3 of Romania's external trade balance.

Romania's foreign trade, which is reflected through net exports (NX), determining the difference between exports and imports, positive difference where exports greater than imports, had a consistent growth of trade deficit. If this deficit in 1991-2000 period did not exceed EUR 3 billion, evolution deteriorated significantly after 2000 leading to net exports of about -6 billion in 2013. Acest does not necessarily disturbing because the trade deficit can finance imports of technology, know-how, knowledge-based and knowledge that will contribute to the economic development of Romania.

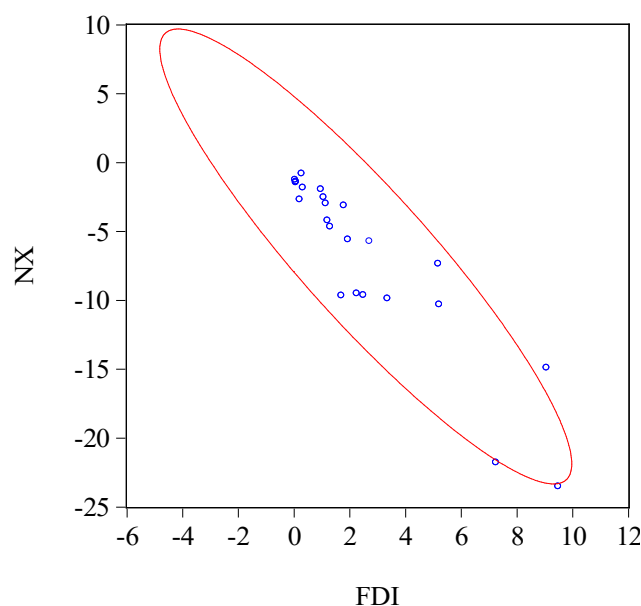


**Figure no. 2 Evolution of Net Exports in Romania during 1991-2013**

*Source: processed by the author with Eviews 7.2*

Statistics of FDI and NX in the period 1991-2013 can be easily intuited from fig no. 3, but will be verified empirically in the study.

The correlation close to -1 (-0.91) shows a strong negative correlation ie a variable tendency to decrease significantly when other variable increases. The correlation is reversed when FDI increases trade balance decreases (it reduces the NX deficit), and when the balance increases FDI falls.



**Figure no. 3 Simple scatter graph related FDI and NX**

*Source: processed by the author with Eviews 7.2*

### **3.2 Method and results**

To check whether there is correlation between foreign direct investment (FDI) and net exports (NX), we considered the following assumptions:

**H1:  $FDI = f(NX)$**

**H2:  $NX = f(FDI)$**

The demonstration will be made using a VAR model, which will be written as the following equation:

$$FDI_t = \alpha_1 + \sum_{j=1}^p \beta_j \times FDI_{t-j} + \sum_{j=1}^p \chi_j \times NX_{t-j} + \varepsilon_{1t}$$

$$NX_t = \alpha_2 + \sum_{j=1}^p \phi_j \times NX_{t-j} + \sum_{j=1}^p \varphi_j \times FDI_{t-j} + \varepsilon_{2t}$$

where:  $\alpha_1$ ,  $\alpha_2$  are free terms coefficients,  $\beta$ ,  $\chi$ ,  $\phi$ ,  $\varphi$  are endogenous variables coefficients, and  $\varepsilon$  represents the residual errors.

### A. Stationarity tests.

Note that the null hypothesis is accepted, then the series are not stationary order 0.

We test the stationarity of order 1 because the ADF tests have shown that the time series are not stationary in their levels, but the first differences I (1).

**Table no. 1 Testing the level stationarity of FDI & NX**

Augmented Dickey-Fuller Test (For the Level)							
FDI				NX			
		t-Stat	Probability			t-Stat	Probability
ADF Test		<b>-2.248537</b>	0.1968	ADF Test		<b>-1.524071</b>	0.5030
Test Critical Values (Respected Levels)	1%	-3.808546		Test Critical Values (Respected Levels)	1%	-3.769597	
	5%	-3.020686			5%	-3.004861	
	10%	-2.650413			10%	-2.642242	

Source: processed by the author with Eviews 7.2

**Table no. 2 Testing FDI & NX for the first differences**

Augmented Dickey-Fuller Test (For the First Difference)							
FDI				NX			
		t-Stat	Probability			t-Stat	Probability
ADF Test		<b>-5.381568</b>	0.0003	ADF Test		<b>-3.611914</b>	0.0146
Test Critical Values (Respected Levels)	1%	-3.788030		Test Critical Values (Respected Levels)	1%	-3.788030	
	5%	-3.012363			5%	-3.012363	
	10%	-2.646119			10%	-2.646119	

Source: processed by the author with Eviews 7.2

Johansen cointegration testing is necessary because ADF tests have shown that the time series are not stationary in their levels, but the first differences I(1) and test whether variables are cointegrated and if there is long-term relation between them reject null hypothesis. We find that the null hypothesis is rejected, there is a cointegration relationship.

**Table no. 3 Johansen cointegration test**

Date: 08/22/15 Time: 18:09				
Sample (adjusted): 1994 2013				
Included observations: 20 after adjustments				
Trend assumption: No deterministic trend				
Series: FDI NX				
Lags interval (in first differences): 1 to 2				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**

None *	0.564241	16.65795	12.32090	0.0088
At most 1	0.002228	0.044615	4.129906	0.8627
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Adjustment coefficients (standard error in parentheses)				
D(FDI)	-0.944150	(0.35945)		
D(NX)	-1.142754	(0.85208)		

Source: processed by the author with Eviews 7.2

The presence of cointegration between variables suggests a long term relationship among the variables under consideration. Then, the VEC model can be applied.

## B. VECM

Cointegration equation is of the form:

$$Y_t = \beta x \text{ we can rewrite } Y_{t-1} = \beta_{11} \times FDI_{t-1} + \beta_{12} \times NX_{t-1} + \beta_{13}$$

The VEC has the form  $\Delta Y_t = \Phi + \Pi Y_{t-1} + \sum_{i=1}^{p-1} \Phi_i \times \Delta Y_{t-1} + \varepsilon_{1t}$ , where  $\Pi = \alpha\beta'$

Introducing the cointegration equation in VEC model, results the following equations:

$$\Delta FDI_t = \alpha_{11} \times Y_{t-1} + \sum_{i=1}^{p-1} \beta_i \times \Delta FDI_{t-1} + \sum_{i=1}^{p-1} \chi_i \times \Delta NX_{t-1} + \varepsilon_{1t}$$

$$\Delta NX_t = \alpha_{21} \times Y_{t-1} + \sum_{i=1}^{p-1} \phi_i \times \Delta FDI_{t-1} + \sum_{i=1}^{p-1} \varphi_i \times \Delta NX_{t-1} + \varepsilon_{2t}$$

After the test based on the lowest value of AIC and SC criteria, we chose lag = 2. Since ECT (-1) = -1.14 for NX (Tabel no 3) has no significance we put restrictions on vectors B(1,2)=1, A(2,1)=0.

**Table no. 4 VEC model**

Vector Error Correction Estimates	
Date: 08/23/15 Time: 19:35	
Sample (adjusted): 1994 2013	
Included observations: 20 after adjustments	
Standard errors in ( ) & t-statistics in [ ]	
Cointegration Restrictions:	
B(1,2)=1, A(2,1)=0	
Convergence achieved after 3 iterations.	
Restrictions identify all cointegrating vectors	
LR test for binding restrictions (rank = 1):	
Chi-square(1)	2.260822
Probability	0.132684



Cointegrating Eq:	CointEq1	
FDI(-1)	2.555952	
	(0.11950)	
	[ 21.3894]	
NX(-1)	1.000000	
Error Correction:	D(FDI)	D(NX)
CointEq1	-0.480648	0.000000
	(0.11449)	(0.000000)
	[-4.19808]	[NA]

Source: processed by the author with Eviews 7.2

From VEC model results:

$$d(\mathbf{fdi}) = -0.480647806462 * (2.55595156145 * \mathbf{fdi}(-1) + \mathbf{nx}(-1)) + 0.700215374145 * d(\mathbf{fdi}(-1)) + 1.51125808068 * d(\mathbf{fdi}(-2)) + 0.0238505722906 * d(\mathbf{nx}(-1)) + 0.599778657379 * d(\mathbf{nx}(-2));$$

$$d(\mathbf{nx}) = 0 * (2.55595156145 * \mathbf{fdi}(-1) + \mathbf{nx}(-1)) - 0.160568120707 * d(\mathbf{fdi}(-1)) - 1.89614496606 * d(\mathbf{fdi}(-2)) + 0.154942824405 * d(\mathbf{nx}(-1)) - 1.05117466826 * d(\mathbf{nx}(-2)).$$

CointEq1 represents long-run equilibrium relationship and makes the connection between FDI and NX. Error correction is short-term relationship. From Table no. 4 results ECT (-1) = -0.48, the estimated coefficient for FDI indicates that about 48 per cent of this disequilibrium is corrected between 1 year.

### C. The stability model

Inverse Roots of AR Characteristic Polynomial

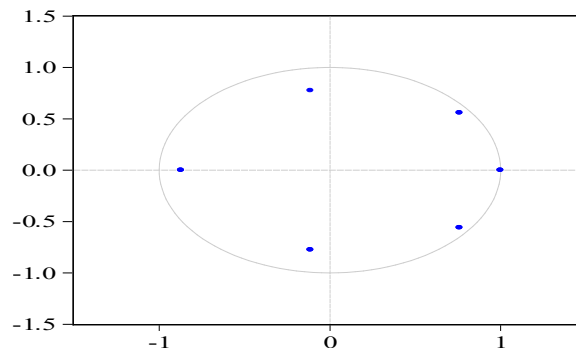
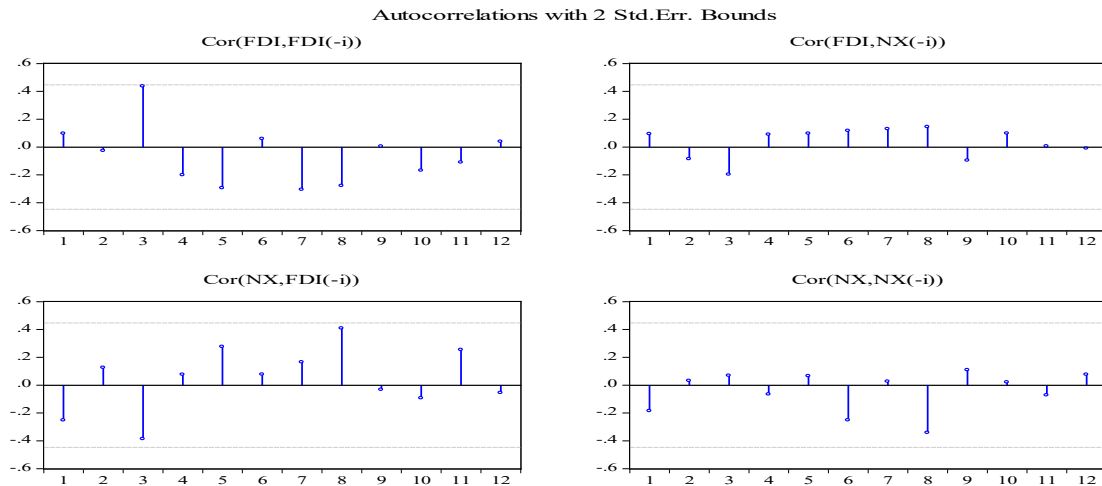


Figure no. 4 AR Roots Graph

After we get the estimation of the model using Eviews 7.2, an AR Roots test is used to test the stability of the model. The AR Roots Graph is shown in Figure no. 4, from the graph, we can see except the 1 unit root imposed by the model, all the roots lies within the unit circle, indicating that the model is stable, so further analysis can be carried on.

### D. Testing for serial correlation

We tested also for serial-correlation, to see if we have included the right amount of lags. Note that there is no autocorrelation, so VECM model is especially good number of lags (figure no 5).



**Figure no. 5 Autocorrelation: FDI-NX**

Source: processed by the author with Eviews 7.2

### E. Granger causality test

Since the normal Granger causality test only apply to the stationary series, according to Gao (2006) test on cointegrated non-stationary series have to be carried out based on the VEC Model, we employ an alternative using Granger Causality/Block Exogeneity Wald test to examine the long-run causal relationship.

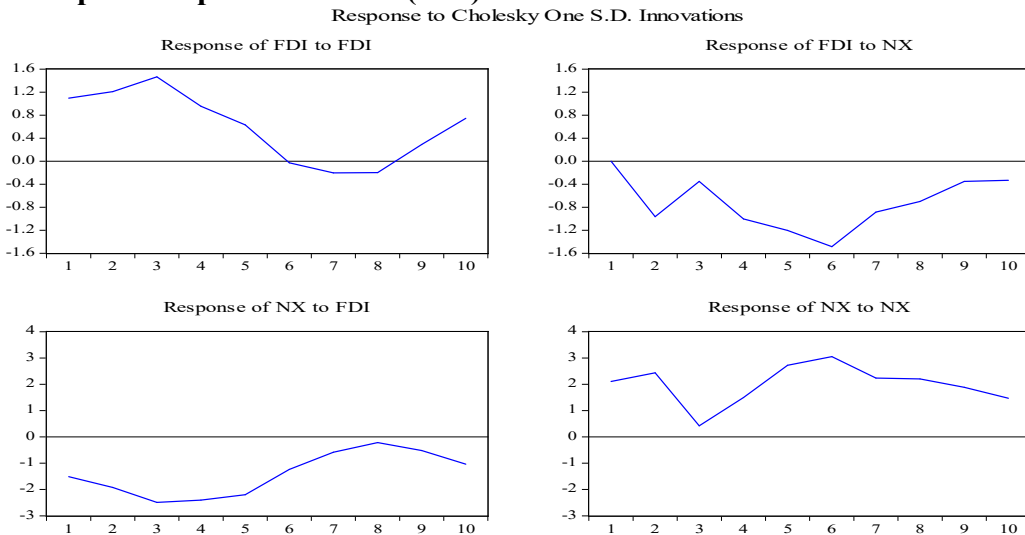
For this test, performed for a lag =2, lies that the null hypothesis is rejected in the first case, which means that NX Granger cause FDI in Romania.

The null hypothesis is rejected also in the second case (for a confidence interval of 1%, 5%), which means that FDI Granger causes the NX.

It follows that between the two variables there is bidirectional causality.

### F. Identification of impulse response functions and variance decomposition:

#### a. Impulse response function (IRF)



**Figure no. 6 VEC model impulse functions: FDI-NX**

Source: processed by the author with Eviews 7.2

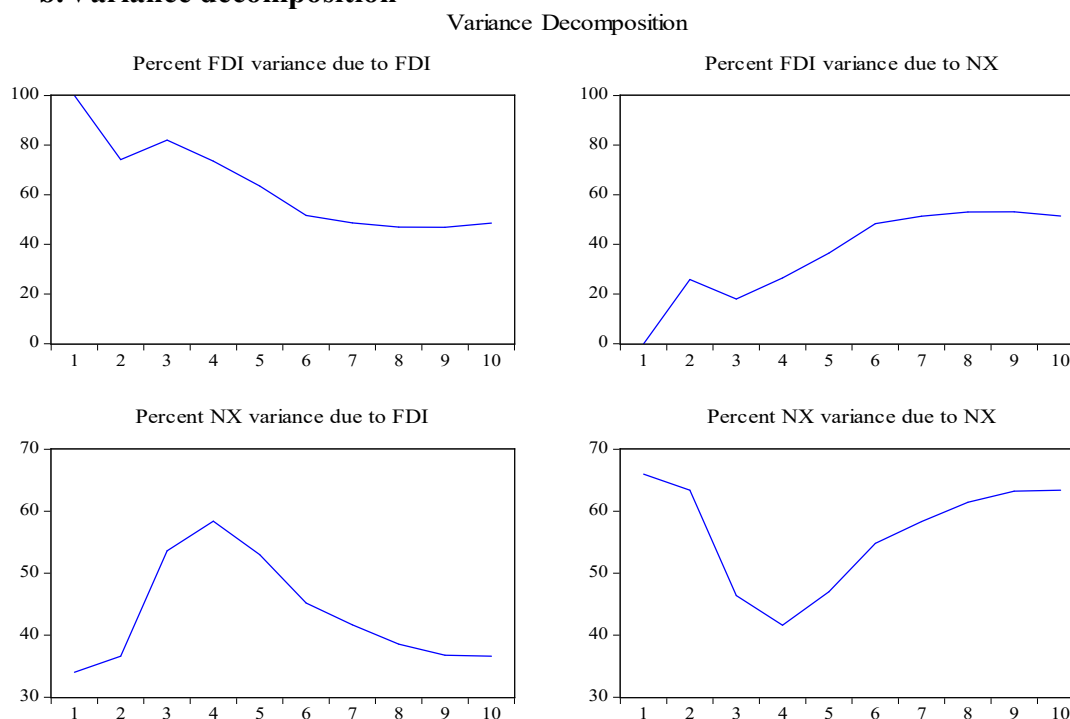
Shock on FDI innovation NX performs a decrease reaching a maximum of -2.5% over the half of the period, then recovers from loss reaching -1% at the end of the forecast period (bottom left Figure 6).

Instead shock on NX innovation FDI achieved a decrease reaching a maximum of -1.5% at mid-term, after which recovers the loss reaching -0.4% at the end of the forecast period (top right Figure 6).

We see that in the latter part of the forecast period, we have an upward trend which means long-term evolution of FDI-NX correlation.

Note then that act on their own innovations in direct correlation own variables and innovations of each variable on the other cause the opposite effect which was demonstrated earlier by the existence of inverse correlation.

### b. Variance decomposition



**Figure no. 7 VEC model variance decomposition: FDI-NX**

*Source: processed by the author with Eviews 7.2*

We observe that FDI variance is due to a 51% NX innovation and NX variance is due to a 37% FDI innovation at the end of the forecast period.

Analyzing the variance decomposition and impulse function we conclude that is a negative correlation and connection in both directions between the two variables. The correlation is reversed when FDI increases trade balance decreases (it reduces the NX deficit), and when the balance increases FDI falls.

### 4. Conclusions

The main result of this study was that the FDI inflows and net exports are cointegrated in the period of analysis. The finding that the time series variables were cointegrated implies that there was a long term relationship between them. For the cases analyzed is confirmed generally valid hypothesis that there is a correlation in both direction between FDI and NX.

In these circumstances, the government must find solutions to attract FDI because in this way and net exports will increase which will contribute to the economic development of Romania.

Romania has the potential, it is attractive, looks good in numbers, but to still be attractive to investors must meet certain conditions. There are vital areas such as agriculture, tourism, renewable energy, infrastructure, the state must outline a strategy for investment.

For rapid expansion of exports, trade liberalization policies have to promote on sectors that will trigger FDI inflows to Romania. Specifically, sectors which are able exploit exporting capabilities built on local suppliers. This approach must take into account a way to defeat poor linkages between foreign firms and local industry; as past study reveals that

technology transfers remain poor in host country. Economically speaking, this means that host government should promote activities as a potential exports which make use of our comparative advantage. In addition, FDI should be seen as a supplement, not as a substitute for local capital resources.

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# LOCAL AUTONOMY OF EXPENDITURES – CASE STUDY FOR ROMANIAN LOCAL GOVERNMENTS

Elena, Cigu<sup>1</sup>

## **Abstract:**

*Strong local autonomy or decentralization process became a goal for local governments, but one of the main question in literature remains as how strong must be the local autonomy of expenditures at the local governments' level. Given the great diversity of situations and legal framework over the period after 1990, I consider that Romania must have a stable legal framework regarding local public finances and stable strategy of local development designed to implement a sustainable process of decentralization in Romanian.*

*The paper will try to emphasize the local autonomy of expenditures in Romania, taking into account an overview of this aspect and empirical evidences. In this regard, I will use the background offered by literature and legal framework and the official statistics data for analysis to identify the degree of local autonomy of expenditures in Romania.*

*I estimate the analysis to confirm a normal local autonomy of expenditures, but also a need for improvement that require solutions and budgetary policy options as part undisputed positioning local government finance as an engine of development.*

*I consider the paper can be considered a useful viewpoint in understanding local public expenditures in Romania and the degree of local autonomy, thus adding to the existing literature on financial decentralization field.*

**Keywords:** *decentralization, local autonomy, local finance, local government, local expenditures*

**JEL Classification:** *H7*

## **1. Introduction**

Supporting local public services becomes a priority for Romanian local governments because the economy has changed from an economy based mainly on industry to one based mainly on services. This trend towards increasing the share of services orientation, approaching the level of EU countries. Expanding the powers of local governments and their financial empowerment are key factors in ensuring the high quality of local public services.

The paper will try to emphasize the local autonomy of expenditures in Romania. In this regard, Section 2 taking into account an overview of this aspect, using the background offered by literature and Section 3 presents some empirical evidences, using the official statistics data for analysis to identify the degree of local autonomy of expenditures in Romania.

## **2. The Subject of the Research, Methodology and State of Knowledge**

The scope of this study is to emphasize the main trends and issue that defines the local autonomy of expenditures in Romania. The approach of the research paper will be an overview of this aspect, and second will be combined the quantitative analysis, primarily based on processed data from Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting, with the analysis and monitoring of the involved qualitative issues. In interpreting results and formulating public policy recommendations, the analysis has permanently related to the legal framework in work (e.g. Law on local public administration, Law on local public finances, Fiscal Code, Law on decentralization, The European Charter of Local Self-Government etc.).

Autonomy of local public expenditures is the subject of research in national and international literature, partially being also captured in the broader context of fiscal decentralization or local autonomy (Schneider, 2003, Boschmann, 2009, Beer-Tóth, 2009, Bell, et al., 2006, Oprea, 2011 Cigu, 2011, White, 2011, etc.).

The general trend among Member States of the European Union is expressing through laws of the principles of local autonomy and decentralization of public services which requires each administrative unit to ensure their revenues to cover their costs on goods and

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services. The orientation of researchers (Bell, et al., 2006, Oprea, 2011 Cigu, 2011) to the local public expenditure side was accomplished just by virtue of this phenomenon.

Literature (Beer-Tóth, 2009, p. 73) sees the sense of expenditures autonomy through two descriptions, respectively, as equivalent with the freedom to decide which goods and services shall be financed from the local public budget and how much money shall be spent on each of them; and secondly, as the freedom to decide how these goods and services shall be produced or delivered.

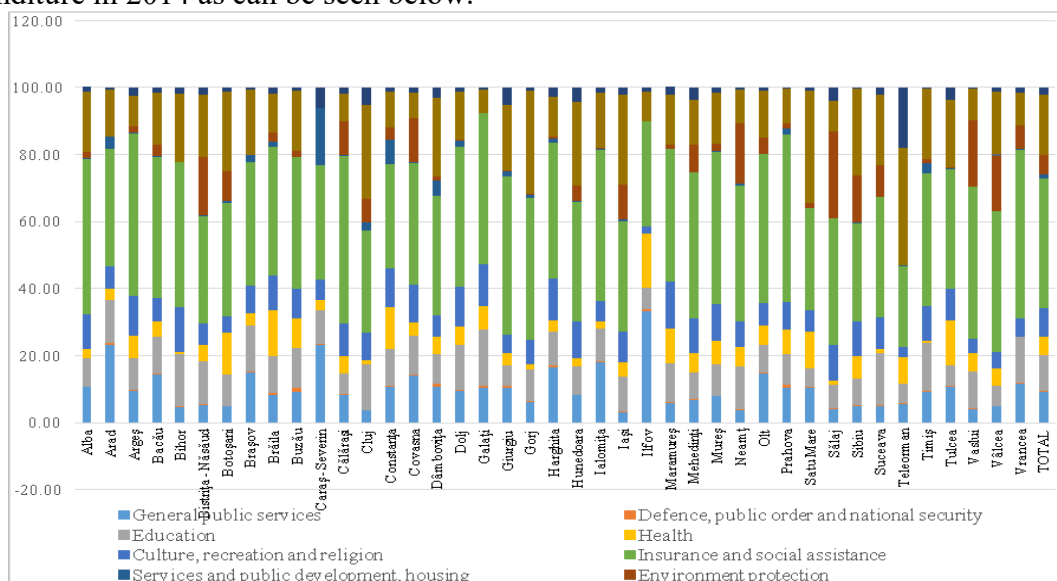
### 3. An Overview of Romanian Local Public Expenditures - Empirical Evidences

In Romania, the process of decentralization of public services, beginning in 2001-2002, continued designing the appropriate regulatory framework. In this regard, public authorities have been developed and approved laws or government ordinances in the fields of water, sewerage, public lighting and administration of the public domain.

Local budget expenditures have fluctuated against the background of major reforms in public administration, namely in services and public development, housing, environment and water, and economic actions. Spending on education is an important percentage of the total budget expenditures of local government in Romania since 2001, when in the process of decentralization, these expenses were realized in the higher percentage of local budget.

Regarding the process of decentralization of pre-university education, it is viewed differently in terms of the financial aspects. Funding education has four sources: the state budget, the County Council budget, local budget and own-revenues of school. Funding from the state budget helps cover the cost of personal expenses, textbooks, partial scholarships, student transportation and material and services expenses. County budget uses equalization fund from the local budget, for education and for financing social programs and investment for students. The local budgets provide funds to cover the costs of maintenance, repairs, investments and material expenses and social programs for students. Decentralization involves funding education budget allocation to schools for each student based on costs, the budget being approved by the County Council, and the money must come from the Ministry of Finance or the local budget directly or through the County Council. The allocation of funds in real terms encountering certain difficulties. For example, in 2005 education received 3.8% of GDP compared to 6%.

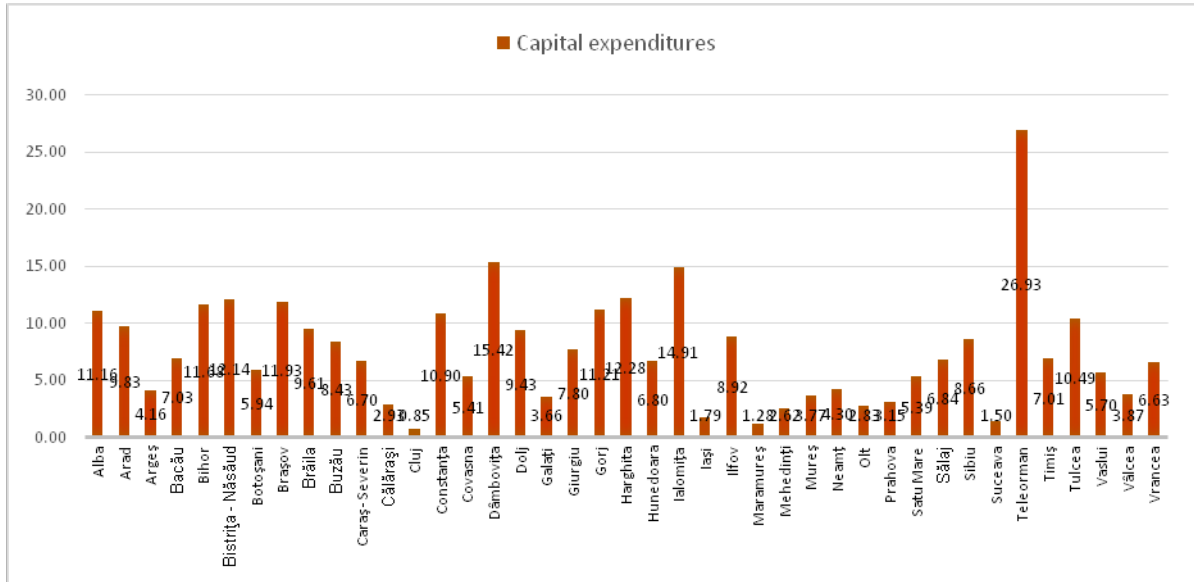
Favorable economic developments, plus improving the collection of revenues to local budget and the influence of legislative changes in taxation, led to a picture of public expenditure in 2014 as can be seen below.



**Fig. 1 Local public expenditures of counties by function, in 2014**

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting

Expenditure on social insurance and assistance hold the highest share in total public spending at the county level (38.59%). At the county level compared to other counties, Calarasi (50.22%) holds the largest share. Between 40% -51% are 17 counties, and in the range of 30% -40% are 21 counties. The smallest share are registered in Teleorman County (23.90%), and, at a short distance Sibiu (23.90%). Transport costs account for 17.78% of the total county government expenditure. Spending on education accounted for 10.54% holding in total county government expenditure.

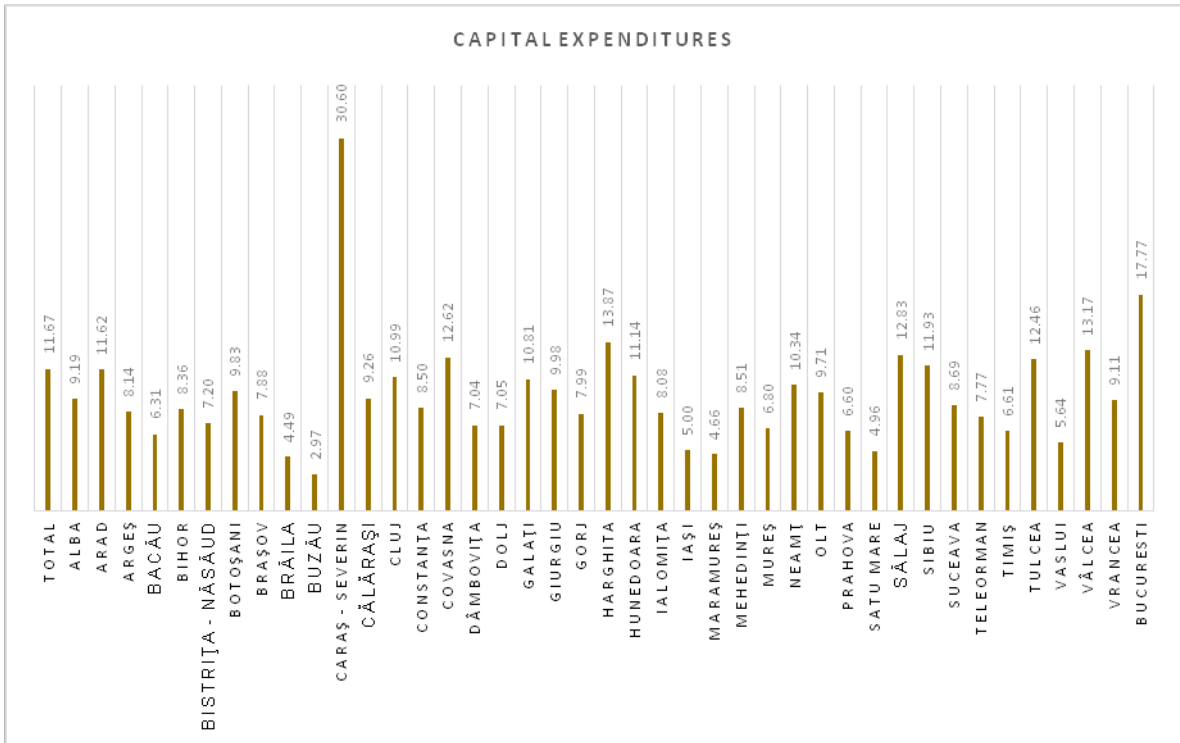


**Fig. 2 Local capital expenditures of counties, 2014**

*Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting*

Local public investments are relevant quantitative indicator to indicate the welfare of the county, but at the same time, reflects the urgent need of new investment to the county. The counties of Romania has a share of 7.04% of total county public expenditure. The top capital expenditure is Teleorman county with a share of 26.93% of the total county public expenditure. Dambovita is situated to a significant distance with a share of capital expenses of 15.42%. Only 11 counties have a share of the capital expenditures over 10% of total county public expenditure. Aproximately 13 counties have allocated less than 5% of capital expenditure in the county budget.

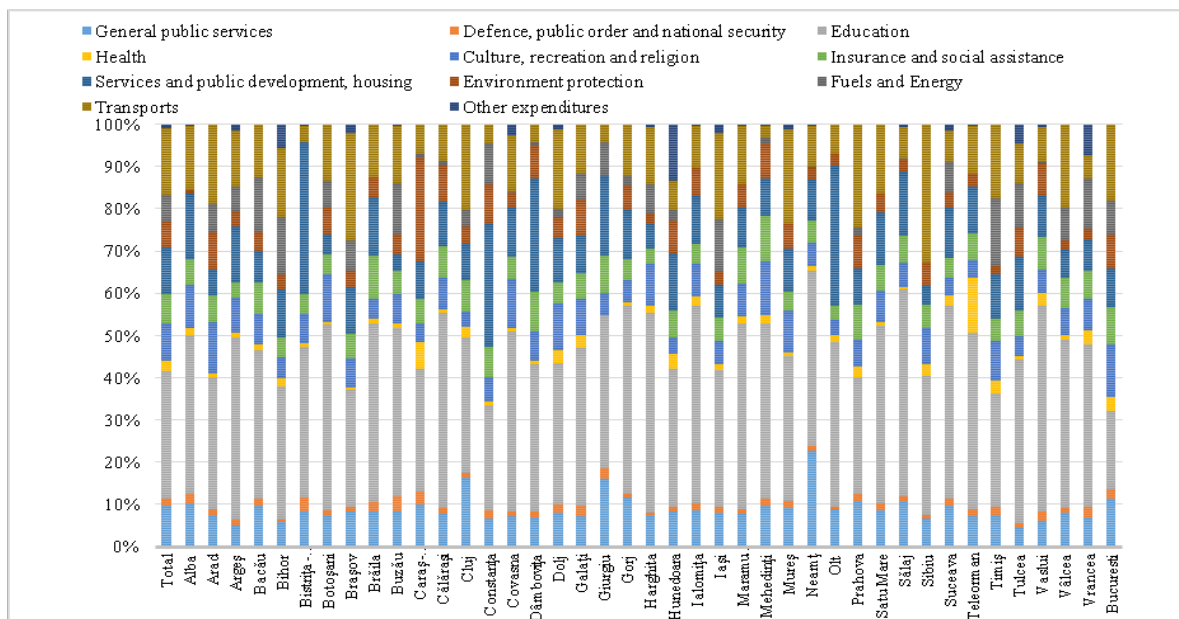
Configuration of capital expenditure are changed at the municipalities' level compared to the county, as can be seen in the chart below.



**Fig. 3 Local capital expenditures of municipalities, 2014**

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting

Capital expenditure recorded a share of 11.67% in total expenditures of municipalities, with about 5% higher than at the county level. The largest part of capital expenditure in the total budget is recorded in Caraş-Severin (30.60%). 13 municipalities recorded a share of capital expenditure by over 10% and 3 municipalities under 5%. Thus, most of the municipalities have a share of the capital expenditures between 5% and 10%.

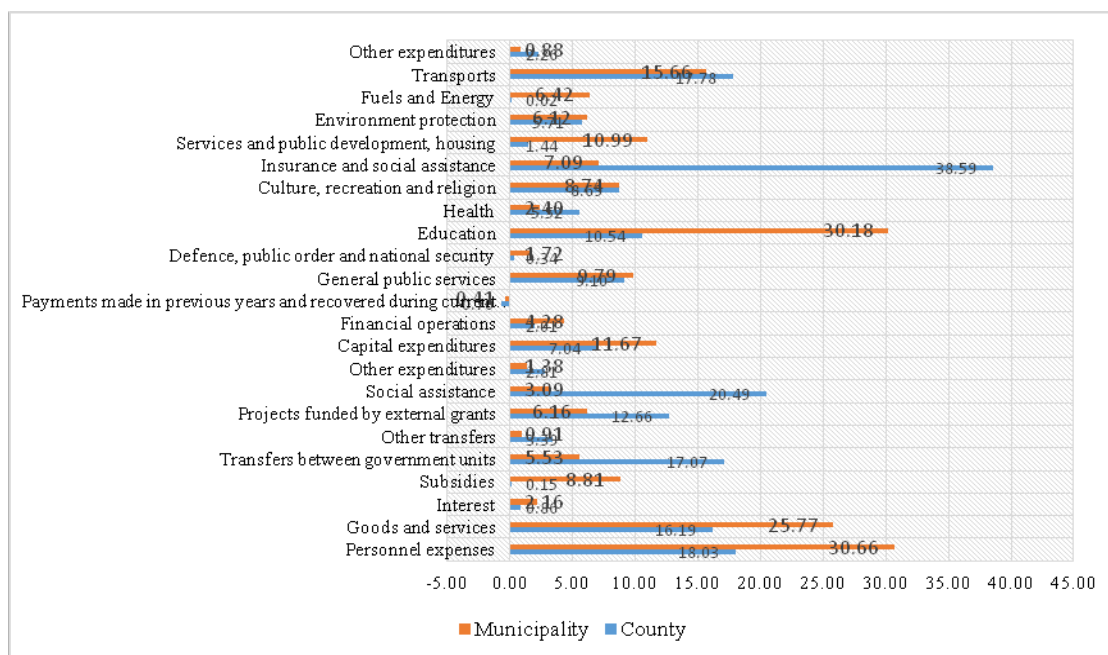


**Fig. 4 Local public expenditures of municipalities by function in 2014**

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting



Thus, at the level of municipalities, the highest share in total public spending holds local education (30.18%). At the level of municipalities, Salaj has allocated the largest share of education spending. Most among municipalities allocated to education over 25%. The less, education recorded in Bucharest. At half than allocated to education, municipalities have allocated of transport (15.66%). High transport costs were recorded in Brasov (25.45%), Cluj (20%), Iasi (20.29%), Mures (22.40%), Prahova (24.44%) and Sibiu (32.55%). The lowest rate was registered in transport in Mehedinți Municipality (2.67%). Municipality health registered a very low percentage, 2.40% respectively of total local expenditures.



**Fig. 5 Local public expenditures of municipalities and counties by comparison 2014**

*Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting*

There are quite large discrepancies in the allocation of costs on destinations, both in functional classification, and the economic, of municipalities and counties by comparison. Counties has large expenditures in insurance and social assistance by function and social assistance by economic classification. Also, expenditures with projects funded by external grants and transfers between government units are large by comparison with municipalities. On the other hand, large local public expenditures of municipalities by comparison with counties are services and public development, housing and education by function, and capital expenditures, subsidies, good and services, and personnel expenses by economic classification.

#### 4. Conclusions

The Romanian system is characterized by the dominant role of municipalities in public service provision compared to that of the Romanian counties. In this respect, municipalities is considered to have a relatively high discretion to allocate and commit its expenditures, and to manage its resources. Quite large discrepancies in the allocation of costs on destinations (the amount of expenditure), both in functional classification, and the economic, reflects the autonomy of local authorities in Romania to manage funds in the interest of local communities, in accord with legal framework.

It is recommended policies decision on more concretely assignment of local expenditure responsibilities as well as local taxes. At the same time, assigned expenditure

responsibilities of counties, municipalities in Romania should always be matched with adequate financing.

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# HEALTH, TANGENT LINE TO THE UNIVERSITY EDUCATION – HUMAN DEVELOPMENT BINOMIAL

Vasile-Miltiade, Stanciu<sup>1</sup>

## Abstract:

*The university organization represents, in our opinion, the significant and obligatory link towards healthy human development, characterized by the win-win principle for all parties participating in its ample and complex process. Therefore, if university organizations are healthy, the foundation is created for the sustainably-healthy construction of the future development. Such development promotes social inclusion, equity, mutual advantage, wealth, fortune obtained by honest work, human solidarity, social communion, liability freedom etc. whose fundament is healthy education. This type of education can be obtained within healthy education organization, by means of transition from the current skill-based educational model to the one of value-based education in the cause of life. In this paperwork we will try to reason the necessity of adopting such educational model in order to get from the current incomplete development to healthy human development.*

**Keywords:** value-based education, human development, liability freedom, healthy education organizations.

**JEL Classification:** A13, I25, Q01.

## I. Starting point

*“Education is the strongest weapon you can use in order to change the world”,  
Nelson Mandela*

Education is, before anything else, “the means used by the society in order to continuously renew the conditions of its own existence”, said the famous sociologist Emile Durkheim in 1956 (pages 67-68).

While sociologic science analyses education in terms of social institutions, highlighting channels that education uses in order to contribute to strengthen society internal structures, economic science studies education effects upon economic performance.

Within economic science, research upon education tend to identify the modalities through which education participates in forming and using the economic resources of the individual or of the community and to highlight education contribution to valuing the economic potential capacity of an individual or of national economy as a complex system.

In this paperwork we will try to identify a link between education and development, emphasizing their health, identified as well by the values offered to a young person in school, values he/she chooses to use during his/her life opening after school years are completed. Life consists in a series of realities that the young person has to face, which are under continuous change. Part of them is accurately presented by Pope Francisc, as follows (2014, 52-54):

- *Economy has become global*, the financial capital moving fast from one part of the globe to another, as there are no “actual borders”, preventing it from moving around.

- *Technological evolution has deeply changed production forms*, mainly in the detriment of people, who are increasingly replaced by machines, but also as labour force is not any longer as important as technological investments, knowledge development etc.

- *Unemployment increase worldwide*, as the current economy is not designed in such a way that each person has a dignified work and therefore entire sectors of workers become poorer and poorer, including many of those working in educational sector.

- *International social inequalities are higher and higher*, and the abyss between the rich and the poor is deeper and deeper, entire continents being excluded from the market and a significant part of the population, both in developed and in poorly developed countries remains outside goods circulation in the society.

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- *Worsening of environmental problems*, as the current development model is not focused at all on keeping the ecosystem.

- *Collapse of totalitarian regimes in parallel increase of concrete feelings and actions of nationalism and xenophobia*, having negative effects upon people lives because of social violence, racism etc.

- *Participation and representation crisis* manifested by people's lack of trust in existing political structures which, consequently, do not represent their interest any longer, which causes the occurrence of new actors and forms of social participation, but for punctual problems, such as: protection of human rights, minorities' rights, environment etc.

- *IT revolutions and multimedia*, which paradoxically have significant advantages for those having access to them and also similarly significant disadvantages for those not having access to them.

- *Change of women's social, professional and familial role*, having direct effects upon society and family life.

- *Biotechnological revolution and genetic manipulation* that will generate changes in the human reproduction process.

- *Increase of religion role*, including of a position foundation in Islamic, Judaist and also Christian religions.

Therefore we are all facing a new situation, with more or less negative effects, but which obviously require a way of acceptance and action which is unique globally, because of the global character of the above mentioned issues. We believe in this respect that a solution for these challenges and for the ones we will analyse below refers to changing education, by adopting a model whose central element is the health of both the entire system and of the parts composing it.

## **II. Contrasting Realities**

The necessity to reconceptualise the current educational model in our country and a significant part of the one found at present in the entire world originates in the fact that the negative externalities existing on the planet are the result of human behaviours against normal direction, having generated endemic poverty, unkind social inequalities, social and economical exclusion, science without humanism, fortune without honest work, widely spread individualism, "exasperating consumerism" (Papa Francis, 2014, page 64) etc. All these show an "incommode truth", as characterized by the former American vice-president, Al Gore, eight years ago: Our live and aware Earth is sick, as "our borrowed mind"<sup>1</sup> is sick!

This expresses our non-proportional evolution, knowledge oriented upwards and the morality of its application oriented downwards, also known as "people fall down" (Popescu, Taşnadi, Stanciu, 2012). The way people were educated, in an excess of selfishness, a freedom without liability, with love deficit, without human solidarity and social communion, generated what I expressed above, namely "people fall down".

The report to the Club in Roma in 2013 comes to unequivocally express that the result of these human behaviours against normal direction generated the most serious expression of the current global crisis, in the form of "nature collapse" (Wijkman, Rockstrom, 2013), having certain irreversible consequences. We remind only a small part of these: worrying decrease or agricultural surfaces at planetary level, affecting agricultural crops; gradual transformation of grasslands into deserted areas, affecting animal food; depopulation of forests - 1035 millions of hectares, namely approximately 20% of world dry terrains are affected by human actions (45% of them are affected by water erosion; 42% are affected by wind erosion; 10% are affected by chemical deterioration and 3% are affected by physical

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<sup>1</sup> When we talk about "borrowed mind" we refer to the one genetically inherited by the child through the dower transmitted by previous generations and found out in the DNA code.

deterioration of soil structures). Approximately one third of all agricultural terrains lose soil faster than it creates, reducing inherent of terrains, according to the estimates of Lester Brown (2008), the president of the Institute for the Policy of Earth Planet, who stated that “if these environmental degradations continue, Earth reconstruction will represent a huge international effort, even greater and more demanding than the Marshall plan” (pages 150-151).

Besides these manifestations, there are also effects produced by human activity as well, but of a different nature, the ones generated by the effects of the greenhouse gases respectively. In this way, during the summer of 2005, in several cities in the United States of America record temperature were recorded, among which: Las Vegas, 47° Celsius; Denver, 41° Celsius; Grand Junction, 41° Celsius. For the first time in the history, in 2005, the World Meteorology Organization started to use letters from the Greek alphabet, for giving names to hurricanes (their number reaching 27 in total), (Gore, 2008). In the same year -2005-, in Asia the flood frequency increased dramatically (the number of death people in the Western part of the continent exceeding 1,000 persons). Five years later, during the summer of 2010, extremely high temperatures generated in the Russian Federation devastating fires, burned forests etc., all causing damages of approximately 300 billion dollars.

During the summer of the same year, the torrential rains in Pakistan killed over 2,000 persons, destroyed over 2 million houses, 1 million of cattle were killed and the crops on 2.4 million hectares were destroyed.

The concentration of greenhouse gases in the atmosphere increase a lot, reaching an estimate level, considered as being “the highest level in the latest 20 million years, the increase rate being the fastest in the latest at least 20,000 years”, stated the owner of the Nobel award in economy Joseph Stiglitz (2008, page 147).

Therefore, the mankind is today at a crisis moment when it has to decide about its future and to responsibly and knowingly assume it.

In this context, we are entitled to highlight healthy economy issue, which should be in harmony with the exigencies of ecologic balance. Healthy economy, as economic life, is the one answering to people’s hopes for better present anytime and anywhere, in harmony with the exigencies of ecologic balance. In other words, what is healthy for people, family, community, organizations, institutions etc. should be healthy for natural environment as well. Therefore human activities, which through their direct or indirect consequences endanger “health of the live integer”, can be considered illegal and immoral.

Interpreting economic life as an ability-response of people to nature “avarice”, under incertitude conditions and directly and integrally subordinating its results to the *win-win principle* for all participants – human being, family, community, business organization, state and environment – the need results to weight what we have against what we should have. And it highlights the necessity to harmonize the exigencies necessary for the dynamics of the ecologic balance and the hopes for better of most people.

### **III. Solutions for Our Future**

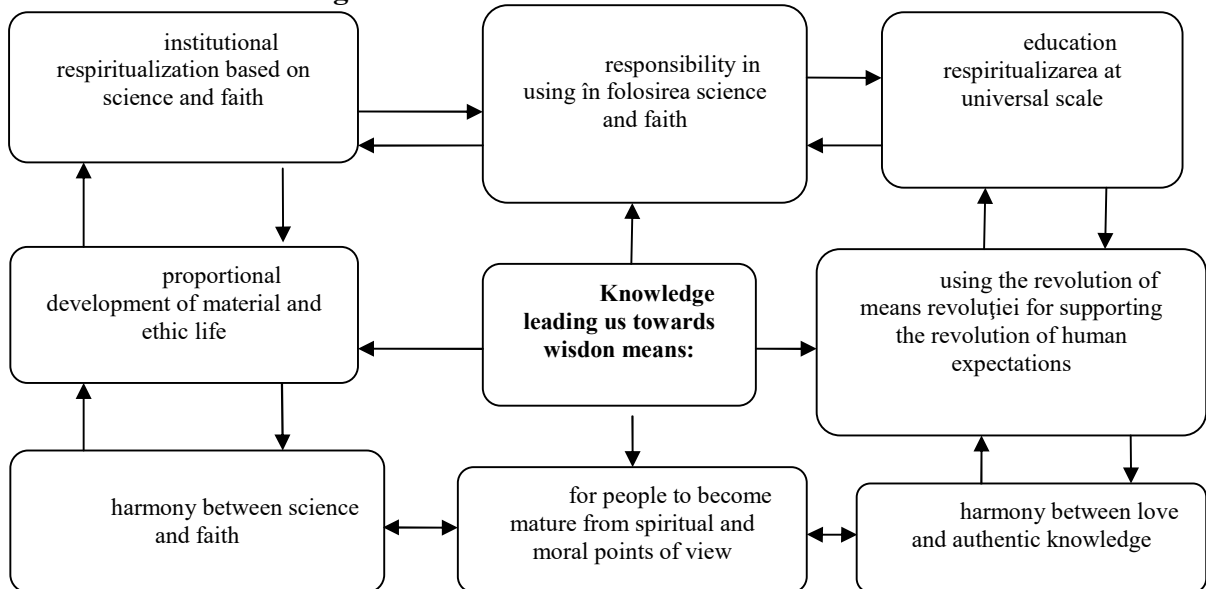
Under limitation and incertitude conditions offered by Earth planet, the rationality principle has to be harmonised with hope principle, so that the rationality meaning should be only the one contained in the hope for better and not outside it.

Starting from the idea that human society economy is a live organism created by people for people’s wellbeing and All People, it must have its own homeostasis that allows its healthy evolution. The healthy development can take place based on healthy economy, where inputs, transformations and outputs form an interrelation system, its health representing the condition and expression of its operation efficiency.

A model for a *healthy development* can be designed based on the paradigm of *health of the live integer*, based on a **value system**, which leans upon human and institutional behaviours, under limitation and incertitude conditions.

The values imply that conditionality impossible to break, without endangering balances at global, planetary scale. Today we know that at the base of the current model promoted by classical economic science the values are not included in substantiating any theory and corresponding models, as if economic and social life would not represent human behaviours in their fight against rarity and incertitude. If people by their behaviours did not exist in economic and social life, and the phenomena in the economy of human society were cosmic such the economy of human society means human behaviours choosing under limitation and incertitude conditions, the values on which it should be based represent beliefs based on the belief that they must think, live and act on people’s behalf, by means of people and always in harmony with nature. The transition from the paradigm “*business means the power to compete against market and live*” towards “*business means the wisdom of serving people and life in its entirety*” represents the condition and expression of healthy development, namely the transition towards wisdom era; see in this respect figure no. 1.

**Figure no. 1. Transition towards wisdom era**



Source: Popescu C., Stanciu M., Popescu A., *The ecolonomy of human businesses a new paradigm*, page 16, unpublished paperwork.

In this respect, education respiritualization at universal scale is one of the keys for transition towards wisdom era.

We consider that education based on values of meaning, that promotes valuable persons from doctors, engineers, economists, political persons etc. and not non-valuable persons, can transmit to current and future generations real behaviours based on human solidarity, altruism, truth, kindness and beauty, communion and compassion.

As a matter of fact, we believe that we must lay the base for the spiritual emergency of our time to **respiritualize education**, to rethink the educational model, especially the university one, at planetary scale; see figure no. 2 as well.

Thus the personality of specialised persons is formed, persons who harmonize nature with the society in them, through self-governing their own lives. The care of the teacher must be to form from the person who came to learn, regardless of the educational step where this person situates, a strong character ready to resist to current, but especially future, life difficulties. “Hope is the virtue by which we dedicate ourselves to a difficult thing”, said

Francis Pope (2014, page 108). The hope to succeed in educating and modelling characters for the future, respectable, correct and honest people who love their country must be the base from which university organizations which must not deviate, continuing their role of forming specialised persons, despite all obstacles encountered.

It is easy to understand that university organizations are influenced in fulfilment of their mission by tensions generated by the global – local relation, under all aspects and with all implications resulting from here, however, the integer as a sum of parties must prevail against limited and particular problems, which finally must generate benefits for more people than for less people. Common wellbeing must predominate, and its final translation into practice should be the base key of these organizations. It is interesting that I also found at Einstein a famous and meaningful saying: “only a life supporting other people is worth living” (page 158), although selfishness is the essence of human nature!

**Figure no. 2. Sources of educational respiritualization**

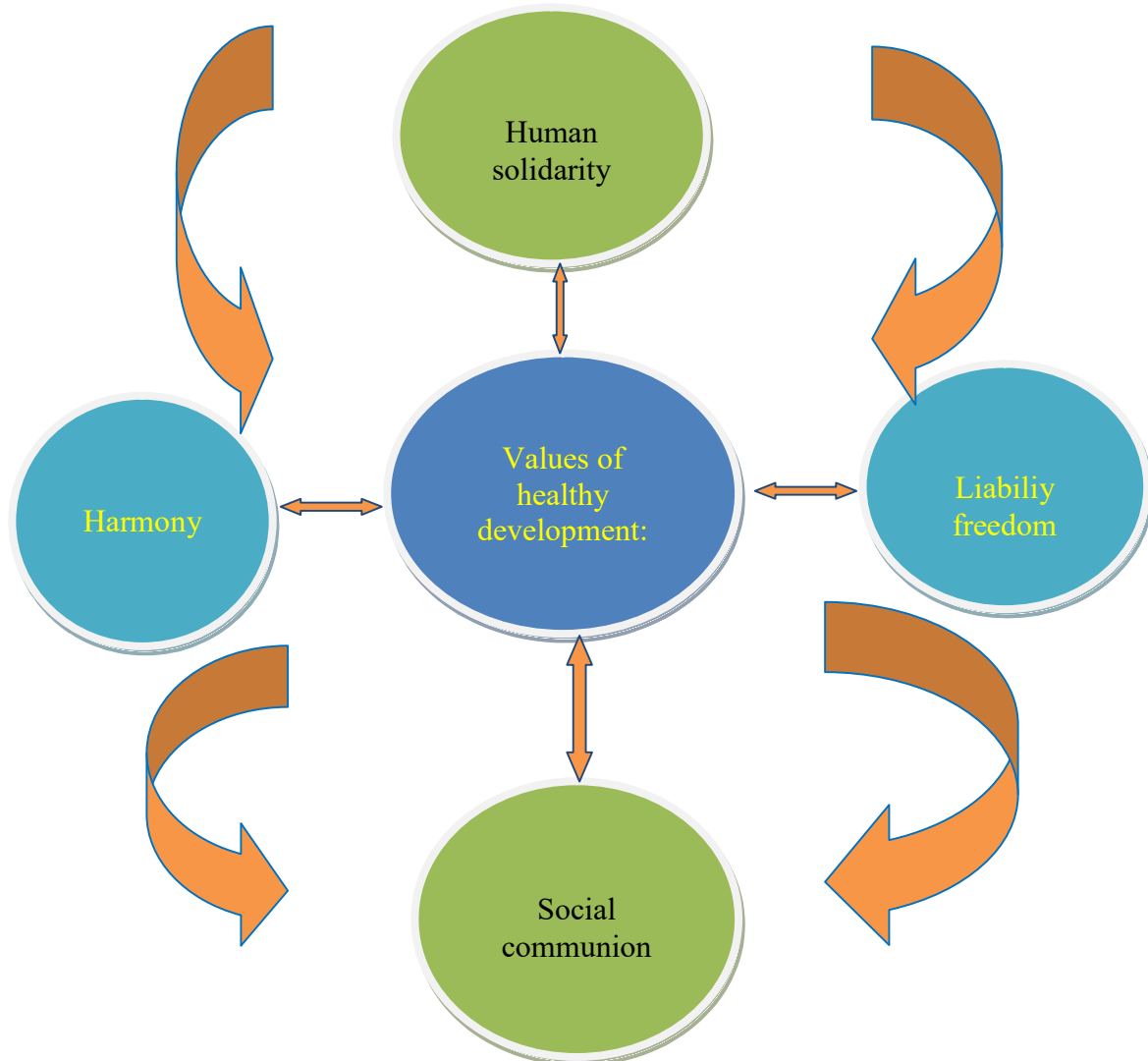


Source: Stanciu V. M., To Healthy Life Through Education for Choosing Life, in *Impact of Socio- economic and Technological Transformations at National, European and International Level (ISETT)*, 2015, vol.2, pp.118-127.

Therefore, respiritualization of education and implicitly of its purpose and of educational organizations as well, from the perspective of integrating responsibility for human life fruition, in accordance with *health of the live integer*, by using scientific knowledge represents a deep and collective action at global level, at aware understanding level, a key towards *healthy development*.

Such comprehensive and long-term process is favoured by the transition from the current skill-based educational model to the one of value-based education supporting life. In this respect, at the base of healthy development we lay the values resulting from the exigencies of common live integer, see also figure no. 3: *harmony* as universal value of the micro-universe where we live, work and love, *liability freedom*, defined by undertaking responsibility for facts, *human solidarity* by understanding that if we cultivate “the person in the specialist” his/her behaviour will not deviate towards negative sides, *social communion*, by collaboration and cooperation.

**Figure no. 3 Values of healthy development**



Source: The author

For this reason, accepting the exigencies expressed by the “health of live integer” paradigm, *no healthy development can take place without healthy education*.



This education must be the result of a radical transformation of educational organizations, starting from the fact that it must be the result of a process of raising awareness towards human values, from the perspective of integer health, where life cannot be accomplished unless all other forms of natural and non-human life are respected.

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# SECTION: FINANCIAL AND ACCOUNTING POLICIES AND CORPORATE GOVERNANCE IN THE GLOBAL CONTEXT

## THE ROLE OF DOCUMENTATION IN THE AUDIT MISSION

Niculina, Stănescu<sup>1</sup>

### Abstract

*Missions carried out by the auditors are based on extensive documentation consisting of relevant and reliable audit evidence. The audit documentation guarantee the quality of the conducted mission, perform the activities in accordance with International Standards on Auditing, Code of Ethics, rules and decisions issued by the Chamber of Financial Auditors of Romania. All information obtained by the auditor in connection with the audited entity are used as working documents submitted in the dossier of evidence to support the conclusions and expressed opinion. An audit mission without proper documentation is not only a poor quality mission but the impossibility to express an opinion with the possibility to relief the auditor.*

**Keywords:** financial audit, documentation, quality, credibility, control

**JEL Classification:** M48, G32, G38

### 1. Introduction

In conducting an audit mission the auditors use information and documents that must be sufficient and appropriate. This documents obtained from the client, third parties or prepared by the auditor serve as evidence to justify the deployment of the mission and support the findings, the auditor's opinion and every report issued in accordance with international auditing standards.

The documentation begins with preplanning of the mission, getting preliminary information about the customer (branch of activity, ownership structure, shareholders, problems that the audited entity is facing) and risk analysis in order to determine if the auditor can or can't accept the mission: if it has enough time to accomplish the mission; experience in the client branch; possibility to call collaborators, specialists; if the client is experiencing problems with frequent changes of auditors, accountants or managers; bankruptcy ; incapacity to continue working; and so on.

After approval of the auditor and signing the service contract prepared in accordance with ISA 210 "The terms of the audit mission", the auditor goes to mission planning namely setting the time budget and work plan which will also contain a document of information for the customer on site visits of the auditor and documents requested by him during every stage, preliminary risk assessment and analysis and the audited entity.

Execution of the audit mission means performing audit procedures and obtaining evidence that contain the auditor's judgment on the balance sheet and profit and loss account and also the auditor conclusions formulated based on the tests applied. Conducting the audit mission is both on client site when applying procedures related on observation, inspection, interviewing, worksheets preparation as well as on the audit company site when making recalculations, applying analytical procedures or when assembling audit files or when the audit report is drawn up.

Completion of the audit mission is represented by preparing the audit report, "cold and hot" checking of the audit mission by the quality control and finalizing audit files.

Documentation of the mission must include at least: the letter of statements, audit plan, time budget, declaration of independence, the questionnaire to verify compliance with

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the mission, permanent file, the current file, worksheets of quality control department, audit report any other worksheets the team needs in order to carry out the mission according to the auditor's professional judgment.

## **2. The Need and Purpose of the Documentation in the Missions Performed by the Auditor**

Each audit company must have written policies and procedures on quality control elements, policies and procedures on the documents that must be prepared by the auditors for each step of the mission.

Policies and procedures of audit companies must ensure the integrity, confidentiality, availability and recovery of mission documentation.

According to the policies and procedures for quality control, audit companies must have written documentation including:

- how to run quality review of the financial audit missions
- Statement on general policy of the audit company
- a quality control manual with policies and procedures
- management responsibility on quality within the company
- the details of identified threats regarding respected ethical principles and applied

safe measures

- acceptance and continuity of relations with clients
- a disclaimer for contrary opinion or limited opinion
- withdrawal from relation with a client
- appointment of audit team members
- continuous professional development
- consulting with other auditors or collaborators
- sustain the decision when there are differences of opinion.

According to ISA, the final assembly of case mission file must be carried out within 60 days since the issue of the report, and working sheets and permanent file should be kept for at least seven years to allow those carrying out the verification and monitoring to assess the quality of the missions.

Documents prepared by the auditor must cover all stages of a financial audit:

- Preliminary activities - analysis of the audited entity
- Getting information necessary for understanding the customer: know the branch of activity, visit analyzed entity and manufacturing areas, identification of related parties, identification of disputes, obtain information on legal obligations
- Make preliminary analytical procedures
- Prepare and sign the mission letters
- Prepare the audit strategy and mission plan
- Plan the audit mission
- Time budget for the mission
- Establishing materiality
- Distribution of materiality on accounts
- Assessment of internal control and internal audit
- Assessment of accepted audit risk and inherent risk
- Collect sufficient and appropriate evidence regarding: intangible fixed assets; tangible fixed assets; financial fixed assets; stocks; customers; personal and settlements with employees; settlements with the budget; other obligations; treasury; equity; expenses; income; taxes; group and associates; off-balance sheet accounts; etc - through the application of procedures: verification of documents / records, observation, interviewing/questioning, re-evaluation, re-calculation, reviewing (checking)

- Preparing letters of recommendation
- Direct confirmation: customers, suppliers, banks and insurance
- Application of audit tests on: operations, details of balances, control mechanisms
- Involvement in inventory operation
- Check financial statements and balances
- Review materiality
- Checking subsequent events
- Verification of business continuity
- Review of audit files and worksheets, conclusions
- Establish audit opinion and write the report
- End-mission operations and meeting with the customer (consulting, discussions)
- Establish targets for next mandate

Documents requested by the auditor audit to the client mainly refer to: general ledger, trial balances, tax returns (100, 101, 112, 300, 390), tax register, suppliers analytical sheet, foreign suppliers, suppliers of property and fixed assets, external suppliers, situation on long and short-term loans, guarantees required by the bank, the leasing contract situation, list of obtained loans, list of loans granted within society, list of third parties stocks held by the company, inventory decision, record of inventory lists, list of investments, situation on entrances of fixed assets obtained by renting or leasing, situation of repairs and modernization of assets, situation of given assets, minutes of internal control, records of AGA and CA sessions, internal auditor's report, re-evaluation reports, confirmations, payrolls, etc.

If the auditor performs an internal audit mission, than after drafting the chart and audit procedures, he will prepare documents for:

- mission planning and program preparation and plan of internal audit mission
- risk assessment
- collecting information on all elements connected to the objectives and scope of the mission
- analyzing and assessing information
- examine and assess the relevance and effectiveness of the internal control system ;
- notes on audit team meetings with stakeholders;
- apply of the audit procedures;
- results of analytical procedures based on worksheets for each activity audited: financial accounting, human resources, buying, etc;
- mission final report and management observations;
- communicating the results of the internal audit mission
- follow up of implementation what the auditor recommended
- reviewing work files;
- monitoring mission;

The documents of internal auditor consist on evidence obtained throughout the mission, namely information from entity or third parties and worksheets - made by the auditor on the basis of information obtained - that make up the current file.

The documentation is the basis for revisions (supervision) necessary including for quality control of audit team work and also represents the information in the audit files (permanent, current) for procedures and evidence obtained.

The documents are organized, grouped to meet both regulatory CAFR requirements, the International Standards on Auditing and to ease the auditor's work in drawing conclusions, in reviewing the documents.

The use of standard audit documents increase the efficiency of the audit mission, facilitate the process and contribute to achieving good quality audit mission.

Documentation is made for the duration of an audit and is separated into two files: the current file (annual or exercise file) and permanent file that typically contains general information about the audit client: capital, ownership structure, organization, number of employees, etc.

The work files of the auditor's must include at least the following elements:

- mission letter, statements letter, deficiencies communication letters to management
- service contract between the auditor and the audited entity;
- Drafting and signing auditors Declaration of Independence;
- Worksheets with resolving conflicts of interest, taking safety measures to eliminate ethical incompatibilities, to resolve differences of opinion; draft time budget respecting the minimum number of hours for audits (240 hours);
  - Worksheets on the organization internal control, internal control results
  - Worksheets on the organization of internal audit, internal auditor reports, findings and recommendations
  - Copies of the audited entity financial statements signed and stamped (balance sheet, income statement, cash flow statement, equity situation, notes);
  - The accounting policies prepared in accordance with OMPF 1802/2014
  - Information and worksheets on related party, transactions between the parties
  - Notes of discussions with management
  - Reports / worksheets realized from the person responsible for quality control on monitoring audit missions, compliance with policies and procedures for quality control
    - Worksheets on how the auditor's judgment was applied by choosing the sampling method, the sample used, materiality established
    - Checking the record of penalties, costs and expenses from economic agents in insolvency for which the company joined the list of creditors but also from other business debtors
    - Revaluation of tangible assets - the auditor's worksheets and existence of reports revaluation
    - Participation of the auditor to inventory or not and applying alternative procedures
    - Worksheets with account verification by the auditor, the election sample and documents related to decommissioning, performing and completing the inventory: the decision of the inventory, the declaration of the person in charge, inventory lists, record of the inventory results, etc.
      - List of loans granted inside the establishment, loans to staff
      - Situation of long and short-term borrowings, leasings with time, value, etc.
      - Check taxes: tax on salary income, income tax, VAT, etc. by recalculation and reconciliation documents: payroll - orders - trial balance, record tax - declaration income tax - trial balance, VAT statement - trial balance
      - The valuation of work in progress: significant costs, fair allocation of overheads, accurate reporting of revenue and long term profit production
      - Checking and documenting the adequacy of provisions
      - Worksheets for all procedures related to sections A-U from the Quality Guide

Working documents obtained from the performance of the audit mission are property of the auditor and must be kept in safe conditions respecting the principle of confidentiality. In case the customer wants some worksheets, procedures, tests applied or extracts from documents, they can be made available to the audited entity if there is the written agreement of the audit company.

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# NORMALIZING LEASING OPERATIONS. NATIONAL ISSUES

Dorina, Luță<sup>1</sup>  
Laura-Filofteia, Pănoiu<sup>2</sup>

## Abstract:

*The current economic context requires companies to have the capacity for innovation, dynamism and flexible approach of the techniques to finance business, meaning choosing the best solutions both in terms of costs and in terms of the accounting impact.*

*A financing decision must be the result of management involvement and company accountancy involvement. Changing the economic environment where companies act requires the reconsideration of financing sources and the use of all solutions, including leasing.*

*The dynamics of the leasing sector, the increase in the level of using this technique as a financing source, both due to the lending restrictions caused by the eligibility conditions imposed by the banking sector and as a consequence of increasing the degree of economic culture, make it necessary to know how the normalization of leasing operations works.*

*Based on such considerations, the present paper aims at highlighting the main issues of leasing operations, both as a trade and financing variant, and their accounting treatment.*

**JEL Classification:** K12, M41

## 1. Conceptual Approaches

Leasing is a technique of economic affairs, namely of trade and finance with tangible and intangible assets, which is based on a tenancy agreement granted by financial companies specializing in these operations, by financial institutions or directly by producers, to enterprises or individuals, and on the expiry of the tenancy agreement, the user is entitled to a threefold option: to buy the asset at its residual value, to extend the lease agreement, or to cease the operation (Puiu Al., 2008).

Typically, performing a lease transaction requires the existence of three people: the supplier - asset manufacturer, the financing company - leasing company, and the user. The mechanism of initiation and development of leasing involves the following direction, namely: the leasing company, following an inquiry received from the user, acquires an asset from the manufacturer and gives it to the user for a definite period of time in return for fixed monthly royalties. The mechanism generates the existence of two agreements: a sales and purchase one concluded between the leasing company and the manufacturer, and a tenancy agreement concluded between the leasing company (the lessor) and the user (lessee).

Leasing is treated both as a trade variant - as it allows the manufacturer to identify new ways of meeting customers' needs to access products and services to meet the most diverse needs, as well as a form of financing, because the user within a leasing operation uses the business technique when he/she does not have enough resources for financing an activity, or wishes to allocate the resources to other more profitable areas.

Using leasing as a business financing technique can be the result of less favourable circumstances in obtaining bank loans, efficiency in obtaining a certain asset and some simplicity induced by the process of obtaining the asset via leasing.

The main advantages of using this financing technique for the user aim at (Ciochină I., 2009):

- performing investment without having the necessary funds;
- using available funds to increase working capital;
- accessing the latest technology;
- having the opportunity to benefit from a series of tax incentives offered by the state, namely the deduction of expenses via leasing installments;

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- having the threefold option, that is the opportunity for the user to decide whether or not to return the asset upon agreement completion, whether or not to extend the agreement or whether or not to purchase the asset at its residual value. This allows the user to have access to necessary assets even if the work they perform is conjectural.

## 2. Leasing Market

The world leasing market indicates a total value of 884 billion Dollars for the year 2013. While evolving, the leasing market has three points (Table no. 1):

- period **1994 – 2007** – a period of growth from 356.4 to 732.8 billion Dollars, i.e. an increase of 118.97 times. During this period, the highest growth was reported by Europe, from 87.5 to 401.2, i.e. an increase of 4.59 times
- period **2007 - 2009** - a period when the economic-financial crisis which began in the US affected the leasing market which decreased from 780.4 to 557.5 billion Dollars
- period **2010 – 2013** - a period of economic recovery, of improving businesses including leasing businesses which managed to reach 884 billion Dollars (globally).

**Table no. 1. Leasing Market Development**

US(\$bn)	1994	2007	2008	2009	2010	2011	2012	2013
Europe	87.5	401.2	336.7	220.4	233.0	302.7	314.0	333.6
N. America	108.0	237.9	226.1	190.8	213.3	292.5	336.4	335.1
Asia	99.2	84.6	99.2	103.8	105.6	153.4	180.2	177.3
S. America	11.1	41.4	54.2	30.2	25.4	27.5	13.2	18.0
Australia/NZ	5.9	8.6	16.9	5.7	10.8	12.0	16.1	12.5
Africa	4.7	11.2	9.6	6.5	6.4	8.6	8.2	7.5
<b>Total</b>	<b>356.4</b>	<b>780.4</b>	<b>732.8</b>	<b>557.3</b>	<b>594.5</b>	<b>796.7</b>	<b>868.0</b>	<b>883.96</b>

Source: World Leasing Yearbook, White Clarke Global Leasing Report, 2015

Trying to make a ranking of the most developed regions in terms of leasing business (Table no.2) provides important data, namely: North America region which includes the US, Canada and Mexico is the largest region in terms of the leasing business, with a level of 335.1 billion Dollars, i.e. 37.9% of the market (Table no.2). Europe ranks second with a share relatively close to the North American market, while Asia ranks third with a share of the total business market amount of 20%.

**Table no. 2. Structure of World Leasing Market (2013)**

Ranking per amount	Region	Amount	% of world market amount
1	America de Nord	335,1	37,9
2	Europa	333,6	37,7
3	Asia	177,3	20,1
4	America de Sud	18,0	2,0
5	Australia	12,5	1,4
6	Africa	7,5	0,8
	<b>Total</b>	<b>883,96</b>	<b>100</b>

Source: World Leasing Yearbook, 2015, p.5

Analyzing the leasing market in terms of its share of the GDP, one can see that the most developed market across Europe is Estonia which keeps its ranking first during the analyzed period (2011-2013, Table no. 3), whereas the leasing market in Romania reported a decrease from ranking 27<sup>th</sup> in 2011 with a transaction amount of 1.37 of the GDP, to ranking 35<sup>th</sup> in 2013 with a transaction amount of 0.78 of the GDP.



**Table no. 3. Amount of Leasing Transactions in Some EU Countries**

2013			2012			2011		
Ranking	Country	Share	Ranking	Country	Share	Ranking	Country	Share
1	Estonia	5,91	1	Estonia	6,32	1	Estonia	5,13
19	Bulgaria	1,51	20	Bulgaria	1,42	4	Bulgaria	2,48
28	Hungary	1,09	33	Hungary	0,87	6	Hungary	2,45
<b>35</b>	<b>Romania</b>	<b>0,78</b>	<b>34</b>	<b>Romania</b>	<b>0,86</b>	24	Serbia - Montenegro	1,55
37	Serbia - Montenegro	0,72	40	Serbia - Montenegro	0,63	<b>27</b>	<b>Romania</b>	<b>1,37</b>
43	Ukraine	0,50	42	Ukraine	0,46	49	Ukraine	0,29

Source: World Leasing Yearbook, Global Leasing Report 2015, p.14

In Romania, the information on the leasing market is provided by the Association of Financial Companies - ALB Romania and the Association of Operational Leasing Companies.

**Table no. 4. Structure of Financial Leasing Market**

Ranking	Structure	Amount (thousand euro)	Share
1	vehicles	596,093	77.53%
2	equipment	153,861	20.01%
3	Real-estate sector	18,888	2.26%
	<b>Total</b>	<b>768,842</b>	<b>100</b>

Source: Financial Leasing Market in Romania, ALB, 2015

The data emphasize the very high share of vehicles in financial leasing business, namely 77.53%.

Financial leasing market users on 30 June 2015 indicate the following structure:

- 99% corporate,
- 1% retail.

Agreements concluded in a financial leasing system by type of purchase, are divided into: 82% new and 18% used.

Leasing operations prove profitable if the contracting period is average. Moreover, in terms of agreement duration, the ALB report shows that 86% of finance leasing agreements are concluded for a period exceeding 2 years, whereas long-term agreements over seven years hold a 2% share, and short-term agreements account for only 4%.

Globally, the operational leasing market in Romania shows an increase of 16% in 2015 compared to 2014, that is 52,000 units administered at the end of the first half of 2015 (<http://www.aslor.ro/news/comunicat-de-presa-aslo-30-07-2015>).

### 3. Issues Regarding Leasing Operations' Accounting

*It is specified that leasing operations are dealt with in this article both according to the rules of national law (GEO 51/1997 of the Tax Code) and according to international accounting standards, IAS 17 Leasing.*

Developing leasing business has also generated the development of forms in which they are done. Specialized literature classifies leases by several criteria: a) position of the supplier in the leasing agreement: direct leasing and indirect leasing; b) conditions to perform leases: net leasing and gross leasing; c) conditions to perform lease: financial leasing and operational leasing, d) features of doing leasing business: lease back, shareholder leasing, time sharing, experimental leasing, hire and renting operations.

The specific legislation of leasing operations in Romania: **Government Ordinance no. 51/1997 of 28 August 1997 regarding leasing operations and leasing companies with**

**subsequent amendments and additions**, and the **Tax Code** use as a differentiation criterion the conditions to perform the operations: **financial leasing and operational leasing**.

As compared to everything shown in specialized literature, the Romanian Fiscal Code (Article 7, Paragraph 7) defines a **financial leasing agreement** as any lease that meets one of the following conditions:

a) the risks and benefits of asset ownership being subject to the lease are transferred to the user at the time the leasing agreement takes effect;

b) the leasing agreement expressly provides for the transfer of ownership of the asset that is leased to the user at the end of the agreement;

c) the user has the option to purchase the asset at the end of the agreement, and the residual value shown in percentage is less than or equal to the difference between the normal duration of maximum functioning and the duration of the leasing agreement, relative to the normal maximum functioning duration, expressed as a percentage ;

d) the leasing period exceeds 80% of the normal maximum functioning duration of the asset that is subject to the lease; for the purposes of this definition, a leasing period includes any period for which the leasing agreement can be extended;

e) the total amount of leasing installments, not including accessory expenses, is higher than or equal to the value of the asset;

**Additionally, an operational leasing agreement is defined in the Tax Code Article 7 Paragraph 8** as any leasing agreement between the lessor and the lessee, transferring to the lessee the risks and benefits of ownership, less the risk of asset recovery at the residual value, and which does not meet any of the conditions stated in point 7 letter b)-e); the risk of asset recovery at the residual value exists when the purchase option is not exercised in the beginning of the leasing agreement or when the leasing agreement expressly provides for the return of the property upon agreement completion;

- International Standard (**IAS 17 Leasing**) describes the appropriate accounting policies and information to be supplied regarding leasing agreements. Essentially, the Standard applies to those lease agreements where the lessor gives the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments.

The Standard is not used as an evaluation basis for:

- properties owned by lessees, accounted for as real-estate investment and investment property leased by lessors under operational leasing agreements (subject to IAS 40)

- or for the biological assets owned by lessees under financial leasing agreements, or the biological assets leased by lessors under operational leasing agreements (IAS 41).

European directives, as well as international rules, have generated a change in the accounting of assets acquired via leasing.

Although in legal terms, the assets produced by leasing are not the property of the lessee, European directives and international standards require accounting entering of leasing operations in view of the **Substance over Form Principle**. The Principle requires that stating the amounts in the balance sheet and profit and loss account should be done taking into account the economic substance of reported transactions or operations, and not only their legal form.

As shown in IAS 17 “Leases”, in the event of **finance leases**, the lessee enjoys the economic benefits arising from use of the asset, during most of its life duration as if he/she were the owner. As a result, the leased asset should be included in the lessee’s balance sheet. Simultaneously, he/she must report a medium or long-term debt to the lessor to make future payments on behalf of the lease. So, the substance of the transaction prevails in this situation to the legal form.

Since the user in a financial leasing agreement is treated from a tax perspective as an owner, entering the assets covered by lease agreements in financial statements generates the calculation and entry of related depreciation.

It should be noted that the transfer of ownership in a financial leasing agreement, if such an issue has been expressly provided in the agreement, shall be made at the residual value determined by the parties, and the total value of a financial leasing operation is the sum of lease installments plus residual value. If in an agreement the transfer of ownership is not expressly specified, the total agreement value is defined by the amount of the leasing installments.

A financial leasing installment is the result of two elements: the share of the entry value and leasing interest. The interest generated by the lease agreement is deductible, according to current regulations.

Payments related to an operational leasing agreement (excluding the cost of services such as insurance) are recognized as an expense in the linear profit and loss account, or on a systematic basis representative of the pace of user's benefits, even if the payments are not made on the same basis.

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# SOME COORDINATES CONCERNING THE FISCAL TRANSPARENCY FROM ROMANIA

Carmen, Comaniciu<sup>1</sup>

## **Abstract:**

*Due to the economic and social phenomena and processes, the local, national and international size of taxation, the effects of international financial crisis, under the current circumstances, fiscal transparency has an important role in the public domain for any nation. When reference is made to fiscal reporting, to the fiscal and budgetary forecast, to public finance sustainability, to fiscal risk and fiscal management, increasing fiscal transparency must be the key for good governance, in order to develop fiscal performance. In this context, through this article we present some aspects relating to fiscal transparency from Romania, taking into account how to assess, the achieved level, the best practices and the size and sources of vulnerability. Without claiming an exhaustive approach, we believe that the issues of this article provides possible solutions for increasing fiscal transparency from Romania, so that, be establish a genuine fiscal credibility, aimed at ensuring economic and financial stability.*

**Keywords:** *fiscal transparency, fiscal performance, standards and best practices, budget transparency*

**JEL Classification:** *H21, H30, H60*

## **1. Introduction**

Starting from the place and role of taxation at economic financial, social and political level, in many studies and research are approached the possibilities to improve the fiscal field, taking into account the fiscal system, the fiscal mechanism, the fiscal institutions, the fiscal and budgetary framework. In all these analyzes is retrieved the fiscal transparency issues, because in the most low sense, the transparency involves more information provided, predictability, credibility, trust and coordination (Alt, Lassen and Rose, 2006), and in the fiscal area the impact is direct and positive on fiscal performance (Alt and Lassen, 2006).

What is fiscal transparency? How is fiscal transparency evaluated? What is the level of fiscal transparency? What are the best practices on fiscal transparency? What are the dimensions and sources of vulnerability for fiscal transparency? ... These are a series of questions to which each state must find an answer, because fiscal transparency is one that can provide solutions to the fiscal and budgetary imbalance.

In this context, through this article we will present some aspects of fiscal transparency from Romania, in order to emphasize its importance in providing a real partnership between the state and taxpayers.

## **2. Key elements of fiscal transparency**

The definitions for fiscal transparency found in the literature highlight its crucial role in the public domain. So, Kopits and Craig have defined the fiscal transparency as “public openness about the structure and functions of government, fiscal policy intentions, public sector accounts and fiscal projections” (Kopits and Craig, 1998) and the International Monetary Fund presents the fiscal transparency as “the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances” (IMF, 2015).

Recent concerns for increasing fiscal transparency arise because fiscal transparency is often associated with: better fiscal and budgetary outcomes and reduced costs for public borrowing (Wehner and Renzio, 2013); public goods more attractive to taxpayers (Alt, Lassen and Skilling, 2002); promoting accountability in fiscal and budgetary area (Truman, 2008); effectiveness in monitoring (Corbacho and Schwartz, 2007); positive results for the design and sustainability of fiscal and budgetary policies (Arbatli and Escolano, 2015); the possibility of corruption reducing (Hameed, 2005).

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Taking into account both the quantitative and the qualitative aspects, the international institutions have analyzed and continue to examine the fiscal transparency. Through reports submitted is highlighted: fiscal transparency benefits; the link between fiscal transparency and fiscal performance; the interaction between fiscal transparency and financial markets; the principles that must be respected and the steps need to be followed by governments to ensure fiscal transparency; indicators to measure fiscal transparency; the dimensions and sources of vulnerability in fiscal and budgetary field; best practices to increase fiscal transparency; the role of civil society in promoting fiscal transparency.

Organization for Economic Cooperation and Development has designed in 2002 a reference tool for increasing budget transparency. So, through the three parties, OECD Best Practices for Budget Transparency (OECD, 2002) references are made to: budget reporting (pre-budget report, monthly reports, mid-year report, year-end report, pre election report, long-term report); specific disclosures (economic assumptions, tax expenditures, financial liabilities and financial assets, non-financial assets, employee pension obligations, contingent liabilities); integrity, control and accountability (accounting policies, systems and responsibility, audit, public and parliamentary scrutiny).

International Monetary Fund encourages and promotes fiscal transparency based on standards and best practices. So, Code of Good Practices on Fiscal Transparency (published by IMF for the first time in 1998 and updated in 2007) along with Manual of Fiscal Transparency and Guide on Resource Revenue Transparency, are for worldwide, central parts of fiscal transparency standards. Through the IMF's Code of Good Practices on Fiscal Transparency are identified principles and practices that can help governments in the clear presentation of the structure public finances (IMF, 2007a). Based on the experience of Member States, through the IMF's Manual of Fiscal Transparency are provided guidelines for implementation of the Code (IMF, 2007b), and the IMF's Guide on Resource Revenue Transparency provides the application of the principles of the Code to a unique set of problems (IMF, 2007c). The four pillars of the Code of Good Practices on Fiscal Transparency contain a number of principles with clear benchmarks for compliance and applicability. Pillars I-III have been issued in time and include principles on the fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, and Pillar IV is in the process of public consultation, with reference to resource revenue management (IMF, 2015).

Based on a questionnaire, the non-governmental organization International Budget Partnership measures fiscal transparency, taking into account the answers given on the availability of budget documents, the executive's budget proposal, the budget process, strength of the legislature, citizens budget and public engagement in the budget process, thus being achieved The Open Budget Survey (IPB, 2011). For 2015, The Open Budget Survey centralized information from 102 countries, through 140 questions, covering: executive's budget proposal and supporting documents; pre-budget statement; enacted budget; citizens budget; in-year reports; mid-year review; year-end report; audit report; strength of the legislature; strength of the supreme audit institution; public engagement in the budget process (IPB, 2015). According to the methodology (IPB, 2015), the participants in questionnaire can choose for every question from five or three answers. For questions with five answers for each standard is indicated: the answer "a" if the full standard is met or exceeded, the answer "b" if the basic elements of the standard have been met, the answer "c" if there is minimal efforts to attain the relevant standard, the answer "d" if the standard is not met at all, or the answer "e" if the standard is not applicable. For the construction of Open Budget Index the answer "a" has a score of 100, the answer "b" has a score of 67, the answer "c" has a score of 33, the answer "d" has a score of 0, and the answer "e" is not included in the aggregate score. In case of questions with three answers for each standard is indicated the answer "a" for

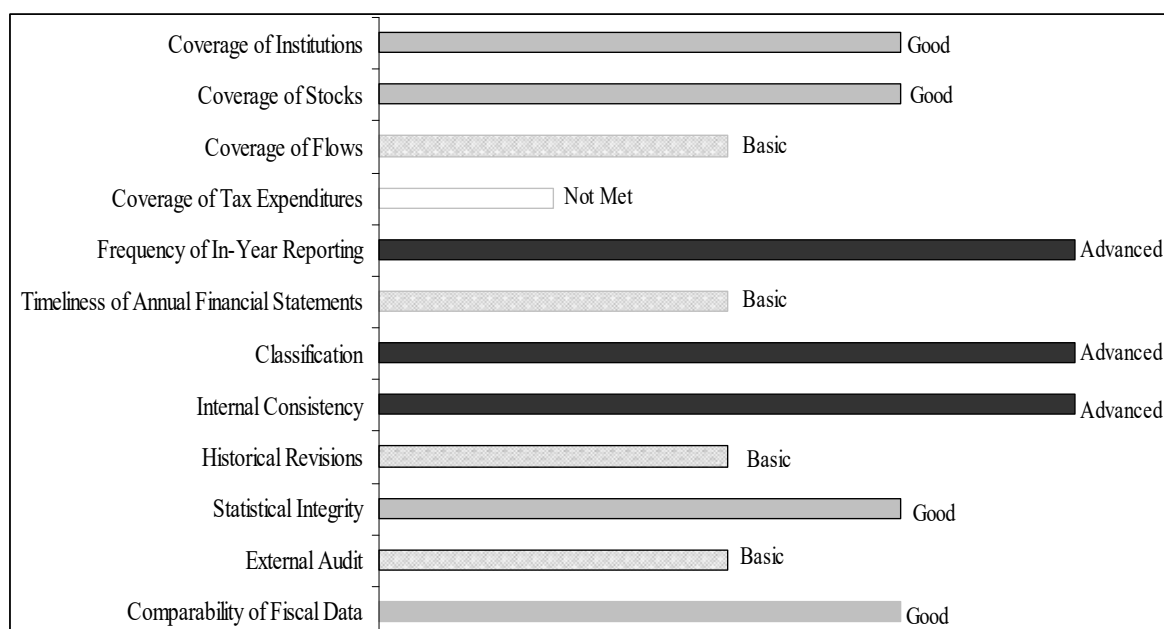
standard met with a score of 100, the answer “b” for standard not met with a score of 0, or the answer “c” for not applicable standard, this response is not included in the aggregated score.

The analyzes carried out by international organizations highlight best and good practices, thereby promoting fiscal transparency, which is associated with better fiscal results, with higher credit ratings, with the high level of institutional development (Arbatli and Escolano, 2015), so, fiscal transparency being considered key to good governance.

### 3. Evaluation of the Romania fiscal transparency based on the IMF standards

The first pillar of the IMF’s Code of Good Practices on Fiscal Transparency includes assessment of the manner in which is rendered Government financial position and performance through fiscal reports, with consideration of the application of international standards for fiscal activity of the public sector, the mode for publication of the fiscal reports, the relevance and consistency of information in the field of taxation, the reliability of fiscal statistics and financial statements (IMF, 2007a).

So, according to the IMF report published in March 2015, of the 12 areas analyzed for fiscal reporting, Romania registers a good or advanced practice in 7 areas, as shown in Fig. no. 1 (IMF, 2015b).

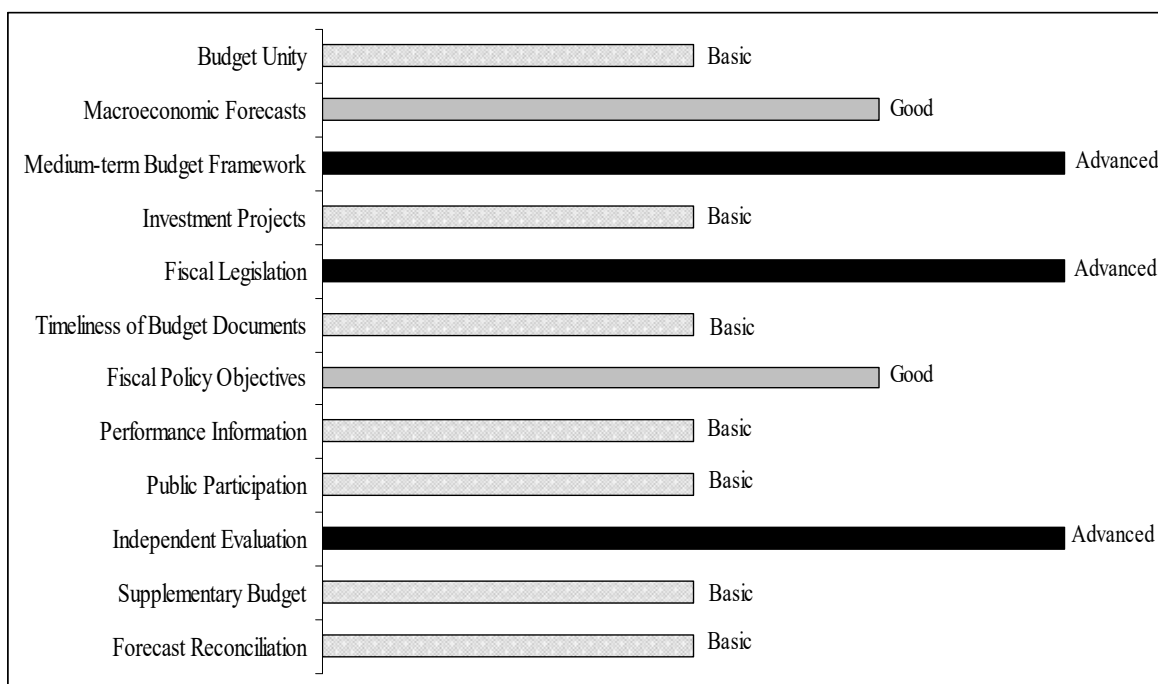


**Fig. no. 1 Romanian practices for fiscal reporting**

Source: IMF Country Report No. 15/67

Through Pillar II of the IMF’s Code of Good Practices on Fiscal Transparency is evaluated the fiscal and budgetary forecast in terms of the comprehensiveness of the public budget and related documentation, the orderliness of the budgetary process, the objectives and intentions of fiscal and budgetary policy, the credibility of projections for public finances (IMF, 2007).

In the report the IMF, Romania has achieved a good or advanced practice in 5 of the 12 areas of fiscal forecasting and budgeting, as shown in Fig. no. 2 (IMF, 2015b).

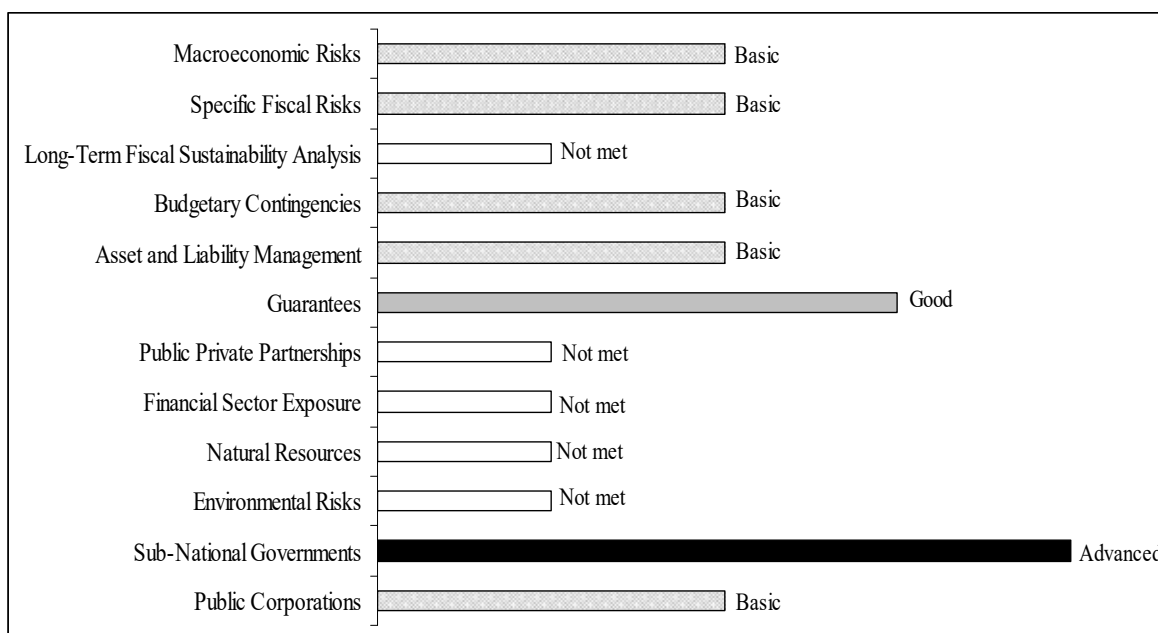


**Fig. no. 2 Romanian practices for fiscal forecasting and budgeting**

Source: IMF Country Report No. 15/67

Periodical publication of summary reports concerning public finance risks, regularly monitoring and administration the fiscal risks, as well as the presentation, analysis and coordination of fiscal relations and performance in the public sector are areas subject to evaluation through Pillar III of the IMF's Code of Good Practices on Fiscal Transparency referring to fiscal risk analysis and management (IMF, 2007a).

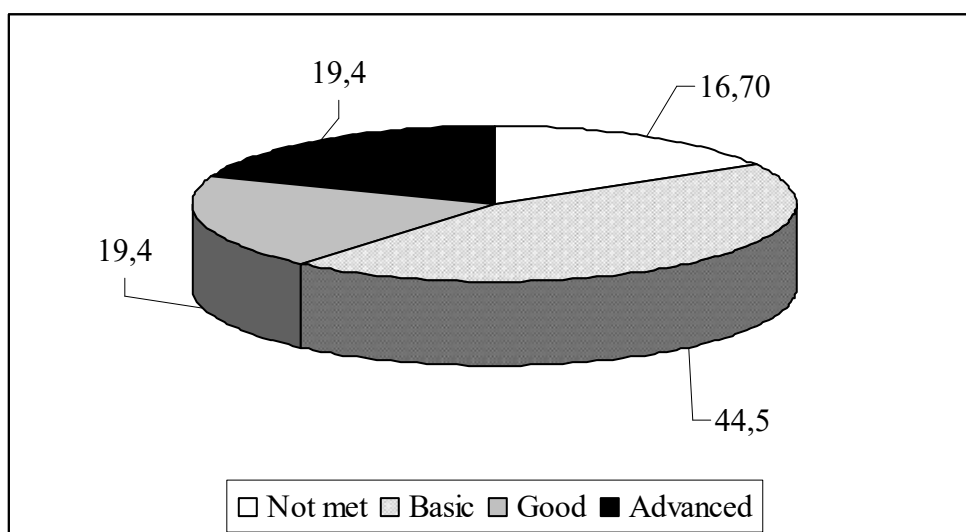
According to the IMF report, out of the 12 areas of fiscal risk analysis and management in Romania are found only 7 areas, being registered good or advanced practice only in two areas, as shown in Fig. no. 3 (IMF, 2015b).



**Fig. no. 2 Romanian practices for fiscal risk analysis and management**

Source: IMF Country Report No. 15/67

By centralizing the information provided by the IMF report for Romania concerning fiscal transparency (as shown in Fig. no. 4) it is observed that are implemented best and advanced practices only in proportion of 38.8%, more areas are at a minimum level of implementation or even are not implemented.



**Fig. no. 4 Structure of standards and best practices concerning fiscal transparency in Romania, according to the IMF assessment**

Source: author processing based on IMF Country Report No. 15/67

Although, since 2010 Romania has made significant progress in fiscal transparency based on public finance management reform, there are enough deficiencies regarding: the estimation of macroeconomic indicators; the evaluation and supervision of public investments; the promptness in the budgetary process; the transmission of relevant documents to the Fiscal Council in order to achieve pertinent analyzes; the budgetary expenditure review; the volatility level of the economy; the inclusion in fiscal reports of large state companies; analysis the impact of fiscal and budgetary changes on macroeconomic environment; consolidating of government operations, assets and liabilities; the identification and management of all fiscal risks.

#### **4. Budgetary transparency in Romania on the basis of OBI score**

Responses to the questionnaire drawn up by non-governmental organization International Budget Partnership on the assessment of budgetary transparency, as well as the position occupied among the states participating in study emphasizes strengths and weaknesses from fiscal and budgetary areas for each country, because open budget is the key to open government.

According to OBI score (IPB, 2015), the states participating in the study are divided into five categories depending on how it is provided budget information, respectively: insufficient - scant or none (with a score between 0 and 20); insufficient – minimal (with a score between 21 and 40); insufficient – limited (with a score between 41 and 60); sufficient – substantial (with a score between 61 and 80); sufficient – extensive (with a score between 81 and 100).

If in the period 2006-2012 Romania has a substantial decrease for OBI score, according to the 2015 report (IPB, 2015b) with an OBI score of 75, Romania occupies the 9th position among the 102 countries surveyed.

Evolution of OBI score for Romania and the attribute conferred to budgetary transparency is shown in Tab. no. 1.

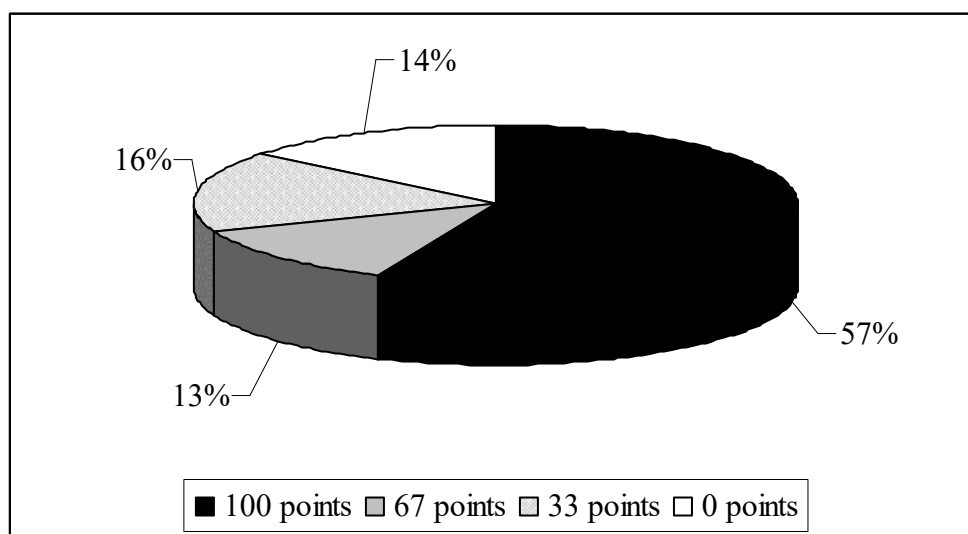


**Tab. no. 1 OBI score for Romania**

Open Budget Survey	OBI Score for Romania	OBI category for Romania	Number of countries participating in the survey	Romania Rank	Maximum and minimum OBI score
2006	66	Sufficient - Substantial	59	13	France – 89; Vietnam - 3
2008	62	Sufficient - Substantial	85	17	United Kingdom – 88; Equatorial Guinea, Sudan - 0
2010	59	Insufficient - Limited	94	23	South Africa – 92; Chad, Equatorial Guinea, Fiji, Iraq, <u>São Tomé e Príncipe</u> - 0
2012	47	Insufficient - Limited	100	49	New Zealand – 93; Equatorial Guinea, Myanmar, Qatar - 0
2015	75	Sufficient - Substantial	102	9	New Zealand – 88; Qatar, Saudi Arabia - 0

(Source: IPB, *Open Budget Survey - Romania*)

The structure of the scores obtained for the answers provided by Romania at the 140 questions from OBI 2015 report (as it results from Fig. no. 5) show the effort that must be made to increase budgetary transparency.



**Fig. no. 5 Structure of standards and best practices concerning budgetary transparency in Romania, according to the International Budget Partnership assessment**  
Source: author processing based on Open Budget Survey 2015 – Romania

Although, the score of 75 obtained by Romania is substantially higher than the global average score of 45, there are many opportunities to increase budgetary transparency. Thus, can be taken actions in order to: presenting estimates of expenditure arrears; arguments for the tax expenditures concerning the beneficiaries and loss of income; public presentation of the timetable concerning fiscal and budgetary proposals; publication the Citizen’s Budget; establishment of mechanisms to identify the requirements of the public on the Citizen’s Budget; estimating and presenting actual expenditures by program; updating the revenue estimates; presentation the differences between the original estimates and the final results for non-financial data; presentation of measures taken by the Executive as a result of the audit findings; supplementary budget approval before funds be exhausted; public involvement

during the budgetary process; the existence of formal mechanisms for public participation in audit investigations.

## 5. Conclusions

The role and impact of public finances on the economy is very important and complex. If through fiscal policy are established the amount and provenance of public resources, the methods of taxation and the means for achieving them, budgetary policy represent the expression of budgetary choices made by political factors relating solely to economic and social finalities, the instruments used being public expenditure (Comaniciu, Bunescu and Mihaiu, 2010).

According to Romanian legal provisions, fiscal and budgetary policy action must follow a set of principles designed to confer: transparency about the setting of objectives and actions that lead to achieving them; predictability in the medium term to ensure macroeconomic stability; prudence in the management of public resources, budgetary obligations and fiscal risks in order to ensure sustainability of public finances; elimination of the negative financial impact on future generations and economic development in the medium and long term; efficiency in the use of public financial resources; efficiency in the use of public financial resources intended for staff costs (Law no. 69, 2010).

In this context, fiscal and budgetary transparency is the key to good governance, the key for development fiscal performance. In order to improve fiscal transparency and the fulfillment of international standards in this area must be respected a series of principles (GIFT, 2015), such as: public availability of fiscal and budgetary information; clear and timely presentation of fiscal and budgetary policy objectives, of actions taken and of the deviations from the initial plans; high quality presentation of financial and non-financial information through periodical reports related to past, present and future situations; identification and disclosure of social, economic and environmental effects of the fiscal and budgetary policy measures; full legality and transparency of public sector transactions; establishment and enforcement of clear rules and procedures concerning the reporting from the fiscal and budgetary field; establish clear responsibilities from taxation and budgetary field, incurring liabilities and appropriate management of public financial resources; public revenue collection and public expenditure commitment only with legislative approval, through public budget or other legislative acts; ensuring completely independence, accountability and transparency for the Supreme Audit Institution to audit and report publicly collection and use of public financial resources; direct participation of citizens in public debate on budgetary and fiscal policy.

Without claiming an exhaustive approach, we consider that theoretical and pragmatic aspects presented in this article can provide directions of approach by political factors, for improving the fiscal transparency in Romania, so that, be establish a real partnership between the state and citizens.

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# THE ACCOUNTING RESULT BETWEEN THE RETURN INFORMATION AND THE LIQUIDITY INFORMATION OF THE ENTITY

Florin, Dima<sup>1</sup>  
Corina, Ducu<sup>2</sup>

## **Abstract:**

*The financial position of an entity is influenced by the economic resources it controls, its financial structure, its liquidity and solvency, as well as its ability to adapt to the changes in its operating environment.*

*The information about the economic resources controlled by the entity and its capacity in the past to change these resources is useful to predict the entity's ability to generate cash or cash equivalents in the future. The information about the financial structure is useful for anticipating the future lending needs and of the way in which the profits and the future cash flows will be distributed among those who have an interest in the entity; these are also useful for anticipating the entity's chances to receive funding in the future. Therefore, the information about liquidity and solvency is useful to predict the entity's ability to honour its outstanding financial commitments and determine the entity's results at the end of the taxable year.*

**Keywords:** *entity, liquidity, solvency, accounting result.*

**JEL Classification:** *M4*

The financial position of an entity is influenced by:

- the economic resources it controls;
- the financial structure;
- liquidity;
- solvency;
- the ability to adapt to the changes in its operating environment.

The information about the economic resources controlled by the entity and its capacity from the past to change these resources are useful to predict the entity's ability to generate cash or cash equivalents in the future.

The information about the financial structure is useful for anticipating the future lending needs and the way in which the profits and the future cash flows will be distributed among those who have an interest in the entity; these are also useful for anticipating the entity's chances to receive funding in the future.

The information about liquidity and solvency is useful to predict the entity's ability to honour its outstanding financial commitments.

**Liquidity** refers to the availability of cash in the near future, after taking into account the financial obligations associated with this period.

Liquidity also refers to receivables, stocks, tradable financial instruments, other assets, which are expected to be converted into cash in less than a year (the current assets are not usually very profitable, but they tend to give liquidity and safety to the operations of an entity).

Moreover, liquidity means all the money available to an entity to make payments on time.

**Solvency** refers to the availability of cash over a longer period in which the outstanding financial commitments are to be honoured.

Solvency is the ability of a trader to pay the debt that he/she has to a creditor, at the period for payment settled in advance.

In other words, solvency is the ability of an entity to meet the medium and long-term maturities and it depends on the size of these liabilities and the cost of borrowing.

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An entity that spends more on investment and consumption than it collects from the sale of the production begins to exhaust its different ways of credit. The credit cost is bearable to cover the interim cash need, but it can become prohibitive when it comes to sustainable financing.

The inability to regulate the trades made, after the entity has used all the resources of credit and of recovery of the liquidity, it can lead to stopping the payments and placing them in a situation of recovery or judicial liquidation.

**The state of incapacity could be based on three origins:**

- **insufficient economic viability;**
- **errors of management;**
- **fragility of the financial structure.**

A poor **economic return** limits the entity's ability to renew its equipment, to promote new products, to recruit qualified employees etc. Progressively, the business deteriorates; the funding needs cannot be met except solely by excessive debt, whose cost adds to the already excessive expenditure and the fall spiral continues. In this case, the weak performance of the entity is the cause of the liquidity crisis.

The decrease of the economic profitability may also be the consequence of management errors. In this case, for example, the entity that supports major fixed expenses, engaged in favourable periods of times and that have not foreseen the possibility of recovery in case of reduction in the activity, when it occurs, it will preserve a higher cost structure of the business opportunities. The professional competence of the firm was not emphasised and it is the victim of a management error by over-sizing.

Furthermore, a very high dependence on a large customer places the providing entity at his/her good will regarding the payment. This is commonly found in the case of small entities. Diversification of the clients reduces the risk of illiquidity.

But the lack of means of payment is not only the consequence of a crisis of the operating conditions. An entity may be destabilised in terms of financial structure, without being destabilised economically at the same time, but the rapid economic growth can give fragility in financial terms, unless otherwise provided for the increase of the need for the working capital or there has been a change in the size of the entity under the action of social capital growth.

Such entities, economically sound but financially fragile can seek investors to recover their treasuries, but this must be done before the financial difficulties have repercussions on the economic performance.

Therefore, an entity may have economic performance, but it may have a financial end as a result of the liquidity deficit.

Hence we can conclude that between the beneficiary capacity and liquidity there is no mechanical relationship. It is not enough only to pursue the economic profitability indicators, it is necessary to ensure the liquidity of the company in its quality of particular dimension of the financial management.

The notions of liquidity and cash flow/treasury need to be well-defined because they are subject to several accounting measurements.

Regarded is an asset, treasury is an investment. A slow collection or placed shortly after, it offers a return a priori lower than the productive investment of the entity.

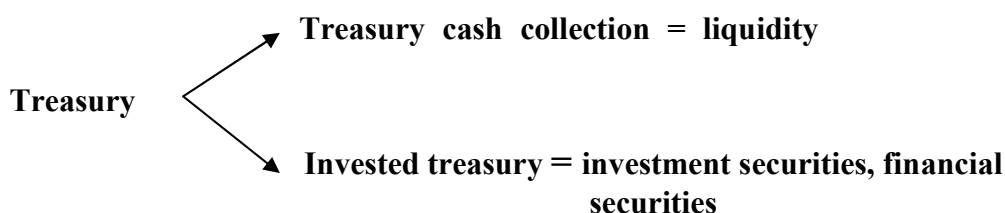
This brings up two restrictions:

- on the one hand, the entity must also provide the liquidity required to its transactions;
- secondly, it must make profitable its assets.

A first component of the treasury is the revenue that has not been placed, that is to say the existence of liquidity.

A second component re-covers the financial asset more or less fluid and it is represented by the treasury invested.

**Figure 1. Components of the treasury**



Source: personal contribution.

There is often confusion between treasury and liquidity. Treasury is calculated from the balance sheet items (BSI) indicating an instantaneous value on the closing costs date.

The liquidity of the entity is the result of the input flow and the output one of the money at different times.

On the other hand, the Treasury calculated starting from the balance sheet items does not reveal its origins. You cannot put the same verdict if the treasury is linked to high indebtedness, to foreign capital intake or to self-financing. The liquidity risk of an entity is assessed differently just as the treasury is ensured by recurring operating flows or by external resources. From this point of view, the verdict considers, particularly, the cash flow surplus resulting from the operating activities.

So the notion of Treasury is variable, depending on the circumstances and the terms in which it is addressed. The treasury accounting measures meet the specific definitions, regarded as collections, stable amounts of liquidity and quasi-liquidities preserved to ensure transactions.

If we consider the image of financing, the net treasury cash is given by the sum of the deposits available, except the current bank loans (the balance of the current account credit), which means that the investment securities are included in the non-operating receivables.

An entity's financial result includes the income and the expenses, regardless of their financial regulation. Along with the revenues, the reversals of the provisions are included and certain transfers of expenses, while along with the expenses the amortisation and the provisioning are included, as well as the value of the assets transferred. If this accounting result is an economic result, it is also interesting to calculate a treasury result or a cashable result. This is the meaning of the self-financing capacity (SFC).

The accounting result (the gross result of the taxable year or the result of the taxable year before taxation) is calculated taking into account the requirements of accrual accounting and respecting the accrual principle.

$$\text{The accounting result} = \text{Total revenues} - \text{Total expenses}$$

The gross result of the taxable year corrected with the tax deductions and the non-deductible expenses from a tax perspective allows obtaining the tax result (taxable profit or tax loss).

$$\text{The tax result} = \text{The accounting result} - \text{Non-deductible income} + \text{Non--deductible expenses}$$

Thus, based on all the information relating to: the economic resources it controls; its financial structure; liquidity; solvency; its ability to adapt to the changes in which it operates, one can determine the accounting result, which can also be influenced by the information mentioned.

### **Conclusions:**

The users of the accounting information are not only satisfied with the information in the balance sheet and in the profit and loss account. On the one hand, because there is also interest in the evolution of the financial market regarding the situation from the beginning of the year and, secondly, because the use of accrual accounting generates the “hypothetical” size of the entity’s performance.

Romanian accounting is connected to taxation. The balance sheet is meant for the personal needs of information and for third parties (except the state), without taking into account the fiscal constraints, but it is very necessary to determine a balance sheet meant for the IRS, to obtain the taxable (fiscal) result there is some extra-accounting processing required.

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# THE BREAK-EVEN POINT, KEY INDICATOR FOR THE ENTERPRISE MANAGEMENT

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

## Abstract:

*The development of this paper started from the need to establish the break-even point in the cases when it is necessary to make a business planning of the entity's activity. The establishment of the break-even point is closely related to the level of the sales and of the constant consumption. The importance of the break-even point for the management of the entity lies in the fact that it separates the level of activity that generates profit from the level of activity that records loss. Based on this, this approach presents the methods for determining the break-even point, its usefulness, as well as the advantages and the limitations of using the break-even by the management of the entity.*

**Keywords:** *break-even point, fixed costs, variable costs, gross contribution per unit, threshold turnover*

**JEL Classification:** M41

## 1. Introduction

There are several problems related to the break-even point, such as:

- What is the break-even point?
- What is the use of the break-even point?
- How is the break-even point established?
- Who or what influences the break-even point?

To all these questions we try to answer as well as possible in the following.

## 2. The literature in the field

The subject approached is a modern one, of great interest in substantiating the decisions on the extension of the company's level of activity and it is commonly met in the literature.

One way of assessing the company's performance or that of a production division, based on the use of the physical units, but in close correlation with the value units, is the analysis based on the "physical units – value units relationship." In this case, the management decisions of sizing the production level can be rigorously established using the break-even point method (Narcis Eduard Mitu, Ioana Ecaterina Mitu, 2006).

An argument relating to the economic and financial balance, valid any time, is the one expressed by Professor Dumitru Mărgulescu according to which "the general state of balance includes both equalities of the elements and inequalities with their economic significance ("Economic and financial analysis of commercial companies" – supplement of the Economic Tribune, 1994). The break-even point may be a good tool to help establish the economic and financial balance of the entity by identifying the level at which the activity generates profit.

One method based on which both the operating risk and the financial risk can be estimated is the breakeven point (Silvia Petrescu, 2004)

## 3. Research methodology

The approach starts from the significance of the break-even point and it takes into consideration the way of establishing its level, as well as the mechanism for its calculation. Thus, the following aspects are analysed:

- the calculation of the break-even point in case of a homogeneous production;
- the calculation of the break-even point in case of a heterogeneous production;
- the factors affecting the level of the break-even point;

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- the advantages of using the break-even point in substantiating the decision making of the company's management;
- the limitations of using the break-even point in substantiating the decision making of the company's management.

#### 4. The significance and the usefulness of the break-even point

The break-even point represents the turnover or the production volume for which the enterprise covers all its expenses without recording profit or loss. The break-even is also called the balance point or the critical point or critical turnover.

The break-even point corresponds to the level of activity starting from which the company achieves a certain profit, namely it covers all the fixed and variable expenses.

The break-even point is variable in time, being influenced by the change of the variable unit costs, of the expenses conventionally constant and by the selling price of the products.

The break-even point is established when it is necessary to plan for an activity. Its analysis is very useful especially in the situations in which new products are introduced into production, the company expands its activity level or it invests in the modernization of the fixed production assets.

#### 5. The calculation of the break-even point

Establishing the break-even point can be done, according to the case, in physical or in monetary units. Furthermore, the break-even point can be established for a single product or for the entire activity of the enterprise.

The calculation of the break-even point differs according to the type of production pursued: homogeneous or heterogeneous production.

In the case of the homogeneous production the break-even point is established in physical units, according to the following relation:

$$Q_r = \frac{CFT}{CBU} \quad \text{where,}$$

$Q_r$  = break-even point in physical units;

CFT = total fixed costs;

CBU = unit gross contribution.

or in monetary units according to the relationship:  $CA_r = Q_r \times P_{vu}$  where,

$CA_r$  = threshold turnover;

$Q_r$  = break-even point in physical units;

$P_{vu}$  = unit selling price.

$$CBU = P_{vu} - C_{vu} \quad \text{where,}$$

CBU = unit gross contribution;

$P_{vu}$  = unit selling price;

$C_{vu}$  = unit variable expense.

For a better understanding we analyse the situation in which S.C. Alfa S.A. achieved a homogeneous production of 20,000 pieces of product A under the following conditions:  $P_{vu} = 1,800$  u.m.,  $C_{vu} = 1,000$  u.m.,  $CFT = 1,200,000$  u.m.

$$CBU = 1,800 - 1,000 = 800 \text{ u.m.}$$

$$Q_r = \frac{CFT}{CBU} = 1,500 \text{ pieces}$$

$$CA_r = Q_r \times P_{vu} = 1,500 \times 1,800 = 2,700,000 \text{ u.m.}$$

The enterprise analysed reaches the break-even point when it produces and sells 1,500 pieces of product A, namely a turnover threshold of 2,700,000 u.m. Any amount of product sold over 1,500 pieces will generate a profit.

In the case of the heterogeneous production, the break-even point is established in physical units, according the relation:

$$Q_r = \frac{CFT}{CBUm} \quad \text{where,}$$

$Q_r$  = break-even point in physical units;

CFT = total fixed costs;

CBUm = average unit gross contribution

$$CBUm = \frac{CBT}{Q} \quad \text{where,}$$

CBUm = average unit gross contribution;

CBT = total gross contribution;

Q = total quantity of products

$$CBT = \sum q_i \times p_{vi} - \sum q_i \times c_{vi} \quad \text{where,}$$

CBT = total gross contribution;

$q_i$  = quantity produced of each product;

$p_{vi}$  = unit selling price of each product;

$c_{vi}$  = variable expense per unit of each product.

For a better understanding we analyse the situation in which S.C. Beta S.A. provides a heterogeneous production as follows:

- 100 pieces A,  $P_{vu} = 500$  lei/piece,  $C_{vu} = 400$  lei/piece;
- 300 pieces B,  $P_{vu} = 700$  lei/piece,  $C_{vu} = 500$  lei/piece;
- 600 pieces C,  $P_{vu} = 300$  lei/piece,  $C_{vu} = 250$  lei/piece;
- CFT = 60.000 lei.

$$Q_r = \frac{CFT}{CBUm}$$

$$CBUm = \frac{CBT}{Q}$$

$CBT = \sum q_i \times p_{vi} - \sum q_i \times c_{vi} = (100 \text{ pieces A} \times 500 \text{ lei/piece} + 300 \text{ pieces B} \times 700 \text{ lei/piece} + 600 \text{ pieces C} \times 300 \text{ lei/piece}) - (100 \text{ pieces A} \times 400 \text{ lei/piece} + 300 \text{ pieces B} \times 500 \text{ lei/piece} + 600 \text{ pieces C} \times 250 \text{ lei/piece}) = 440.000 \text{ lei} - 340.000 \text{ lei} = 100.000 \text{ lei}$

$Q = 100 \text{ pieces A} + 300 \text{ pieces B} + 600 \text{ pieces C} = 1.000 \text{ pieces}$

$$CBUm = \frac{100.000 \text{ lei}}{1.000 \text{ buc}} \quad ; \quad CBUm = 100 \text{ lei/pcs}$$

$$Q_r = \frac{60.000 \text{ lei}}{100 \text{ lei/buc}} \quad Q_r = 600 \text{ pcs}$$

To establish the structure of the break-even point we shall use the specific weight procedure:

$$gs = \frac{\text{allocation\_base}}{\text{sum\_of\_the\_allocation\_bases}}$$

$$gsA = \frac{100}{1000} \quad gsA = 0,10$$

$$gsB = \frac{300}{1000} \quad gsB = 0,30$$

$$gsC = \frac{600}{1000} \quad gsC = 0,60$$

$Q_r = 600 \text{ pcs}$ , out of which:  $600 \times 0,10 = 60 \text{ pcs. A}$

$600 \times 0,30 = 180 \text{ pcs. B}$

$600 \times 0,60 = 360 \text{ pcs. C}$

$$CA_r = \sum Q_{ri} \times P_{vi}, \text{ thus: } 60 \text{ pcs.}A \times 500 \text{ lei/pc} = 30,000 \text{ lei}$$

$$180 \text{ pcs.}B \times 700 \text{ lei/pc} = 126,000 \text{ lei}$$

$$360 \text{ pcs.}C \times 250 \text{ lei/pc} = 90,000 \text{ lei}$$

$$CA_r = 30,000 \text{ lei} + 126,000 \text{ lei} + 90,000 \text{ lei} = 246,000 \text{ lei}$$

The enterprise analysed reached the break-even point when it produced and sold 600 pieces of products in the established structure (A = 60 pieces; B = 180 pcs; C = 360 pcs), namely a threshold turnover of 246,000 lei from the sale the 600 pieces of products. Any quantity of product sold, of any variety (A, B or C) over 600 pieces will generate profit.

## 6. Factors influencing the level of the break-even point

The break-even point varies in time, and the main influence factors are chiefly represented by:

- changing the prices of the commodity and auxiliary materials;
- changing the structure of production;
- the variable costs of the marketing campaigns and of product promotion;
- changing the conventional constant costs (fixed costs of the enterprise);
- changing the selling prices of products;
- changing labour costs
- changing the labour force-related costs.

All of these, and not only, make the break-even point be variable in time and they establish its limits in terms regarding its usefulness, as we shall see below.

## 7. Advantages and limitations of using the break-even point by the management of the entity

The use of the break-even point by management of the enterprise presents a series of advantages, including:

- it has the nature of a relevant tool of information and substantiation of the decisions at the level of the enterprise's management;
- it allows monitoring and controlling the expenditure and revenues so that the management can track the level of activities from which the enterprise is profitable;
- it enables the management of the enterprise to differentiate the profits achieved as a result of the volume of activity from those obtained as a result of its efficiency;
- it enables to identify the products or activities that are not profitable, as well as to identify the opportunities for profit growth.

Just as any other instrument of information the break-even point also presents a number of limitations including:

- it provides information available on short term because any changes regarding the fixed or variable costs influence it too;
- dividing the expenses into fixed and variable is done according to criteria which are not very clear, sometimes purely conventional;
- the fixed costs are considered stable on long-term, which does not exactly correspond to the contemporary economic reality;
- the unit selling price of the products can be volatile, depending on the market evolution and any change in it also influences and the break-even point.

## 8. Conclusions

The break-even point is a useful tool for the management of the entity since, starting from its level, the activity carried out begins to generate profit. An entity that has high fixed costs and low variable costs will have a break-even point higher than one that has low fixed

costs and high variable costs. Thus, an entity that has high fixed costs and low variable costs must produce a greater quantity of products to reach the break-even point than an entity that is in the opposite situation. But once the break-even point is exceeded by this, the profit will grow faster than in the case in which it would have had low fixed costs and high variable costs. But the reverse situation is equally true in cases of recession when the sales decrease.

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# THE INSTABILITY OF THE MODERN ECONOMIC SYSTEM

Alina, Pop<sup>1</sup>

## **Abstract:**

*The economic developments in the first part of the twentieth century, characterized by low inflation and accelerated economic growth, have led a lot of the economists to believe that the problems regarding the economic cycles have been resolved. This new period of relative calm was called "The Great Moderation". However, the economic crisis of 2008 came to challenge these new economic theories reopening the debates on the causes that lead to the emergence of a crisis and the efficiency of the measures taken so far. The paper aims to identify and analyze the factors leading to instability in an economy, trying to find out if economic instability is a normal phenomenon faced by an economy or if it is just an anomaly.*

**Key words:** *financial stability, economic crisis, the Great Moderation, economic theories*

**JEL Classification:** *G01*

## **1. Introduction**

Economists have always been concerned with the economic imbalances and the causes that lead to them. The traditional theories consider the economy as a system that permanently tends towards equilibrium and that crisis are just rare events.

Nassim Taleb called the crises "black swans". These events called "black swans" have three main characteristics: are unpredictable, they carry a massive impact and after the event, we find an explanation that makes it appear less random and more predictable than it was. The inability to predict these events consists in the fact that the analysis are usually concentrating on things that are already known and not on the unknown thing, and that it puts too much focus on details rather than generalities.

The evolutions of the economy have given rise to other relative contrary theories to these classical ones, who claim that the economy is unstable by nature and the actions of the authorities can amplify or mitigate these imbalances.

In the early 1980s the economies have experienced a period of stability that lasted for about 20 years. This period, known as The Great Moderation, during which the economies have not had to deal with extremely strong shocks induced again the belief that the economy is stable by nature and that the crises are just isolated and unpredictable events, anomalies. The Great Moderation has led many economists to believe that the crisis period has ended, that the new institutional order, the new regulatory framework and policies managed to combat the problem of economic cycles.

The illusion of stability created by The Great Moderation made almost impossible to anticipate the crisis of 2008, which became the most powerful crisis since The Great Depression. Even after the emergence of the crisis many economists and authorities believed that the negative effects were not as serious and that stabilization of the economy will occur shortly.

Over time, the financial imbalance in the United States economy spread to other sectors and to other economies, affecting both emerging and developed economies.

This way, the economic crisis of 2008 has reopened the debate on the causes that lead to instability in the economy. The imbalances that have affected modern economic system have brought again to the attention Minsky's hypothesis according to which the modern economy is unstable by nature.

This article aims to analyze the two visions: stable economy versus unstable economy. The paper is structured in two parts, the first part presents the factors that lead to imbalances and the second part analyzes the factors that have favored the emergence of the stability period called The Great Moderation.

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## **2. Financial instability - feature of the modern economy?**

Financial instability occurs when problems (or concerns regarding potential problems) within the institutions, markets, payment systems or the financial system in general deteriorate significantly the supply of credit so as to substantially impact the expected path of the real economy (Rosengren, 2011, p. 2).

Financial instability is a known problem for most countries. Banking crises have become an event so frequent that very few are the countries that have not faced such a problem. The last financial crisis turned the attention towards finding the causes that lead to financial instability and the solutions to prevent it. The frequency of the economic imbalances manifested not only in the emerging economies but also in the developed economies question the stable character of economy.

The economic theory presents several causes for the emergence of economic imbalances. According to Keynes the economy is experiencing imbalances when there is a collapse in demand. Freidman believes that the economic imbalances are the response of the economy to fluctuations in the money supply (Roubini and Mihama, 2010, p. 91). The theories of the Austrian School indicate that crises are the result of overregulation of the banking sector. According to representatives of the Austrian School, markets are able to self-adjust and the bankruptcies that occur during the crisis are considered a natural market selection of the best companies.

Another factor held liable for instability is innovation. The innovation especially innovation in the financial sector represents the guarantee that problems in the economy will continue to emerge, and that they will be similar if not identical to those manifested so far (Minsky 2011, p. 564). In his work Financial Instability Hypothesis, Minsky argues that banks like any other companies are profit-oriented, and proposes three types of borrowers reflecting the income-debt relations. Hedge financing units are those with enough money to cover both the interest on the loan and the principal, speculative finance units are those who can pay the interest but not the principal, these are the category of borrowers who will refinance their loans and, the third category, Ponzi units, their income is not sufficient to cover either the interest nor the principal. In relation to the three categories, Minsky argues that if the hedge financing units is the predominant category of borrowers, the economy will tend towards equilibrium. Conversely, if speculative and Ponzi borrowers category is the dominant the economy will tend to become unstable. The predominance of one or the other will depend on credit conditions in the banking system. If the conditions are more restrictive, the funds provided by banks as credits will go to those business opportunities with the highest probability of success. The problem in Minsky's view is that over prolonged periods of growth the economy will transit from financial relations that favor financial stability to financial relations that encourage the emergence of speculative and Ponzi borrowers, leading to the emergence of instabilities.

Another economist who has studied the causes of financial instability is Mishkin. Based on the analysis of the structure of the financial system through asymmetric information he identified four categories of factors that lead to financial instability. The four factors identified are: increases in interest rates, increases in uncertainty, problems in the banking sector and asset market effects on balance sheets.

Raising interest rates will reduce demand for loans, eliminating particularly those risk averse borrowers, this way, the credits will be granted to those companies or households with riskier investment projects since these are willing to pay higher interest relying on the fact that if the investment turns out to be profitable they will be the main beneficiaries. Thus, credit rationing by raising interest rates may precipitate the emergence of financial instability.

The significant increase is the level of uncertainty due to recession, political instability or to a bankruptcy of a large financial institution emphasizes the problem of asymmetric information in the system. Therefore banks will be reluctant in granting loans, which will lead to a decrease in investment, economic activity and will accentuate instability.

The deterioration of balance sheets can also contribute to the emergence of financial instability.

The emergence of problems in the banking sector which would prevent banks to fulfill their role will directly affect economic activity.

Other causes that lead to instability in the economy which were identified are fraud, speculative "mania" and institutional weaknesses.

Fraud has played a significant role in the emergence of the crisis in Albania, where the pension system collapsed in 1990. Another crisis caused by fraud was the Savings and Loans crisis manifested in 1980 in the United States (Wray, 2001, p. 2).

Speculative "mania" occurs when a large number of investors develop unrealistic expectations of profits to be made from investments. These expectations lead to meaningful financial loans in order to purchase the asset which is expected to bring significant revenue in the future, for examples the acquisition of real estate as it happened before the crisis of 2008, this will lead to an absurd increase in the price of the asset. Once this procurement period ends prices fall, the borrowers will not be able to pay back the loans and all these will lead to a series of bankruptcies destabilizing the economy.

The speculative "mania" is often associated with economic euphoria. In the late 1980s, Japan's industrial firms borrow as much as they wanted from Tokyo and Osaka banks. Money seemed free, thus Japan faced an upsurge in investment and consumption, often paying more than the actual value of the asset purchased. In the euphoria a large number of investors seek rather to obtain short-term gains from increases in real estate prices or stocks than the profit generated by the productive use of these assets (Kindleberger and Aliber, 2005, p. 11).

The literature presents as the ultimate cause for financial instability the deficiencies in domestic governance structures. The managers and chief executive officers of the financial institutions are inadequately accountable for their actions, which reduces the degree of caution and risk management. Furthermore, remuneration in the financial system before the crisis of 2008, but also after the crisis was based on the performance of the employee. The employee performance was rewarded with significant bonuses. This system of bonuses took into account the annual profit, thus the employees were motivated to take excessive risks to get those bonuses which often reached absurd levels. The level of indebtedness achieved in this way created vulnerabilities within the financial system and solving these vulnerabilities became ultimately the government's responsibility. This moral hazard problem if not resolved will always be a destabilizing factor.

Governments given their short-term mandates could present a reluctance to distance themselves from the financial institutions and may deny regulatory agencies the autonomy needed for their effective operation.

These public and private institutional weaknesses allow excessive risk-taking resulting in heavily indebted financial structure, with low levels of equity and a high dependency on short-term borrowing (Eichengreen 2004, p.14).

Financial instability is determined by a number of factors, most of these factors are internal causes of the modern economic system operation. The lack of caution of the private and public sector manifested in periods of economic growth based on an "irrational exuberance" are the preconditions for the future economic imbalances.

### **3. The Great Moderation**

In the early 1980s the measures taken by the central banks in order to reduce the inflation have shown their results, the inflation reduced significantly. Meanwhile the volatilities in the economy reduced, the recessions although present were not as strong and their negative effects were relatively low. The period from the early 1980s until 2007, characterized by low inflation, rapid economic growth and weaker recessions was called by the economists "The Great Moderation".

The causes behind the emergence of the Great Moderation were identified as being mainly the inflation and price stability. However, other causes have been identified, most economists proposing three, respectively, better monetary policy, changes in the structure of the economy and good luck.

Monetary policy helped to mitigate the volatility of the economy by reducing and maintaining the inflation within a stable margin. Most studies that analyze the implications of low inflation volatility over the emergence of The Great Moderation identify a positive relationship between the two. In a study from 2005 on the G-7 member states and Australia, by Peter M. Summers, it is found that in five of the eight countries the reduction in the gross domestic product (GDP) volatility coincided with the reduction of inflation. In France, Germany and Italy the decrease in the volatility of GDP took place before the inflation started to reduce.

One of the economists that have supported the idea that monetary policy played an important role in The Great Moderation was Ben Bernanke. He argued in a speech from 2004 that modern macroeconomic policies have solved the problem of business cycles, making them more of an annoyance than a problem (Krugman, 2009, p.13). According to Bernanke the substantial decline in economic volatility is an extremely important breakthrough and monetary policy had a significant contribution to this achievement. He argues this statement by saying that although some effects of the monetary policy are obvious, there are others that are misidentified as exogenous changes in economic structure or in the distribution of economic shocks, due to the pervasive effects of the changes in the monetary policy regime.

The monetary policy applied by Fed during The Great Moderation was based on the so-called "Taylor rule", named after the economist John B. Taylor, who first proposed it in 1993. This principle requires the central bank to tighten monetary policy when output is above its potential and inflation is higher than the target set by monetary policy makers and to ease the monetary policy when output is below its potential and inflation is lower than the target (Hakkio, 2013).

In the European Union, particularly in the euro area GDP volatility reduction occurred while reducing inflation. Arguments for the reduction in the inflation levels were taken into account changes in the monetary institutions like the independence of the European Central Bank and the adoption of inflation targeting policy etc. Thus, reducing the GDP volatility in the euro area was partially attributed to the implementation of a new and a better monetary policy (Cabanillas and Ruscher, 2008, p. 8).

Some economists have argued that changes in the structure of the economy have also helped reduce volatility. Deregulation of trade activities and of the financial system is considered one of the changes that occurred in the economy. The deregulation supposedly permitted the introduction of new technologies, thus creating a more flexible economic system that could cope easier with shocks of any kind. Innovation in the financial sector and the extension of the intermediary financial institutions activities (shadow banking system) proved ultimately to be not as effective as believed. If previously the lending activity was based on the model "initiation and possession", i.e. the granted loans were reported in the banks' balance sheets, financial innovation has changed this pattern, loans were now grouped into a portfolio on which there were issued bonds. Thus, banks were no longer waiting decades to recover loans; they were earning a considerable amount of money by selling bonds. Thus was created the new model "initiation and distribution" (Roubini and Mihama, 2010, p. 116-118). The financial innovation problem was that it was based on the traditional theory that home prices never go down.

Globalization, particularly the increase in trade flows is another explanation given for the stabilization of the international nature of production growth. International trade involves diversification of demand, suggesting that domestic business cycles should have a less pronounced effect on aggregate production and the trade with emerging economies which would be able to produce cheaper goods will help keep inflation stable.



Another structural change would be the existence of a better management of inventory of goods which allows companies to produce and monitor production in a more efficient, reducing the volatility of production and therefore real GDP.

Although the two factors, monetary policy and changes in the structure of the economy seem to have influenced to a certain extent The Great Moderation, some economists are skeptical when it comes to the importance of these factors, supporting instead a surprising theory that, that The Great Moderation was in fact due to an another element, namely, good luck.

The reason for skepticism regarding the role of policies and structural changes is that there is no evidence to show that The Great Moderation is the result of a better response of the economy to shocks due to the application of more effective policies or the result of improved management, but it is rather due to the smaller shocks that affected the economies in the respective period.

The debate on the causes of the Great Moderation ended with the onset of the economic crisis at the end of 2007. According to some economists The Great Moderation ended when the 2008 crisis stroked.

In a study by C. Furman, the hypothesis of The Great Moderation was reassessed by expanding the previous analysis by 10 to 15 years in order to include the economic crisis as well. The study shows that although the economy is subject to substantial fluctuations from year to year or month to month the volatility of a number of key series is reaching a period of moderation, and some are now more stable than they were in the moderation period. This suggests that the factors that led to stability before the crisis are still present in the economy helping it to stabilize. Therefore, The Great Moderation hypothesis is verified, but it presents some limitations. Furman suggested that the policy measures taken by the policymakers did not resolved the business cycle problem, although economic shocks could become rarer they will become stronger.

In its analysis Furman proposes four lines of action to help stabilize the economy, namely: improving fiscal stabilizers, reducing inequalities, better coordination between countries and promoting financial stability.

Although the theories on The Great Moderation show the contribution of certain factors to the relative stability of the economy the imbalances manifested post moderation can not be ignored. These imbalances were in fact the consequences of the lax policies and extensive risks taken during this period of stability. Although inflation remained at a low level the prices on the real estate market experienced a boom, banks were granting more loans without a proper risk assessment, thus encouraging the accumulation of debt. The illusion of long term stability reduced the level of prudence for both consumers and authorities, and the consequences were not far behind.

#### **4. Conclusions**

The financial stability periods alternated with the financial instability periods. The new set of regulations and measures taken have managed at best to reduce the frequency of these imbalances without being able to end them.

Although considered by many economists as anomalies of the economic system, the economic crises seem to be more of a feature of the modern economy. Periods of relative calm like The Great Moderation will continue to exist in the economy but to maintain constant this stability it is a difficult if not impossible goal to achieve. A significant decrease in the volatility of modern economy can only be achieved with a high degree of caution from both the consumers and especially the regulators and surveillance authorities' part.

The complexity of the modern financial system makes innovation, as Minsky said, to be both an ally and an enemy of the economy. The system of rules and institutions must

continually supervise that the innovation does not lead to an economic euphoria that ultimately would end with a crisis with serious negative effects over the entire economy.

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# CONTINENTAL AND INTERNATIONAL NORMALIZATION OF ASSET IMPAIRMENT

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## Abstract:

*This paper introduces a comparative approach of accounting regulations regarding the impairment of assets under the standards in our country and according to International Financial Reporting Standards. Impairment is the loss of an asset's value reported during a year, due to specific factors that make the net selling price or the replacement cost lower than the book value. The size of impairment is rendered by the difference between book value and stock value. There are differences between the impairment of assets as perceived in the Romanian theory and practice, and the devaluation in terms of international rules.*

*As regards adjustments for impairment, at first sight they are similar to cases of asset devaluation. Although the final effect is the same, reducing the value of assets, the devaluation according to IFRS refers to damage with few chances of disappearing in the future, whereas adjustments for impairment in the sense of Ordinance of the Public Finance Minister 1802/2014 envisage a reversible impairment.*

**Key Words:** national regulations, IFRS, assets, impairment, value adjustments.

**JEL Classification:** M41

## 1. Introduction

Assets are included in an enterprise in a material or non-material form. Physical form is not essential to the existence of an asset, that is why patents and copyrights are assets if they are expected to generate future economic benefits to the enterprise and if they are controlled by the latter. The International Accounting Standards Committee (IASC) has an economic (dynamic) vision, not a static (patrimony) one, admitting that the recognition of assets must not be exclusively linked to the legal rights the enterprise has on them. Ownership right is not essential to decide the existence of an asset. Although an enterprise's capacity to control benefits is usually the result of legal rights, one item can achieve the definition of an asset even without any legal control (for example, the case of know-how).

In support of the statement according to which the recognition of assets does not depend on their physical form or ownership right, one can mention *International Accounting Standards (IAS), IAS 17 on "Leasing" and IAS 38 on "Intangible Assets"* which require: entering the goods financed by a financial leasing agreement as assets (IAS 17) and reporting as assets the intangible assets if they are likely to generate future economic benefits and the cost of such assets can be measured reliably (IAS 38).

## 2. Contents

When defining and recognizing assets according to international norms, one starts with two criteria: future economic benefits and reliable assessment.

In order to demonstrate that an element meets the *former recognition criterion* to consider assets, an enterprise must assess the reasonableness of the flow of future economic benefits on the basis of the evidence available at the time of the initial accounting. The existence of sufficient certainty is proven by an enterprise's ensuring to obtain advantages attachable to the respective asset and by the fact that the enterprise shall assume the risks associated with an asset. In general, such insurance will exist only when the risks and advantages have been transferred to the enterprise.

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The *latter recognition criterion*, reliable measurement of an asset cost, is more easily achieved because in the event of procurement, one knows the procurement price, or the expenses generated by the procurement are clearly identifiable. If assets are obtained from own production, the cost reliable assessment can be performed starting from transactions with third parties to acquire raw materials, employ personnel, use employed labour force, other inputs made in the production process generating costs.

The two criteria for assets' recognition are nuanced in practice depending on the asset category. The recognition of assets may take peculiarities in some national concepts:

***In the USA***, assets are “probable future economic benefits obtained or controlled by an entity as a result of past transactions or events”. American normalizers do not link the recognition of assets to the existence of ownership right or the legal protection thereof.

***In France***, assets are “any patrimony element that has a positive economic value to an enterprise”. The French vision about patrimony bears the legal mark on this concept and, consequently, excludes the goods financed by a financial leasing agreement from assets. As it can be seen, the fundamental question arising on the recognition of an element as an asset element in the balance sheet or as an expense element in the profit and loss account is related to ownership right and its attributes: disposal right, using right, usufruct right.

***In Romania***, based on the Accounting Law, the principle of property in individual accounts is applied. According to the General Framework for preparing and presenting financial statements prepared by the IASC quoted by Romanian normalizers by Ordinance of Public Finance Minister 1802/2014, the “substance over form” principle is applied.

Being characterized by their expression in money, enterprise assets are more or less subject to impairment as time goes by. The impairment of assets is reported in accounting by means of corrective values such as depreciation and adjustments for asset impairment. The synthesis structure of assets subject to impairment is shown in the following table (Table no.1).

**Table no. 1. Enterprise Assets Subject to Depreciation**

Asset categories	Gross values	Corrective values
<b>FIXED ASSETS</b>	<ul style="list-style-type: none"> <li>- intangible assets</li> <li>- tangible assets</li> <li>- assets in process</li> <li>- capital assets</li> </ul>	<ul style="list-style-type: none"> <li>- depreciations</li> <li>- adjustments</li> </ul>
<b>CURRENT ASSETS</b>	<ul style="list-style-type: none"> <li>- stocks</li> <li>- receivables</li> <li>- treasury</li> </ul>	<ul style="list-style-type: none"> <li>- adjustments</li> </ul>

The effect of asset impairment has required for a proper accounting evaluation the issue of finding the mechanisms able to reduce, if possible cancel, the distortion related to historical cost. Maintaining a historical cost as evaluation basis, certain remedies and alternatives have been found. Remedies have materialized in the form of depreciations and adjustments for asset impairment, and alternatives have found their expression in their re-evaluation.

***Specification. Impairment as depreciations and adjustments is approached in this paper in accordance with the accounting regulations stipulated in Ordinance of Public Finance Minister 1802/2014. According to the International Accounting Standards, depreciation is not seen as impairment, and asset impairment is treated as value adjustment.***

***In accordance with the accounting regulations stipulated by OPFM 1802/2014 and the approaches in specialized literature, there are two forms of impairment in our country's terminology:***

***Irreversible impairments*** are specific to tangible and intangible assets and are due both to physical damage or obsolescence, and to other causes. Impairment is considered by comparing the original cost of assets with the inventory value at tax year end. The addition

differences between the inventory value and the original cost in principle are not reported in the accounts, as such elements remain at their original costs. *The negative differences are reported in accounting as related to depreciation, and assets remain reported at their original costs* (book value or historical cost).

**Reversible impairments** mean the possibility that in future periods, the fixed (intangible, tangible, in progress and capital) assets and current assets could face a decrease in their market value (the potential recovery price may be lower). Such impairment is estimated at tax year end during inventory, so by calculation one can make a true assessment of an asset in the balance sheet. As a result, *these impairments are not definitive and therefore there are adjustments for them, and assets (as previously) remain at their original costs.*

Both depreciations and adjustments fulfil the role of reserves similar to sources, which yet generate certain expenses assimilated to assets and adversely affect the financial results of the respective tax year or reporting period. The two distinct types of expenses are: expenses for asset depreciation that are specific only to the fixed assets falling under physical damage and/or obsolescence, and expenses for asset adjustment which can be found in all categories of assets.

**In accordance with the International Accounting Standards**, value impairment is treated differently. It is “a loss of value occurring during the useful life of an asset, due to specific factors that make the net selling price or replacement cost lower than the net book value” (IFRS – International Financial Reporting Standards, 2015 p.A1187)

The size of impairment is rendered by the difference between the net book value and the inventory value. The latter takes different forms depending on the category of assets: recoverable value for tangible and intangible assets; net achievable value for inventories; probable value to be cashed for receivables, stock value for short-term financial investment.

Reflecting the loss of value in accounting, according to the IAS, is as per the expenses for asset impairment and crediting the account for an impaired asset, in order to highlight the direct influence of value decrease. Assets are to be reported at their new value both in the balance sheet, and in the primary records.

The above may lead to the conclusion that there are certain differences between asset impairment as it is perceived in the Romanian theory and practice, and value impairment in terms of the International Accounting Standards.

**Depreciation** as a form of irreversible impairment means the systematic allocation of the depreciable amount of an asset over its entire useful life. In other words, it is a gradual shift to costs of the asset original cost. Therefore, depreciation clarifies the implementation of the accrual accounting convention and of the principle of linking expenses to the period revenues.

In the spirit of international standard IAS 16 “Tangible assets”, an asset original cost is allocated to the expenses in the period, proportional to obtaining estimated future economic benefits. Thus, depreciation is not impairment, but allocating the original cost in order to connect the economic benefits generated by the asset with the efforts to own the latter rather than an asset assessment.

**Adjustments for asset impairment** as a form of reversible impairment envisages the non-depreciable asset whose inventory value at tax year end is lower than the original book value. Decreasing the value is reversible, therefore their value should be adjusted accordingly upon the clearance of accounts.

**Value impairment** relates to the value decrease of an asset, a deterioration that is unlikely to disappear in the future because of the obsolescence of adverse market conditions. Acknowledging by directly crediting an impaired asset account reveals that practically value impairment is related to assessment methods.

The value impairments of assets are not “covered” by assets’ depreciation. Value impairment is a loss of value occurring during the useful life of an asset due to specific factors that make the selling price or replacement cost lower than the net book value. Therefore, in

order to reach the quantification of value impairment, one must first know the size of cumulated depreciation and then adjust the original cost.

Generally, an asset is purchased for use during a long period of time in an enterprise and for generating future economic benefits; value impairment mainly occurs when the originally estimated economic benefits no longer meet expectations. In fact, it is not (only) “covering” the costs with the respective asset, but it is that economic benefits have another evolution than originally predicted.

Apparently, the value impairment of assets versus the depreciation and adjustments for asset impairment seem to have the same meaning. Although both refer to the decrease in an asset book value, how they are decided versus economic, tax and accounting effects are different things.

Concerning adjustments for impairment, at first sight they are similar to the cases of asset impairment, as described in *IAS 36 “Impairment of assets”*. Although the final effect is the same: decreasing the value of assets, value impairment in the sense of the IAS refers to a deterioration with little chance of disappearing in the future, whereas adjustments for impairment target reversible impairment.

In conclusion, it should be noted that the concepts of depreciation, adjustment for impairment, value impairment are used to directly or indirectly adjust the values of assets. They must be treated fairly, as they have specific causes and implications both in accounting research and in the calculation of various financial indicators of assets.

Among the IAS’s normalizing asset impairment, one can mention: *IAS 36 “Impairment of assets”*, *IAS 16 “Property, plant and equipment”*, *IAS 38 “Intangible assets”*, *IAS 2 “Inventories”*, *IAS 39 “Financial instruments: recognition and measurement”*.

*IAS 36 “Impairment of assets”* refers to the impairment of tangible and intangible assets. The standard states that an enterprise must estimate in the end of each tax year whether an asset is impaired on the basis of internal and external indices. The objective of the Standard is to prescribe the procedures that an entity applies to ensure that its assets are registered at a value exceeding or equal to its recoverable value. An asset is registered as being lower than its recoverable value if its book value exceeds the amount to be recovered through the use or sale of the asset. Under such a circumstance, the asset is described as impaired and the Standard requires the entity to recognize a loss from impairment. The Standard also stipulates when an enterprise must reverse an impairment loss and recommends the disclosure of certain information related to deteriorated assets.

*IAS 16 “Property, plant and equipment”* refers to the depreciation of tangible assets. The Standard states that the depreciable value is decided by subtracting the estimated residual value from the asset book value. In order to decide the depreciation related to a tangible asset, the enterprise shall decide the depreciation method and estimate the useful life.

The calculation of depreciation for an interim period relies only on the assets held during the period. One shall not take into account the assets acquired or asset outflows planned for a subsequent period of the financial year.

*IAS 38 “Intangible assets”* clarifies the definition and treatment of intangible assets that are not dealt with specifically in another International Accounting Standard. The Standard aims at the peculiarities regarding the depreciation of intangible assets. An enterprise, based on professional judgment, decides the depreciation period which must coincide with the best estimate of the asset’s useful life, not exceeding twenty years. The depreciation method must reflect how the economic benefits associated to the asset are consumed by the enterprise. If this orientation is not possible, the straight line method shall be used.

*IAS 2 “Inventories”* - in the case of inventories, one can refer to a constant value impairment when the cost exceeds the net achievable value and the proceedings shall bring the inventory to the latter value. In order to decide the net achievable value, one considers the

most reliable evidence of price and cost fluctuations, the destination for which the inventories are held, the potential damage or obsolescence level of inventories etc.

International practice diminishes an inventory for an acknowledged impairment through an account “Losses from the impairment of inventory value”.

According to *IAS 39 “Financial instruments: recognition and measurement”*, reporting financial assets is done according to the general framework for recognizing assets and stands out at their original book value (acquisition cost plus acquisition costs for financial instruments held till maturity). In order to prepare annual financial statements, the financial instruments shall be evaluated upon inventory. For the financial instruments meant for trading and available for sale, evaluation is made at their fair value and the plus or minus differences to the entry book value shall directly affect the financial asset account in accordance with the expense or revenue accounts (if applicable). For the financial instruments classified as those held till maturity, they are evaluated at their depreciated cost and the plus or minus differences to the book value shall generate expenses or revenues (if applicable).

In conclusion, in the sense of the IAS, concerning tangible and intangible assets, value impairment must first be located in time. Only if there are internal or external indices will an enterprise start testing an asset upon impairment. Professional judgment will decide the materiality threshold for considering an asset impairment.

From the accounting perspective, registering the value impairment can generate debiting an expense account or a reserve account from re-evaluating crediting the account (direct reduction) for the respective asset or goodwill.

The value impairments of assets are not “covered” by their depreciation. Thus, depreciation is the allocation (passing to costs) of the original cost to connect the economic benefits generated by an asset with the efforts to own it rather than an asset evaluation. Registering depreciation generates debiting an expense account in correspondence with crediting the depreciation account for an asset.

For the remaining assets, IAS norms see impairment as an “asset value decrease, reported as an expense in correspondence with the active account whose impairment has been found”. Moving on the period’s expenses is done according to professional judgment.

**At regional level**, the representative example is the accounting harmonization process carried out at EU level by means of directives. The scope and characteristics of European Directives are confined to the area of EU member states and their application is mandatory as they are a source of accounting law.

Directive 2013/34/EU of the European Union brings clarifications on asset impairment: decreasing the value of an asset resulting from causes whose effect is not judged definitively leads to acknowledging an impairment adjustment. If the current value of an asset falls below its net book value and the impairment is final, the object is subject to exceptional depreciation for the difference between the net book value and its present value. The present value is set using the references and techniques appropriate to the nature of the object.

**At national level**, national or local standards are prepared by each country in relation to international standards and European Directives. In our country, normalization is the static type. At the accounting level, there is an attempt to combine the current accounting legislation with international regulations. Thus, the legislative framework on accounting currently has three major components, namely:

- general accounting legislation;
- accounting legislation compliant with European accounting.

Depending on the needs of accounting information users, there has been a distinction between companies tradable on the stock market, companies/national companies and other nationally important legal persons compared to other trading companies, small and medium enterprises and respectively, microenterprises. The accounting harmonization programme in

Romania wants financial-accounting information to get a “commercial image in order to be provided to potentially interested investors”. The most important consequence of the programme is that it opens the way for the accounting profession to become popular in Romania.

Although the current regulations help in an attempt to comply the Romanian accounting with international standards, it is believed that regarding asset impairment starting from the assets’ evaluation until removing them from exploitation, there are still many issues to deal with (Table no. 2).

**Table no. 2. Main Differences and Controversies Regarding Asset Impairment**

<b>Selected issues</b>	<b>IAS</b>	<b>Current Romanian legislation</b>
<ul style="list-style-type: none"> <li>● Recognition of fixed assets</li> </ul>	<ul style="list-style-type: none"> <li>● as per the criterion of usefulness for more than a year.</li> </ul>	<ul style="list-style-type: none"> <li>● according to legal provisions, the value exceeding 2,500 lei and useful life more than one year.</li> </ul>
<ul style="list-style-type: none"> <li>● <b>Asset impairment</b></li> </ul>	<ul style="list-style-type: none"> <li>● acknowledging impairment is based on internal and external indices;</li> <li>● acknowledging impairment is in the form of value impairment;</li> <li>● fixed assets must be impaired until the level of net achievable value.</li> </ul>	<ul style="list-style-type: none"> <li>● acknowledging impairment is done when the present value falls below the net book value: <ul style="list-style-type: none"> <li>- temporary (reversible) and impairment adjustments are set;</li> <li>- definitive (irreversible) and is subject to depreciation;</li> </ul> </li> <li>● fixed assets are depreciated throughout their normal operating period, and while deciding the impairment, the role of independent evaluators must be considered.</li> </ul>
<ul style="list-style-type: none"> <li>● <b>Depreciation</b></li> </ul>	<ul style="list-style-type: none"> <li>● is allocating the depreciable amount of an asset all throughout its estimated useful life;</li> <li>● the depreciable amount is the historical cost (or the amount set in financial statements) reduced by the estimated residual value.</li> </ul>	<ul style="list-style-type: none"> <li>● is set by applying the depreciation rates upon the asset entry value;</li> <li>● is calculated based on a depreciation from the date of commissioning until full recovery of their entry value, according to their duration and conditions of use.</li> </ul>
<ul style="list-style-type: none"> <li>● <b>Re-evaluation</b></li> </ul>	<ul style="list-style-type: none"> <li>● performed whenever necessary (professional judgment).</li> </ul>	<ul style="list-style-type: none"> <li>● performed whenever necessary (professional judgment, in conjunction with company policies and tax regulations)</li> </ul>
<ul style="list-style-type: none"> <li>● <b>Making up adjustments for asset impairment</b></li> </ul>	<ul style="list-style-type: none"> <li>● believes impairment as a decrease of asset value, registered as an expense in correspondence with the impaired asset account.</li> </ul>	<ul style="list-style-type: none"> <li>● believes reversible impairments as being an expense in correspondence with the adjustment account for asset impairment.</li> </ul>

### 3. Conclusions

In this paper, the authors have tried to introduce significant elements of asset impairment according to national and international accounting regulations.

In an economy disconnected from taxes, the accounting policy adopted by an company can more easily meet the provision of true and concrete information which by certification is credible for all users and, according to the fundamental objective of accounting, it should meet the need for truth.

In regulated accounting, accounting policies and procedures are based both on accounting principles and on the system of normative regulations. The reference system for developing accounting policies accepts alternatives for registering and evaluating in accounting, or different evaluation and calculation methods of the financial status, financial outcome and financial statement.

Registering the impairment of assets may represent a conflict of interests given the management and tax interests, with repercussions upon the true and fair view. Accordingly, based on the limits of accounting principles/conventions, accounting information producers



may resort to various ways of “shaping” a financial status and accounting result until “deforming” them.

However, accounting as a science, as an *art* in the economic decision-making process, enables one within the legal limits to choose the version that best meets the interests of a company, without affecting the objective of achieving “a true fair view” of the financial status, financial position, and profit and loss account. At the same time, among the tax mechanisms that public authorities resort to for inciting or inhibiting business operators, taxation provides those based on deductible expenses, instruments widespread in the world.

In terms of acknowledging an impairment of its assets according to the irreversible or reversible form, based on accounting principles/conventions and the legislative regulations in force, an enterprise must set its accounting policy that best meets its interests.

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# PROVISIONS AND VALUE ADJUSTMENTS. ACCOUNTING, TAX AND FINANCIAL ISSUES

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## Abstract:

*Nowadays, more than ever before, it is necessary that an economic entity, either a trade company or a credit institution, should make profit. Profit ensures the entity's future development and also renders a meaning to the respective business. At the same time, any economic entity wants financial comfort that can also be achieved by small amounts paid as taxes and fees. Additionally, annual financial statements are meant to reflect a true and fair view of the financial status and of the financial performance achieved. Among true and fair view, accounting principles and tax issues a number of differences may occur which can complicate the life of an enterprise. In terms of accounting and tax issues, the most frequent in the core of such differences are provisions and value adjustments. The paper aims at capturing some financial, accounting and tax issues of provisions and value adjustments.*

**Key Words:** *provisions, value adjustments, tax, deductibility, self-financing ability*

**J.E.L. Classification:** *G21*

## 1. Introduction

The ratio between accounting and taxation must be regarded both from the perspective of some effects produced by this ratio, and of the influence degree on the objectives of the two fields.

At international level, the concept of true and fair view of the information included in financial statements does not have the same degree of consideration, it is treated differently from one country to another, depending on the connection or disconnection ratio of accounting versus taxation. When accounting information is aimed primarily at ensuring the interests of investors, a principle specific to the Anglo-Saxon accounting, it is about accounting disconnected from taxation, where not all the elements making up the tax calculation basis are provided by accounting information. If the information provided by accounting is intended to ensure fiscal interest, then it is accounting connected to taxation, which may cause the annual financial statements to provide unreal enterprise activity.

## 3. Treatment of Provisions

*IAS 37 "Provisions, contingent liabilities and contingent assets"* defines a provision as a liability with uncertain exigibility or value.

According to the legislation in our country (OPFM 1802/2014 for approving accounting regulations regarding annual individual and consolidated financial statements), provisions are meant to cover the liabilities whose nature is clearly defined and which at the balance sheet time are likely to exist or are to exist, but are uncertain in terms of value or the date they will occur. On the balance sheet date, the amount of a provision is the best estimate of the probable costs or, in the event of a liability, of the amount required to settle it. As a result, provisions may not exceed in value terms the amounts required to settle the current obligation on the balance sheet date. Provisions must be strictly correlated with estimated risks and expenditures.

A provision is a liability of uncertain exigibility or amount. A provision shall be recognized only when:

- an entity has a present obligation generated by a previous event;
- it is probable that an outflow of resources should be required to settle the respective obligation; and
- a reliable estimate can be made of the obligation amount.

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If these conditions are not met, a provision shall not be recognized. Provisions can be distinguished from other liabilities such as debts from commercial loans or expenses incurred but not paid due to the uncertainty factor related to the exigibility or amount of future expenses required to settle a liability.

Provisions are a sub-class of liabilities. Liabilities are defined in the *Framework for the Preparation and Presentation of Financial Statements* as current obligations of an entity arising from past events, whose settlement is expected to result in an outflow of resources embodied in economic benefits of the entity.

An implicit liability is an obligation arising from the actions of an entity if:

- a) via setting an earlier practice, via a company's written policy or via a sufficiently specific statement, the entity has shown its partners that it assumes certain responsibilities; and
- b) as a result, the entity has induced the idea to its partners that it shall fulfil those responsibilities.

Uncertainty is a key feature of a provision. *IAS 37* identifies four types of liabilities:

- a) liabilities from commercial loans;

Debts which mean obligations to pay for the goods or services that have been received from/or rendered to suppliers and have been invoiced or their payment has been formally agreed upon with the suppliers. They generally show a low risk of uncertainty.

- b) commitments;

Obligations to pay for the goods and services that have been received from suppliers or the latter have rendered them, but they have not yet been paid, invoiced or formally agreed upon their payment with the supplier. Although sometimes it is necessary to estimate the amount or exigibility of such debts, the element of uncertainty is generally much lower than for provisions. Commitments are often reported as part of commercial loan debts or debts of other origins, and provisions are reported separately.

- c) provisions;

They are debts because they are current obligations and it is likely that outflows of resources should be required to embody the economic benefits to settle the obligations.

- d) contingent liabilities that are not recognized as debts because they are either:

- possible obligations, yet for which one needs to confirm whether the entity has a current obligation that can generate a reduction of resources embodying economic benefits (e.g., a an unsettled dispute) or
- current obligations that do not meet the recognition criteria of *IAS 37*.

In some countries, the term "provision" is also used in the context of items such as depreciation, depreciation of assets and doubtful debts etc. and are not included in the above definitions.

Provisions are made up for items such as:

- a) court disputes, fines and penalties, compensations, damages and other uncertain debts;
- b) expenses related to warranty period service and other charges on the warranty ensured to clients;
- c) decommissioning tangible assets and similar actions related thereto;
- d) restructuring actions;
- e) pensions and similar obligations;
- f) taxes;
- g) completion of employment contracts;
- h) bonuses to be granted to the personnel based on the profits made, according to legal or contractual provisions;
- i) provisions related to concession agreements;
- j) provisions for non-gratuitous contracts;
- k) other provisions.

There are certain characteristics of provisions that give rise to some issues in terms of their recognition in accounting. Uncertainty is such a feature of provisions and, therefore, it is necessary that professional judgment should intervene here to decide whether or not setting a provision is required.

The amount recognized as a provision must be the best estimate on the balance sheet date of the costs required to settle the current obligation. The best estimate of the costs required to settle the current debt is the amount that an entity would reasonably pay in order to settle the obligation on the balance sheet date or to transfer it to a third party at that time.

Where the effect of time-value of money is material, the amount of a provision is the updated value of the expenses expected to be required to settle the obligation. In this case, updating provisions takes place because, due to the time-value of money, the provisions related to resource outflows occurring shortly after the balance sheet date are more non-gratuitous than those related to resource outflows of the same amount, but occurring later.

Provisions must be reviewed and adjusted on each balance sheet date to reflect the current best estimate. If in order to settle an obligation, it is no longer probable that an outflow of resources should occur, the provision must be cancelled by resumption in incomes. Provisions are measured before setting the profit tax, their tax treatment being the one provided by tax legislation.

**Example:** A trading company deals with manufacturing computers and provides guarantees to the buyers of its products. The terms of the agreement stipulate that the manufacturer undertakes to approach, via repairing or replacement, any manufacturing flaws that occur within 2 years from the date of sale. Given past experiences, it is likely that there will be some applications to fulfil the warranty agreement.

The question arising is whether the company must recognize a provision in the account, if so to what extent and how its set-up will affect the financial and fiscal outcomes of the enterprise.

If one resorts to IAS 37 for recognizing a provision in the accounts, one must answer the following questions:

*a) Is there a present obligation as a result of a past event?*

The binding event is the sale of a product with a warranty, which gives rise to legal obligations.

*b) Is it likely that there should be an outflow of resources meaning economic benefits used in a settlement?*

It is likely for warranties taken as a whole. Therefore, according to the International Financial Reporting Standards, a provision must be made up for warranties to customers.

Measuring provisions is also difficult because costs may be committed only after many years (e.g. decommissioning is done at an asset's end of life), and the amounts can be unexpected (e.g. the damage to the environment can be difficult to measure) and with substantial values.

It may very often happen that the size of a provision set up be not sufficient. An illustrative example nowadays is the case of the German Volkswagen company which must pay exorbitant amounts at present due to past events. Has the German company properly assessed the risks and created sufficient provisions?

According to the Tax Code in Romania, the only provisions that are deductible are those set up for warranties to customers.

Provisions for performance guarantees to customers are made up quarterly only for delivered goods, performed works and rendered services during the respective quarter for which a guarantee is given in the following periods, at the level of rates provided for in the agreements or at the level of guaranteeing percentages stated in the tariffs of works performed or services rendered.

For construction works that require performance guarantees, according to the agreements, such provisions are made up quarterly, within the quotas set out in the agreements, provided there is the full reflection as incomes of the value of works performed and confirmed by the beneficiary on the basis of works reports.

Reporting the provisions made up for performance guarantees as incomes is done to the extent of expenses for remedies or upon expiry of the warranty period stipulated in the agreement.

*Conclusions regarding Provisions:*

a. provisions are meant to cover the liabilities whose nature is clearly defined and which on the balance sheet date are likely to exist or it is certain they will exist, but are uncertain in terms of their amount or the date on which they will occur.

b. by making up provisions, entities follow the principle of prudence, namely they do not overvalue their debts and undervalue their expenses and there is also a true and fair view of own assets, liabilities and equity;

c. making up provisions gives rise to deductible or non-deductible expenses (this is not important) which helps a company via the financial resources saved by not paying dividends, taxes or other bonuses (to employees, managers, stipulated in the management agreement etc.). So, the size of provisions directly helps a company by going up to the level of the “self-financing ability” indicator.

d. by making up provisions, a company shows financial stability, has ”reserves” available, accumulated through savings along with their set-up.

## **2. Treatment of Value Adjustments**

The recognition and measurement of elements included in financial statements must consider the principles of accounting and also the tax rules in force, each subject to self-interests. Due to the relationship between accounting and fiscality, in practice certain cases are obvious where applying accounting principles is contradicted by tax rules. Such situations occur because certain principles governing accounting such as business continuity, prudence, fiscal year independence, are sometimes ignored by taxation or conflict situations arise that need to be reconciled.

Measurement in accounting is routinely performed upon the accounting recognition also known as initial evaluation of accounting elements, and also upon the reporting period, also known as further evaluation justified by certain times when initial evaluation can be corrected such as evaluation upon inventory, presentation of elements in a balance sheet and evaluation upon output.

The assets of an enterprise must be shown in a balance sheet at their book value (acquisition cost, production cost or other value which substitutes cost) minus the depreciation accumulated to date (for fixed assets), as well as along with the losses accumulated from impairment, thus resulting a net book value.

Value adjustments include all corrections meant to take account of reductions in the values of individual assets established on the balance sheet date whether or not the reduction is final. Depending on the permanent or temporary nature of impairment adjustment or asset loss of value, they may be: permanent adjustments called depreciations and/or temporary adjustments called impairment adjustments or loss of value. As a way of reporting, irreversible impairments are reported in accounting based on depreciation and reversible impairments based on impairment adjustments.

The procedures to close a financial year preceded by an annual inventory involve making estimates and reports which have the effect of adjustments to costs and incomes, as is the case of adjustments and provisions, they affect the outcome and as far as they are tax deductible, they also influence tax obligations.

Prudence demands that any element of the structure of financial statements should be presented based on the principle of prudence. The practical application of this principle includes:

- in accounting, only real profits are to be recognized on the date of closing a financial year, without taking account of probable profits;
- one must take into account all foreseeable obligations and all potential losses which have arisen during a financial year ended or during an earlier one, even if these obligations or losses arise between the end of the financial year and the date of balance sheet preparation;
- one must take into account all value adjustments due to impairments, whether or not the result of a financial year is a loss or a profit.

In conclusion, the principle of prudence recommends the use of any probable loss and the non-accounting of separate profits, even if they are very likely. The fiscal implications of the prudence principle are obvious, as the expenses reported for acknowledging impairment adjustments diminish the accounting result and implicitly profit tax to the extent they are tax deductible.

In practice, especially in smaller enterprises, there is a tendency to treat the making up of provisions and impairment adjustments in a subjective way, being addressed only in terms of immediate tax benefits.

Even if they are not fully deductible from a tax perspective, provisions and impairment adjustments of the values of asset elements, they must be an objective of the tax management within the enterprise.

Reporting the impairment of stocks during an inventory, bringing the cost of book-keeping to a net achievable value can be a potential source of accounting influence with tax effects, especially as impairment adjustments are inclusively reported for stocks without movement. If, for example, upon the inventory of asset elements, there is an impairment that would diminish their value over the book value, then the asset value must be reduced to the net achievable value, followed by the recognition of an expense related to adjustments for asset impairment.

During an inventory, the following management attitudes may arise:

- if the company management shows an accounting attitude oriented towards a lower tax result and implicitly a lower tax, it shall exclude the impaired assets from its inventory and the cost shall be recognized as an operating expense related to the adjustments for asset impairment.

- if the company management shows an accounting attitude oriented towards a higher tax result implicitly a higher tax, there will not be operating expenses related to adjustments for asset impairment. This kind of attitude also results in a better image in terms of financial position, the effects of non-reporting the adjustments being obvious in the balance sheet, as an overvaluation of stocks and assets implicitly has the effect of increasing own equity value.

Adjusting the book value envisages the reversibility of reduction in the book value relative to fair value. The difference between the book value and fair value is accounted for as adjustments of impairment. The accounts of impairment adjustments are corrective accounts of the input value/book value of tangible assets and are not in the category of own equity, but their value corrects the input value of the assets.

The accounting of impairment adjustments is performed through the prudence principle:

- if the book value is higher than the fair value, the difference is treated as a probable loss which, according to the principle of prudence, is reported as follows:

$$\underline{\text{Impairment adjustment expenses}} = \underline{\text{Impairment adjustments}}$$

- if the book value is lower than the fair value, the difference is treated as a probable gain which, according to the principle of prudence, is not reported, in order not to show fictitious profits and distribute dividends that may affect the company's treasury and implicitly its decapitalization.

When the book value has an appreciation in relation to the fair value, or a tangible asset is no longer impaired, the impairment adjustments made up in previous years are reduced to the amount of depreciation reported in the year concerned or cancelled by the following accounting registration:

$$\underline{\text{Impairment adjustments}} = \underline{\text{Incomes related to impairment adjustments}}$$

Impairment adjustments directly affect the result of the year when they are incurred either upon their setting up via expenses or their resumption or cancellation via incomes.

*Example no. 1 on the set up of value adjustments*

On 31 December, in trade company N, upon preparing the annual financial statements, one proceeds as a preliminary step to the inventory of assets and liabilities. With this situation after centralizing the inventory lists there is the following synthetic situation for stock of goods "A".

- Inventory value .....3,500 lei
- Book value ..... 4,000 lei

The present situation shows a value minus of 500 lei which is due to market conditions (recently a lot of import similar commodities have entered the local market which has led to cheapening similar goods).

According to the principle of prudence and in order to show a true and fair view of assets in annual financial statements, a company must show 3,500 lei in its balance sheet at the inventory value.

Basically, this (transition from the book value of 4,000 lei to the value inventory of 3,500 lei that provides a true and fair view) can be done this way:

- according to International Financial Reporting Standards, directly by reducing stocks in correlation with an expense account:

<i>Expenses related to value loss</i>	=	<i>Stocks (Goods)</i>	500 lei
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- according to the regulations in Romania for setting a value adjustment:

Expenses related to value adjustments for impairment of current assets	=	Value adjustments for impairment of goods	500 lei
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The solution chosen by normalizers aims at distinctly highlighting the value adjustments especially from tax reasons. In the financial statements, assets are shown at their:

$$\text{Net Value} = \text{Book value} - \text{Value adjustments}$$

$$\text{Net value} = 4000 - 500 = 3500 \text{ lei.}$$

In order to see the effects of registering or non-registering the value adjustments, here is a comparative situation in the profit and loss account:

**Table no. 1. Comparative Issues in Profit and Loss Account Regarding Impairment Adjustments**

Indicators	Variant I Value adjustments are reported	Variant II Value adjustments are not reported
1. Net turnover	85,000	85,000
2. Other operating incomes	2,500	2,500
3. Expenses related to goods	15,000	15,000
4. Material expenses	21,000	21,000
5. Expenses related with third parties	12,000	12,000
6. Employment charges	28,500	28,500
7. Expenses related to depreciation	1,800	1,800
8. Operating expenses related to adjustments for current asset impairment	500	0
<b>9. Operating outcomes</b>	<b>3,700</b>	<b>4,200</b>
<b>10. Profit tax</b> (it is equal in both variants, as adjustments for stock impairment is not tax deductible)	<b>672</b>	<b>672</b>

### **Conclusions:**

a. Solutions on the registration of value impairment have the same effect in annual financial statements: assets are shown at their fair value - ensuring a true and fair view of a company's financial situation;

b. The big problem in our country is taxation, as such adjustment is not accepted as deductible by the tax code. This issue has two immediate consequences:

- Most entities (microenterprises and medium enterprises) no longer "get complicated" out of convenience or ignorance and no longer report impairment adjustments recorded at all, presenting the assets in their financial statements at an over-evaluated value. The immediate effect is that the amount of the year result is unduly higher, which can lead to the de-capitalization of the company by paying any dividends or bonuses to employees (if they are stipulated in the collective labour agreement). Additionally, by not setting up value adjustments, the company management can try hiding certain bad decisions that have led to these situations.

- the other entities (which report such impairment adjustments) want an as faithful presentation of their financial statements as possible. The effect of reporting impairment adjustments is that the assets are shown at their fair value on the one hand, and the year result reflects exactly the amount of profit or loss achieved. The great advantage for these entities is financial, not fiscal, namely value adjustments are calculated expenses which are part of the enterprise's self-financing ability;

c. The Tax Code states provisions are tax deductible (they are incorrectly called by the Tax Code, as they are actually impairment adjustments) set up for the impairment of accounts receivable as follows:

- provisions made up within a limit of 20% as of 1 January 2004, 25% as of 1 January 2005, 30% as of 1 January 2006, of the value of accounts receivable reported by the taxpayers that cumulatively meet the following conditions: they are registered after 1 January 2004; they are not collected within a period exceeding 270 days from the due date; they are not guaranteed by another person; they are payable by a person who is not affiliated to the taxpayer; they have been included in the taxpayer's taxable income;

- the reduction or cancellation of provisions is performed by shifting them to incomes in the event of collecting a debt, in proportion to the amount collected or its registration as expenses;

- as to debts in foreign currency, a provision is deductible at the level of the value influenced by favorable or unfavorable exchange differences arising when evaluating them. The amount of provisions for accounts receivable is taken into account in setting the taxable profit in the quarter when the conditions set out in the Tax Code are met and cannot exceed their value reported in accounting for the current fiscal year or in previous years.

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# THE NECESSITY FOR A FUNDAMENTAL RELATIONSHIP BETWEEN ACCOUNTING EDUCATION AND PROFESSION ON THE BASIS OF ACCOUNTING STANDARDS APPLICATION

Diana-Andreea, Trăistaru<sup>1</sup>

## **Abstract:**

*This work is meant to analyze the way in which the contributions of specialists in the field are illustrated for the future of the accounting profession, the manifestation of accounting judgement and ethics in the present context of harmonization of Romanian accounting system with IFRS and European regulations. The accounting profession is targeted by students and young economists of academic institutions in the economic area. Professional and academic organizations should get more involved in managing the turning from a traditional role to a modern one, adapted to the new demands of the business environment.*

*The present research brings a contribution to the debates on the future of the accounting profession and the effects on the accounting education in Romania.*

**Keywords:** *Professional bodies, accounting education, International Financial Reporting Standards, Romania*

**JEL Classification:** *M41*

## **1. Introduction**

The academic environment holds an important role in the economic context of our days, in which the economic uncertainty that affects companies dominates along with the rising demand in financial information the demands of the accounting and auditing area but also the graduates' motivation for integration in the accounting profession.

So that all these issues may be covered, the academic environment needs to cooperate with the accounting and auditing fields and also with the professional organizations.

The cooperation between the academic environment and the professional one is approached in different ways in the literature speciality area.

Yu et al. (2013, p. 9) deals with the advantages brought to the accounting and auditing domain by the academic environment, arguing in the same time that "they generated an improvement in the field".

Zhang (2013, p. 58) says that "accounting practices of companies may be influenced by accounting education, the academic environment having double effect over the professional one: firstly, accounting standards are issued and secondly, they become more consistent in the context of a qualitative education".

Xiling (2010, p. 127) believes that "education in the accounting area may be improved through the feedback given by accounting specialists on the level of quality and the usefulness of studies in the business field".

Yu et al. (2013, p. 11) highlight "the importance of adapting and updating of textbooks and specialty materials to the new trends of financial statements reporting".

The above mentioned approach the function of the academic environment related to the business domain, in the context of the necessity of a fundamental relationship between accounting education and profession, of the integration of specialists and researchers and of involvement in the activity of running the accounting regulations.

The contentedness of the business environment regarding the acquired capacities of students and master students after graduation depends on the accordance of academic area with the regulations of professional organizations.

Academic professionals must consider both the knowledge and the experience acquired in practice and contribute to scientific research in the area.

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The accounting profession has suffered from a crisis of image and reputation for the last three decades. Generally speaking, the students' perception is part of their belief which may influence the choice regarding the career.

Students' perception concerning their future career in accounting and auditing may affect their view about themselves, their complacency and attitude towards career and trust in it.

Due to the fact that some inaccurate perceptions may lead to false representations, it becomes extremely important for students to hold a realistic vision, image about what the accounting profession implies and consists in. In this respect, Bunea et al. (2013, 57) believes that "the way in which accounting is perceived by society influences or not the attraction of the best students toward the profession".

Cataloging accountants and other negative perceptions held by students about the accounting profession might explain the global decline in the number of students that choose to become accountants lately (Boyce et al., 2012, p. 53).

## **2. Methodology research**

The present research has as a starting point the analyze of the students and graduates' perception on the role of accounting standards and professional organizations, the professional judgement and ethics in the accounting field, the research method being represented by the study and the research instrument by the questionnaire or enquiry.

The research is approached through two points of view:

*1) It considers, on one hand, a synthesis of conclusions published on this subject in the specialty literature;*

*2) An empirical study based on a questionnaire and its answers given by master students and graduates of the master's degree programme of The Drobeta Turnu-Severin Academic Centre – Craiova University, Specialization: Accounting Management, Expertise and Audit, for 2013-2015 period.*

The study is limited if we refer the generality of results. The sample used comprises respondents from a single Romanian university and the results should be cautiously interpreted.

The final conclusion of this empirical study reflects the importance of studying the results of numerous researches carried out through time, economic situation, the society's expectations and the level of education in academic institutions.

## **3. Study concerning the necessity of the accounting profession's regulation in the context of accounting standards' application**

### **3.1 Perceptions on debates referring to the future of the accounting profession and the effects on the accounting education**

This study is based on five subjects of perception (the perceived negative behavior of accounting professionals, the perceived positive reputation of accounting professionals, the earnings from the accounting profession, the demands of the accounting profession and general opinions about the accounting profession in the context of accounting standards' application) which might be part of the master students or graduates' perception (participants to the questionnaire) concerning the debates referring to the future of the profession and also to the effects on accounting education.

We have chosen these aspects because the study aims to analyze the personality and the factors connected to career that influence the professional choice among master students and graduates, aspects which have enjoyed a relatively insignificant attention in the specialty literature, mainly in our country.

In this study we used a dependent variable which is being represented by the accounting profession in the circumstances of accounting standards' adoption and four independent variables or arguments reflected through the analyzed subjects of perception, Romania being the country we have approached.

The accounting profession (AC) is measured through five evaluation criteria: 1 – *Totally disagree*; 2 – *Disagree*; 3 – *Neutral*; 4 – *Agree*; 5 – *Totally agree*.

The entire regression model for empirical investigations in evaluating the factors that might explain the image or perception of the accounting profession is presented as follows:

$$AC_i = \beta_0 + \beta_1 BC_i + \beta_2 R_i + \beta_3 E_i + \beta_4 D_i \quad (1)$$

Where:  $AC_i$  = Accounting profession

$BC_i$  = Behaviour in the accounting profession

$R_i$  = Reputation of the accounting profession

$E_i$  = Earnings from the accounting profession

$D_i$  = Demands of the accounting profession

The regression model (formula) highlights the relationship between a dependent variable (the accounting profession – AC) and four independent variables or arguments:

- *The behaviour in the accounting profession;*
- *The reputation of the accounting profession;*
- *The earnings from the accounting profession;*
- *The demands of the accounting profession.*

Four subject have been approached, subjects concerning the future image of the accounting profession and the effects on accounting education, which as a medium answer a value lower than 3. The standard deviations of three from the approached subjects or themes have been higher than 1 and we mention; the negative perception of the accounting profession's behavior, the positive perception of the accounting profession's reputation and a perception becoming more and more strict of the accounting profession's demands. One of the themes that were pot forward presented a standard deviation with a value smaller than 1. The standard deviation smaller than 1 stresses on one hand the similarity of opinions.

The result illustrated in the following table reveals that perceptions regarding the quality and the future of the accounting profession are almost the same.

The calculation of the central tendency indicators, of the mean values and the variables implied in the model is presented in Table no. 1, containing general statistics of the regression equation.

**Table no. 1 Descriptive statistics of perceptions regarding the future of the accounting profession and the effects of accounting education**

	N	Mean value	Standard deviation
<i>Negative perception of behaviour in the accounting profession</i>	40	2.1000	1.0813
<i>Positive perception of the accounting profession's reputation</i>	40	2.0000	0.8473
<i>The perception of earnings as being a strong motivational factor in choosing the career</i>	40	2.275	1.3394
<i>The perception of the accounting profession's demands as being more and more strict</i>	40	2.125	1.3622

Source: Own calculations based on Microsoft Excel Program

The factors that might have an impact on the future of the accounting profession and the effects of accounting education are being examined by estimating the linear regression model and by using the Pearson correlation analysis.

In statistics, the Pearson correlation analysis represents a correlation measure (linear dependence) between two variables, offering a value between +1 and -1 inclusively. It is used on a large scale in the scientific field as a force measure of a linear dependence between two variables. The *p value* in the Pearson correlation analysis tends to offer a measurement of the force of a test results in contrast with a rejected decision or an accepted decision.

In Pearson correlation analysis, the value of the force relations plays an important role in determining their level concerning variables. The significance level,  $p < 0,05$  is also used in order to determine the relation. This level of significance shows that there are only 5% chances that the relation might not exist and 95% chances that the relation concerning variables might present a significant correlation.

Table no. 2 shows the results of Pearson correlation analysis regarding variables, through testing assumptions and interpreting Pearson correlation results which are going to be presented in a separate section of the regression analysis.

**Table no. 2 Pearson correlation**

		AC	BC	R	E	D
AC	<i>Correlation</i>	1				
	<i>Statistic significance (second marginal point)</i>					
	<i>N</i>	40				
BC	<i>Correlation</i>	-0.083	1			
	<i>Statistic significance (second marginal point)</i>	0.080				
	<i>N</i>	40	40			
R	<i>Correlation</i>	0.051	-0.112	1		
	<i>Statistic significance (second marginal point)</i>	0.001	0.003			
	<i>N</i>	40	40	40		
E	<i>Correlation</i>	-0.043	0.310	-0.145	1	
	<i>Statistic significance (second marginal point)</i>	0.000	0.001	0.002		
	<i>N</i>	40	40	40	40	
D	<i>Correlation</i>	-0.221	0.176	0.071	0.121	1
	<i>Statistic significance (second marginal point)</i>	0.000	0.001	0.003	0.000	
	<i>N</i>	40	40	40	40	40

*Source:* Own calculations based on Microsoft Excel Program

On the account of the results presented in the table we notice negative relations between the perceptions concerning the future of the accounting profession and the effects on accounting education and most of independent variables this aspect emphasizing the fact that the biggest part of assumptions are not sustained.

In analyzing the factors that might influence the future of the accounting profession we used a regression analysis to test the effect of the four independent variables on the dependent variables, the accounting profession for example.

In order to highlight as much as we can the model containing the four explanatory variables, the dependent variable is being emphasized for example, the accounting profession, and it is necessary to be tested by means of a series of according statistics.

**Table no. 3 Descriptive statistics – ANOVA**

Model	Square sum	Df	Average deviation	F	Sig.
<i>Regressions</i>	5.074	4	1.268	0.873	0.489 <sup>a</sup>
<i>Residual statistics</i>	50.825	35	1.452	-	-
<b>Total</b>	55.900	39	-	-	-

a) Elements: (Constant variable), BC, R, E, D

Source: Own calculations based on Microsoft Excel Program

Table no. 3 presents the results of analyzing the variation of the variable “Accounting profession” influenced by the regression factor and the residual factor, showing information about the sum of the quadrats of deviations of the dependent variable AC, due to the regression model, the degrees of freedom, estimations of variables owed to the two sources of variation (regression and residue). It is observed that the independent variables have a low effect on the dependent variable, where F value is 0,873 with a p value,  $p < 0,05$ , indicating the fact that generally, the model used for the study is rather unappropriate to explain dependent variable’s fluctuation.

In order to ensure the statistic appropriateness of the model, conformity may be measured by the sum of correlation coefficients, named  $R^2$ .

**Table no. 4 Conformity through  $R^2$** 

Model	R	$R^2$	R2 adjusted	Estimated errors
<b>1</b>	0.301 <sup>a</sup>	0.090	-0.013	1.205

a) Elements: (Constant variable), BC, R, E, D

Source: Own calculations based on Microsoft Excel Program

As it is shown in Table no. 4, both  $R^2$  and  $R^2$  adjusted, measure the model’s conformity, for example, the fluctuation of the dependent variable explained by this model. On this basis of the value of R ( $R = 0,301$ ) it is shown the fact that between the dependent variable and other unmentioned independent variables, there is no linear, direct or solid bond.

The proportion of determination  $R^2$  (R square) has values between 0 and 1 and it is useful to assess whether the regression model is the best one. For the considered values,  $R^2 = 0,090$ , which means that 90% of the dependent variable’s variation that was analyzes, is explained by the variation of behavior, reputation, earnings and the imposed demands.

Table no. 5 describes the results of the regression model.

**Table no. 5 Regression analysis of the perception regarding the future of the accounting profession and the effects on accounting education**

Variables	Coefficients	T statistic term	Probability
<i>Constant variable</i>	1.749	2.265	3.317
<i>Behaviour in the accounting profession</i>	-0.234	-1.307	0.129
<i>Reputation of the accounting profession</i>	0.205	0.854	0.694
<i>Earnings in the accounting profession</i>	0.098	0.676	0.395
<i>Demands of the accounting profession</i>	0.073	0.488	0.378

Source: Own calculations based on Microsoft Excel Program

As it is shown in the above table, from the four explanatory variables tested in the present study, the behavior of the accounting profession ( $p$  value = 0,398), the earnings from the accounting profession ( $p$  value = 0,503) and the demands of the accounting profession ( $p$  value = 0,628) it is confirmed the fact that there is an insignificant relation between them and the dependent variable (Accounting profession).

Taking into account the emphasized values, the multiple regression ligh (curve) is described by the following equation of regression:

$$AC = 1.749 - 0.234*BC + 0.205*R + 0.098*E + 0.073*D \quad (2)$$

In this study, the results of acknowledgements are explained and discussed by putting them analysis conducted considering the collected data. Results are being discussed by putting them in relation with different sources.

The gathered data was analyzes by means of descriptive statistics, distribution of frequencies, analysis of correlation and multiple linear regression.

#### **4. Conclusions and future predictions**

The aim for our research is to analyze the way in which is rendered the image of the accounting professional in our society, so as to get a viewpoint in determining the market strategies and those of advancement in the field, but also the role of accounting standards, of professional judgement and ethics in the evolution of the accounting profession. A modern accountancy requires the use of a series of improved politics and estimation techniques and of accounting options in a certain degree.

In this way, information is compulsory for taking decisions. It is essential for the accounting professional that hold capacities in informational technology due to the informational technological revolution.

The accounting profession is targeted by students and young economists of academic institutions in the economic area.

Future accounting professionals must know the qualities and features of a good accountant: responsibility, honesty and professional behavior, confidentiality, integrity, attention to detail and determination. Professional and academic organizations should get more involved in managing the turning from a traditional role to a modern one, adapted to the new demands of the business environment.

The present research brings a contribution to the debates on the future of the accounting profession and the effects on the accounting education in Romania.

The results support researches and a considerable part of the specialty literature where it is mentioned that students continue to hold negative opinions concerning the subject of accounting and auditing.

We believe that the graduates' vision is influenced by the economic and financial crisis, by low salaries, high unemployment rate and a low living standard, unlike students, who are more optimistic in this regard.

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# THE AMPLITUDE OF TAX EVASION AFFECTS FAIR COMPETITION

Adrian Ducu, Matei<sup>1</sup>

*Winning likes no competition*

Publilius Syrus (fl. 85–43 BC), was a [Latin](#) writer of [sententiae](#).

He was a [Syrian](#) who was brought as a slave to [Italy](#), but by his wit and talent he won the favour of his master, who freed and educated him.

## Abstract:

*The article highlights the importance of the fight against tax evasion; it has reached an alarming level in Romania, thus affecting the competitive environment. Most of the consumer goods are to be produced or reproduced, which involves a series of costs: using energy, the human resource for the work provided, etc. Therefore the producers of these goods are to regularly obtain the means which allow them to produce the goods. This is where two fundamental mechanisms become relevant: commercial payments and taxes. People pay in both cases, but there two different situations. The commercial payment is done by the buyer, namely the person purchasing a product or a service for which one pays a price. In this case, producers can manage their business based on self-financing, which means they can cover at least the production costs from selling the goods produced; thus the continuation and development of their activity is motivated. The sales volume defines the dimensions of their activity. If there are producers among them who do not pay the taxes established by the state, and that amount is not paid to the budget and is used to finance the business, it represents an unequal and unfair encounter with the honest producers. We shall present ways which can contribute to the diminishing of tax evasion in Romania.*

**Keywords:** tax evasion, underground economy, corruption, competition, market.

## 1. Introduction

Tax evasion is a negative phenomenon affecting the state budget, considering that part of the resources do not reach it and spending should be reduced; thus the public functions and services are limited, even if they should be provided by the state during its development towards raising living standards.

Tax evasion is especially harmful to the economy as its size increases, since it represents a factor of spreading the feeling that "one can do without paying taxes". Unless strict measures are taken to limit this phenomenon, the consequences are severe and continuously generate its expansion. This approach enhances incorrect behaviour according to which "if others do not pay, why should I pay?"

This behaviour occurs along with other issues when individual incomes are generally low, when companies hide part of their business; however they also occur in developed economies, in a globalized economy, by hiding transactions.

In case of low incomes, people talk of labour tax evasion, illegal employment; it is usually used when either the legislative system is not sufficiently developed to cover all areas of activity to be identified and taxed, or when audits are not carried out properly. This phenomenon is serious considering that individuals who engage in such activities do not pay social insurance, health insurance, employment related taxes. This has negative consequences, especially for those individuals, as they cannot prove they have constant income under contracts or employment relationships legally binding and they cannot benefit from adequate social and health assistance; it usually has negative consequences to the state, which cannot protect them from employers' abuses regarding working hours, wage levels. Such behaviours put the individuals in a position of being slaves of precarious living standards; even if they have high income, they have limited access to bank financing for purchasing housing or long-term goods, so that their development is endangered. Moreover, if they obtain higher incomes,

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they cannot prove their origin and they can be seized; besides they are exposed to developing illegal activities.

Tax evasion also manifests within companies, business in general, by carrying out activities hidden from the normal process of taxation, which can be carried out only by people who cannot be legally employed and which can be subject to abuses.

The phenomenon is very serious in this case as well; not only are there people employed without paying taxes for the work used, but, even more, no taxes are paid to the state budget for the entire activity or business. In these cases tax evasion is much higher, and the budget lacks larger or even significant amounts. In these cases the causes generally are: ineffective legislation, with too many changes, but also superficial audits.

However there are more consequences of tax evasion. Areas in which tax evasion is present are numerous: trade, construction, agriculture, tourism.

Tax evasion and even tax fraud are phenomena threatening the correct, loyal competitive environment; confrontation is unequal and in most cases the result of confrontation is a vicious one.

## **2. The impact of tax evasion**

The impact of tax evasion has serious consequences which are internationally recognized as governance and implementation of public policies are affected.

Fighting tax evasion is a must, as illicit financial flows (IFFs), specifically all capital outflow from the private sector which are not registered and involve acquired, transferred or illicitly used funds, are typically generated by legal and illegal tax evasion such as: incorrect determination of transfer prices, notwithstanding the principle that taxes should be applied where profits are obtained and whereas tax evasion and circumvention duties have been identified in all the main texts and international conferences on development financing as the major obstacles to domestic revenue mobilization for development.

According to estimates made by experts and international organizations based on the report issued by Global Financial Integrity in 2014<sup>1</sup>, the combined volume of foreign direct investment (FDI) and official development assistance (ODA) in 2003-2012 is slightly lower than the volume of illegal capital outputs. At the same time the FFI volume is about ten times higher than the total amount of funds for the emerging countries which should aim at eradicating poverty and reaching welfare and sustainable development; according to estimates, it represents an illicit annual leak of USD 1,000 billion for the developing countries.

The existence of appreciable size informal sectors in the economies of developing countries makes taxation of general revenue almost impossible; a significant proportion of GDP is not taxable in the countries where much of the population lives in poverty, which is adverse also on budget and performance of public policies.

In the emerging countries, government revenue from corporate taxation constitutes a major proportion, combined with the fact that in the recent years the developing countries applied progressive reduction of tax rates to companies, which are particularly affected by tax evasion manifested by companies eluding taxes.

A very important role is represented by tax havens and secrecy jurisdictions allowing banking and financial information secrecy, combined with regimes applying "zero" tax to attract capital and revenues that should have been taxed in other countries, which generate harmful tax competition, undermine the equity of fiscal regime and distort trade and investment, particularly affecting developing countries, which causes annual losses of tax revenue estimated at 189 billion dollars.

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<sup>1</sup> <http://www.gfintegrity.org/wp-content/uploads/2014/12/Illicit-Financial-Flows-from-Developing-Countries-2003-2012.pdf>



Economic and financial globalization and the current international context of trade liberalization and gradual elimination of trade barriers in the recent decades has intensified cross-border marketing of goods and services; it also caused difficulties for the emerging countries that depend heavily on trade taxes, especially the least developed countries, which are forced to compensate the decline in trade taxes and to turn to other types of domestic resources, especially a well-balanced mix of taxes.

Because taxes can remain reliable and sustainable source to finance development and provide stability compared to the traditional mechanisms for development financing such as concessional loans only if there is an honest, well-balanced, efficient and transparent tax regime, an effective administration to promote tax compliance, and government revenues are used transparently and responsibly.

Substantial obstacles faced by emerging countries from political, legislative, administrative, technical and legal view in raising tax revenues, the insufficient human and financial resources to collect taxes and the weak administrative capacity make it difficult to collect taxes from transnational businesses, as well as the lack of tax collection infrastructure, the exodus of qualified personnel from tax administration, corruption, lack of legitimacy of the political system for not taking part in international cooperation in tax matters, uneven distribution of income and faulty fiscal governance.

All these and many more contribute in a diverse manner to the uneven confrontation in a vitiated competition between companies; some choose unfair practices such as not paying taxes, creating an environment that is not auspicious to harmonious development, using the available resources in an inadequate way, highlighted by a flawed governance.

### **3. Tax evasion in Romania**

The fight against illicit tax evasion is essential to ensure a greater degree of fairness and economic efficiency both at the international, European and national level. Unlike illegal tax evasion which is illegal, lawful tax evasion normally falls within the law. However, several forms of lawful tax evasion do not meet the spirit of the law, forcing the interpretation of what is "legal" in order to minimize the overall tax contribution of a company.

Through aggressive tax planning techniques, some companies exploit legal loopholes of the tax systems and the inconsistencies between the national regulations to avoid paying taxes due. In addition, tax systems in many countries allow companies to artificially transfer their profits to those jurisdictions; the effect of this practice is to encourage aggressive tax planning. The fair distribution of responsibilities between taxpayers, fair competition between companies and equitable collection between Member States of income taxes legitimately due to them are undermined through such activities. Fiscal policy is determined mainly nationally.

However, to ensure fairer taxation and to support the principle that taxation should reflect where the economic activity is performed, it is necessary to intensify the present efforts to combat illicit and licit tax evasion on the domestic market. Besides the necessary efforts from the member states to simplify and improve the effectiveness of the tax system, transparency in this area is crucial to achieving these objectives.

The extent of tax evasion shows how the state is involved at some point in diminishing this phenomenon.

The level of tax evasion in Romania can be appreciated as very high only if it reaches about 16% of GDP, according to calculations of the Fiscal Council in Romania.

Such a high level of tax evasion in 2013 is mainly that of the value added tax (12.21% of GDP), but also of the work related social insurance contributions (2.43% of GDP).

VAT tax evasion is the difference between the theoretical VAT default value of the economic activity, including the unobserved economy and the VAT revenue collected by the state on ESA95 methodology. This VAT tax evasion measure is not necessarily the exclusive

result of tax evasion, which may be explained by other causes such as: legitimate practices of VAT evasion, the company becomes insolvent, leading to a reduction in VAT collected receivables to the State and the accuracy of national accounts data, on which VAT is theoretically estimated.

The evolution on a 10 year sample had an increasing trend as seen in the chart below:

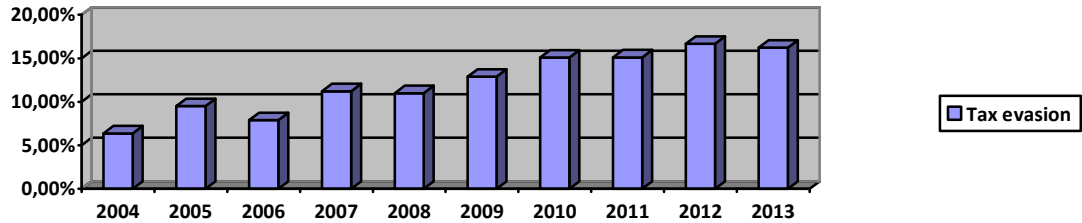


Figure 1 Chart on tax evasion in Romania

Tax evasion in 2013, the last analyzed year, is mainly VAT evasion (12.21% of GDP), followed by tax evasion in social security contributions (2.43%), then by income tax (0.76% of GDP), as shown in Annex 1 and in the chart below:

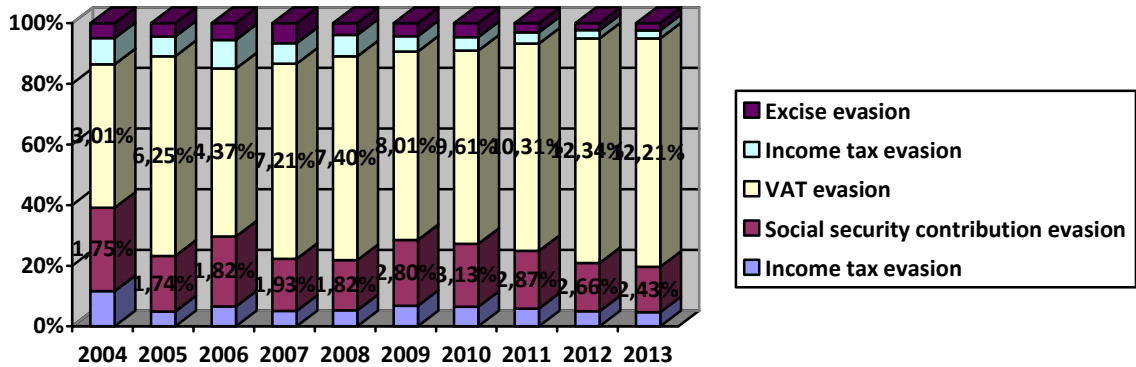


Figure 2 Chart on the main components of tax evasion in Romania<sup>1</sup>

#### 4. Conclusions and recommendations

Tax evasion keeps investors away from Romania, by the fact that the tax system is generally slow and there are political, legislative, administrative, technical and legal obstacles in collecting tax revenues.

At the same time there is a weak administrative ability in setting and raising tax revenues from transnational companies, the insufficient infrastructure to collect taxes, the exodus of qualified personnel from tax administration, corruption, lack of legitimacy of the political system, uneven distribution of income and the damage of the competitive environment for companies and faulty fiscal governance.

Recommendations on reducing tax evasion:

- **ensure fiscal stability** namely establishing one period within a year for amending taxes;
- **simplify and reduce or merge the level of taxes** and group them to be accessible to the taxpayer;
- **reduce and improve the fiscal transition to increased use of electronic media** so as to establish, monitor, pay and verify taxes including:
  - electronically establish and fill in statements on taxes and fees;

<sup>1</sup> <http://www.consiliulfiscal.ro/ra-2013.pdf>

- electronic payment system;
- electronic check the tax status of taxpayers.

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**Tax evasion in Romania during a 10 year period**

<b>% of GDP</b>	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tax evasion from illegal labour	1,73%	1,57%	1,71%	1,84%	1,74%	2,92%	3,18%	3,14%	2,89%	2,61%
- income tax	0,51%	0,34%	0,38%	0,42%	0,42%	0,69%	0,75%	0,74%	0,69%	0,62%
- social security contribution	1,21%	1,24%	1,33%	1,42%	1,32%	2,23%	2,43%	2,40%	2,21%	1,99%
Tax evasion in the informal sector (population)	0,76%	0,64%	0,63%	0,66%	0,66%	0,75%	0,92%	0,62%	0,60%	0,58%
- income tax	0,23%	0,14%	0,14%	0,15%	0,16%	0,18%	0,22%	0,15%	0,14%	0,14%
- social security contribution	0,53%	0,51%	0,49%	0,51%	0,50%	0,57%	0,70%	0,47%	0,46%	0,44%
Income tax total evasion	0,74%	0,47%	0,52%	0,57%	0,58%	0,87%	0,97%	0,89%	0,83%	0,76%
Total contributions to social security evasion	1,75%	1,74%	1,82%	1,93%	1,82%	2,80%	3,13%	2,87%	2,66%	2,43%
VAT evasion	3,01%	6,25%	4,37%	7,21%	7,40%	8,01%	9,61%	10,31%	12,34%	12,21%
Income tax evasion	0,55%	0,62%	0,74%	0,75%	0,78%	0,65%	0,67%	0,56%	0,45%	0,44%
Excise and vice, alcohol and tobacco tax evasion	0,32%	0,42%	0,44%	0,75%	0,43%	0,56%	0,70%	0,47%	0,40%	0,39%
<b>Total tax evasion</b>	<b>6,36%</b>	<b>9,50%</b>	<b>7,89%</b>	<b>11,21%</b>	<b>11,00%</b>	<b>12,89%</b>	<b>15,09%</b>	<b>15,10%</b>	<b>16,67%</b>	<b>16,23%</b>
Gross value added from gray economy	14,48%	16,56%	19,18%	19,97%	19,57%	20,89%	24,78%	24,30%	24,53%	22,89%

Source : Fiscal Council based on data of the National Statistics Institute

**JURIDICAL ASPECTS CONCERNING THE INSTITUTION OF  
ADOPTION FROM ROMANIA AND MOLDOVA**

**Carmen, Comaniciu<sup>1</sup>**

**Abstract:**

*The powerful social, emotional and economic impact of adoption requires clear and concise legal provisions, which does not give rise to misinterpretations, with well-defined features for the national and international levels. Starting from the classic definition of a child adoption, respectively legal operation by which is created the ties of filiation between adopter and the adoptee, as well as kinship ties between the adopted child and adopter's relatives, through this article we present similarities and differences regarding the institution of adoption from Romania and Moldova. Thus, we will refer to the institutional and legal regulations on adoption, the substance of adoption, the national and international adoption procedure. Without claiming an exhaustive approach, we consider that through issues highlighted in this article can be identified both positive aspects and shortcomings of the adoption process in these two countries.*

**Keywords:** adoption, children's rights, juridical regulations, national adoption, international adoption

**JEL Classification:** K39, J13, D02

**1. Introduction**

Although the link between a child and his biological family is one unique, there are enough cases where the biological family is unable to respond to the child's needs, can not or sometimes does not intend to provide of the child safety, happiness and wellbeing. In such cases, adoption can be considered the best solution for the child, but taking into account all legal, psychological and social aspects. The importance of adoption, the complexity of adoption process and the effects generated by adoption must always focus on protecting children's rights (Mihăilă, 2010).

Through this article we present legal aspects concerning the institution of adoption from Romania and Moldova, highlighting the similarities and differences for this institution in the two countries. By making this comparative analysis, we want to surprise how is it addressed the adoption by "two sisters" located on the right side and the left side of Prut River.

The structure and contents of the article provides the answer to questions such as: What is the institutional framework on adoption? Which are the principles of adoption? Which are the conditions of substance for adoption? Which are the coordinates for national adoption procedure? Which are the coordinates for international adoption procedure? The responses will be based on legal regulations concerning the adoption existing under the laws of both countries.

**2. The institutional framework on adoption in Romania and Moldova**

Being considered a special form of protection that apply in the best interests of the child, adoption is a legal operation, which establishes both the filiation link between the adopter and the adopted child, as well as, the family ties between the adopted child and adopter's relatives (Zamostny, O'Brien, Baden and Wiley, 2003).

From the perspective of the institutional framework, both in Romania and in Moldova, the attributions in the field of adoption are assigned to specialized bodies, at central and local level.

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In Romania, the National Authority for Child Rights Protection and Adoption was established and operates as a specialized body of central public administration, with legal personality, under the Ministry of Labour, Family, Social Protection and Elderly People, whose mission consists in monitoring the way of respect the rights of all children and take all measures that contribute to a worthy society for the children (Romanian Government Decision, 2014).

According to current regulations, in Moldova the competent authorities for adoption are: central authority, respectively Ministry of Labour, Social Protection and Family, addition to which operates the Advisory Council for Adoption; territorial authority respectively sections/departments of social assistance and family protection; Municipal Department for Child Rights Protection of Kishinev (Moldova Ministry of Justice, 2010).

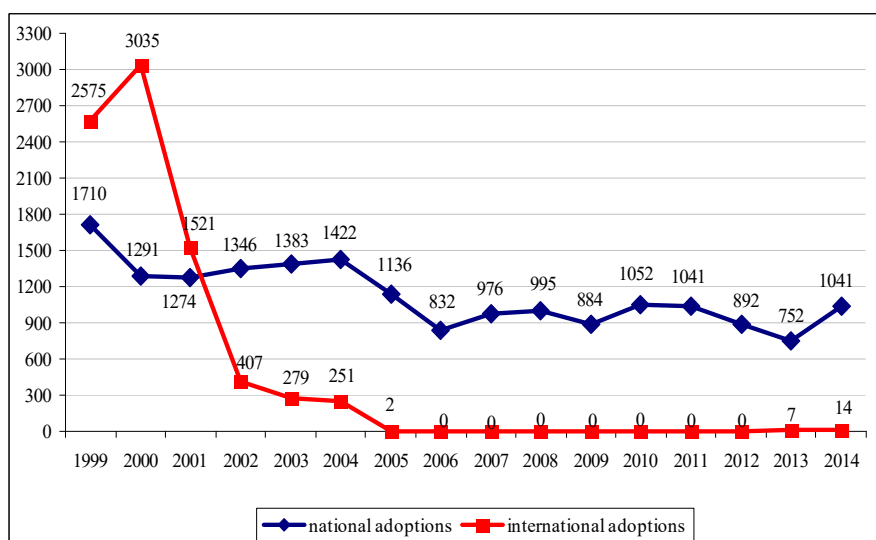
In both countries, the main responsibilities in the field of adoption exercised by the competent authorities make reference to: the elaboration of normative and methodological framework in the field of adoption; the development and supporting the programs in the field of adoption; the coordination and supervising the adoption activities; achievement of international cooperation in the field of adoption; fulfillment of obligations under international conventions on child protection and cooperation in respect of international adoption; receiving the requests made by foreign authorities and organizations of families and individuals who want to adopt a child; the authorization of foreign and national organizations to carry out activities in the field of adoption; supporting all adopted children in the demarches made to know their origins (RNACPA, 2015). In Moldova is distinguished the existence of The State Register of adoptions and the essential role of diplomatic missions and consular offices in the field of adoption (Moldova Ministry of Justice, 2010).

The situations presented by the competent authorities in the adoption of the two countries highlights the major differences in terms of the number of adoptable children, the number of persons/families approved for adoption and evolution of the number of granted adoptions.

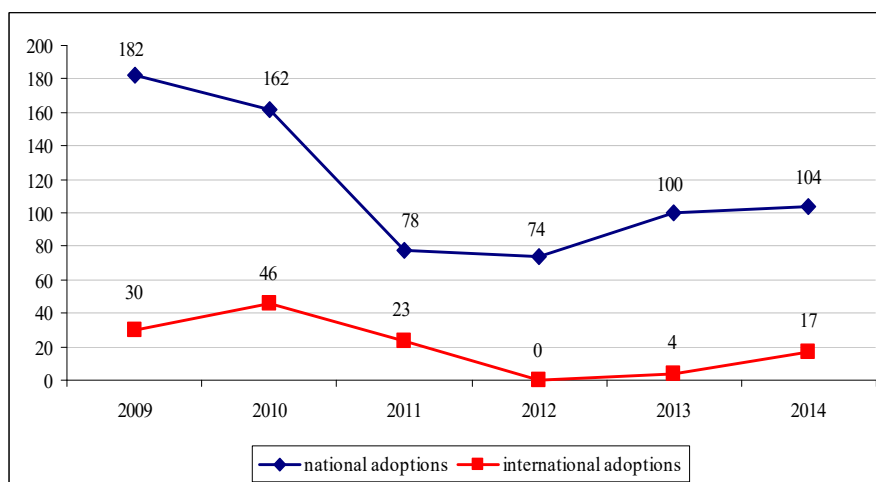
In Romania, according to the data contained in National Adoption Register, on December 31, 2014 (RNACRPA, 2014) are remarkable the following: (i) the total number of adoptable children was 4,060, of which 3,439 children eligible for national adoption and 621 children eligible for international adoption; (ii) most of the adoptable children were in the age group of 7-13 years; (iii) 19.97% of all adoptable children were enrolled in category of disabilities; (iv) 1,006 adoptable children were part of groups of adoptable children who had one, two, three or four adoptable brothers; (v) there were records 1,766 families/persons certified in respect of adoption, the largest share was for national adoption respectively 97.05%.

In Moldova, according to data presented at the end of 2014 (Moldova Ministry of Labour, Social Protection and Family, 2015) are remarkable the following: (i) were registered 403 adoptable children, of which 227 for national adoption and 176 for international adoption; (ii) most of the adoptable children were in the 7-13 years age group, respectively 80.89%; (iii) 128 adoptable children were part of brothers couples in which one or more has reached the age of 7 years.

The number of assented adoptions in Romania and Moldova has evolved very differently, as can be seen from Fig. 1 and Fig. 2.



**Fig. no. 1 Evolution of assented adoptions in Romania, during 1999-2014**  
Source: Romania, National Authority for Child Protection and Adoption



**Fig. no. 2 Evolution of assented adoptions in Moldova, during 2009-2014**  
Source: Moldova, Ministry of Labour, Social Protection and Family

### 3. General provisions on adoption in Romania and Moldova

In Romania, the general provisions on adoption make reference to define terms, expressions and concepts, adoption principles, informing and opinion of the child (Law no. 273/2004). These provisions are also found in the Moldovan legislation (Law no. 99/2010) along with the specification of regulatory objective of the legislative acts. Similarities and differences regarding general provisions on adoption in Romania and Moldova are presented in Table no. 1.

**Tab. no. 1 General provisions concerning adoption in Romania legislation (Law no. 273/2004) and Moldova legislation (Law no. 99/2010)**

Provision	Romania	Moldova
Object of regulation	-	protection of child rights through adoption; establishing the legal status of adoption; cooperation between public administration authorities and non-governmental organizations to ensure of the child a healthy family environment; international collaboration in child protection through adoption



Provision	Romania	Moldova
<b>Definition of certain terms, expressions concepts</b>	adopter; internal adoption; international	adoption; adopter certificate
	adopted; Hague Convention; child; General Directorate of Social Assistance and Child Protection; adoptive family; family; extended family; substitute family; Romanian Office for Adoptions; natural parent; individualized protection plan; the receiving State; habitual residence in Romania of the adopter /adoptive family; habitual residence of the child in Romania	adoption; adoptable child; adoptable child without special needs; adoptable child with special needs; child domicile; case manager; adoptive parent/parents; visiting permit; matching adopter
<b>The principles of adoption</b>	the principle of child higher interest; the principle of continuity in the child's education, taking into account of his ethnic, cultural and linguistic origin; the principle of informing the child and taking into account its opinion in relation to his age and his degree of maturity; the principle of celerity in carrying out any acts relating to the adoption procedure; the principle of ensuring confidentiality regarding the identification of the adopter, or, as the case, the adoptive family, as well as regarding the identity of the natural parents	
	the principle of raising and educating a child in a family environment	respecting the rights and fundamental freedoms of the child; priority of national adoption as against the international adoption
<b>Informing and child opinion</b>	Throughout the adoption process, the competent authority for adoption in whose jurisdiction is the child's home is obligated to provide him clear and complete information and explanations, according to his age and level of maturity, concerning the stages and the duration of the adoption process, the effects of adoption, the adopter and his relatives.	
	-	During the adoption process will be considered the opinion, the wishes and feelings of the child, depending on his age and ability of understanding.

#### 4. The substantive requirements of adoption in Romania and Moldova

Although the legislation of both countries subjected to the analysis contains a chapter with the same title, concerning the substantive requirements of adoption, the content of these chapters have multiple differences.

In this context, in the Romanian legislation, Law Nr. 273 of 21.06.2004 concerning the adoption procedure – republished, provides in Articles 6-15 aspects regarding:

- interdiction of the adoption by two people, unless they are husband and wife;
- the conditions for approval of a new adoption;
- the persons that can not adopt;
- the adoption of a child born out of wedlock;
- the cases in which the court can overrule the natural parents refusal of consenting to adoption of the child;
- the consent of the child's natural parents or guardian, after informing about the consequences of expressing consent, which must be given in front of court, along with the settling for request to initiate the procedure of adoption;
- the consent to adoption of the child who has attained age 10, which must be given in front of court, fulfilling by the adopter the moral guarantees and material conditions necessary for growth, education and harmonious development of the child; interdiction the adoption of a child whose biological parents have not reached 14 years old;
- the expression of consent for minor parent who reached the age of 14 with his legal guardian assisting.

In Moldova, according to Articles 10-12 of Law no. 99 of 28.05.2010 concerning the legal status of adoption, for the substantive conditions is remarkable the following:

- a person may be adopted only until the age of 18;
- interdiction the separation of brothers by adoption, except where this requirement is contrary to the best interests of the child;
- the conditions for brothers adoption by the adopters from different states;
- interdiction the adoption among brothers;
- adoption is permitted only to persons who have full legal capacity, who are aged 25 years and are at least 18 years older than the one that they want to adopt, but by no longer than 48 years;
- adoption of the child by the spouses is only permitted if the marriage lasts at least 3 years until the moment of submission the application for adoption;
- the foreign citizens and stateless persons residing in Moldova may adopt children under the procedure of national adoption, if they are resident in the Republic of Moldova for at least three years before the application for adoption.

### 5. Some coordinates of national and international adoption procedure in Romania and Moldova

Both in Romania and in Moldova, the national adoption procedure has a separate chapter in specialized legislation. The analysis of the two procedures emphasizes multiple similarities (as shown in Table no. 2), the differences being found mainly in the deadlines until consent adoption and the substantive conditions of adoption.

Thus, for Romania, the adoption procedure is laid down in Chapter III of the Law no. 273 of 21.06.2004 on the procedure of adoption, with subsequent amendments, Art. 18 - Art. 38, and for Moldova the adoption procedure is laid down in Chapter IV of Law no. 99 of 28.05.2010 concerning legal status of adoption, Art. 13 - Art. 31.

**Tab. no. 2 Regulations regarding national adoption in Romania and Moldova**

	<b>Romania</b>	<b>Moldova</b>
<b>Stipulations</b>	<ul style="list-style-type: none"> <li>• The attestation for adopter or adoptive family (evaluation of moral guarantees and material conditions; certificate for person or family fit for adoption)</li> <li>• Opening the internal adoption procedure (individual protection plan; permission for opening the adoption procedure)</li> <li>• Entrusting in view of adoption (selection and analysis of the adopter; conditions of entrustment; physical and psychological adjustment of the child in the new family environment; monitoring the child evolution)</li> <li>• Approval of the adoption</li> </ul>	<ul style="list-style-type: none"> <li>• The application for adoption (how to apply, content, documents attached)</li> <li>• The adoption capacity of the adopter</li> <li>• The certificate of adopter</li> <li>• Record keeping and the preparation of adopters;</li> <li>• The status of adoptable child</li> <li>• Record keeping and information on adoptable children</li> <li>• Consent to adoption (from the biological parents, from the adoptive parents, from the child)</li> <li>• The matching of the adopter</li> <li>• Custody of the child in view of adoption;</li> <li>• Approval of the adoption</li> </ul>

Source: author processing under the laws of Romania and Moldova

International adoption is adoption in which adopting person or family and the child that are to be adopted are habitually resident in different states and after the declaration of adoption, the child will have the same habitual residence of the adopter.

In Romania, international adoption is regulated by Chapter IV - International adoption procedure of Law no. 273 of 21.06.2004 on the procedure of adoption, amended and supplemented, by the content of Art. 39 - Art. 49, while, in Moldova, international adoption procedure is regulated by the provisions of Chapter V - International adoption of Law no. 99 of 28.05.2010 on the legal status of adoption, by the content of Art. 32 - Art. 39.

In both states subjected to the analysis, the procedure of international adoption of a child with habitual residence in Romania or Moldova are carried out in accordance with the provisions of the Hague Convention on Protection of Children and Cooperation in Respect of International Adoption.

If in Romania in 2000 the number of international adoptions exceeded the number of national adoptions, significant reform of the child protection system has brought major changes on the international adoption procedure, so that, in the period 2006-2012 has not been registered international adoptions.

Since the economy paper does not allow the presentation all of legal aspects regarding international adoption in Romania, we consider noteworthy the following (Romanian Office for Adoptions, 2015):

- A child with habitual residence in Romania may be adopted by a person/family with abroad habitual residence only in situations where: adopter or one of spouse from adoptive family is relative up to the fourth degree (including) with the child for whom was affirmed national adoption procedures; adopter or one spouse from adoptive family is also Romanian citizen; the adopter is the spouse of natural parent of the child whose adoption is requested.

- According to Italian law, a person habitually resident in Italy who wants to adopt a child from Romania must be married, and according to US law, the person with habitual residence in the US wishing to adopt a child from Romania must also have American citizenship, and for families, at least one spouse must also have US citizenship.

- In the international adoption initiative have priority persons/families with habitual residence in Romania, on the basis of the subsidiarity principle of international adoption in relation to national adoption.

- The age of children eligible for international adoption will be at least 3 years.

- The minimum number of meetings between the adoptable child and the adopter is 8, of which at least 4 meetings will take place in the presence of appropriate officer and/or a psychologist.

- Before the approval of international adoption by the court, in order to relate with the child, the adopter has the obligation to actually live in Romania for a minimum of 30 days.

- Relatives up to the fourth degree (inclusive) with the child having their usual residence in Romania have priority at adoption compared to relatives abroad. Relatives up to fourth degree (including) with the child having their usual abroad residence have priority at adoption compared to other adopters/adoptive families.

- After approval of the adoption, Romanian Office for Adoptions through the competent authorities of the receiving State has the obligation to follow the progress of the adopted child and its relations with the adoptive parents for at least 2 years.

- According to Romanian law, for international adoption procedure are not provided any taxes.

Although the legal status of adoption in Moldova is recently regulated by Law no. 99 of 20.05.2010, significant changes are observed in the field of international adoption based on Law no. 283 of 12.13.2012, changes that hinder the adoption procedure, as demonstrated by the low number of international adoptions registered in the period 2010-2014. It is noted changes concerning to: the conditions for international adoption; international adoption application and annexes; depersonalized dates and preliminary matching about adoptable children with special needs; the endorsement for international adoption (Law no. 283, 2012).

## **6. Conclusions**

For Romania, 1997 is the beginning of significant reform of the child protection system. The EU accession has produced changes in Romanian legislation on children's rights and adoption, legislation which is now in full compliance with the UN Convention on the Rights of the Child and the European Convention on Human Rights and completes the reform of child protection (Euractiv, 2013).

Adoption Reform in Moldova is conducted quite difficult. The informational goal regarding the child proposed for adoption, late establishment of the State Register of Adoption, lack of an appropriate regulatory framework especially for international adoption, lack of monitoring fees charged by international organizations regarding the adopters, lack of transparency in the adoption process are just some of the shortcomings of the adoption process in Moldova (Bloguvern, 2013).

Without claiming an exhaustive approach, through this article we presented the essential coordinates of the adoption institution from Romania and Moldova. From the aspects submitted it can be identified both similarities and differences. We believe that the provisions of Romanian legislation on adoption, which are fully consistent with European law, might represent highlights for the legal status of adoption in Moldova.

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# WILFUL MISCONDUCT VICE OF CONSENT ACCORDING TO THE NEW CIVIL CODE

Nicolae, Grădinaru<sup>1</sup>

## **Abstract:**

*The wilful misconduct represents the misleading of a person by another person by using evil means to cause him/her to clinch a legal act to which he/she would not have consented otherwise.*

*Similarly to error, the wilful misconduct falsifies reality, but this false reality is caused by evil means by the other contracting party. Some authors define wilful misconduct as “an error caused” by the other contracting party.*

*The party whose consent was vitiated by wilful misconduct may request cancellation of the contract, even if the error which he/she was involved in was not essential. The penalty is relative nullity of the legal act concluded, because the rule of law protects a private interest with the right of the wilful misconduct’s victim to claim damages, that is to say damages compensation to cover the loss suffered.*

*Being a relative nullity, it can only be invoked by the party whose consent was vitiated, the heirs having no active procedural standing to invoke the relative nullity because it is a personal action; they may continue the lawsuit if after initiating the action the victim of the wilful misconduct died.*

**Keywords:** *wilful misconduct; vice of consent; fraudulent acts; obtaining by insidious means; suggestion; fraud; relative nullity.*

## **General considerations**

Wilful misconduct - cunningness. The wilful misconduct is that vice of consent that represents the misleading of a person by cunning means in order to induce him/her to conclude a legal act.

The wilful misconduct is a vice only to the extent to which it results in causing an error in the will of the document’s author. If the author discovers the error induced before signing the legal document, it is not signed under the spur of the error caused by the wilful misconduct and if the legal document is signed, it is valid.<sup>2</sup>

The wilful misconduct represents the misleading of a person by another person by using cunning means to cause him/her to clinch a legal act to which he/she would not have consented otherwise.

Similarly to error, the wilful misconduct falsifies reality, but this false reality is *caused by evil means* by the other contracting party. Some authors define wilful misconduct as “*an error caused*” by the other contracting party.

According to the stipulations of article 1214 of the Civil Code, the consent is vitiated by wilful misconduct when the party was involved in an error caused by the fraudulent manoeuvres of the other party or when the latter failed, fraudulently, to inform the contractor of certain circumstances that ought to have been disclosed to him/her.

The party whose consent was vitiated by wilful misconduct may request cancellation of the contract, even if the error in which he/she was involved in not was essential.

### *The structure of the wilful misconduct*

The wilful misconduct vice of consent has two components:

- the material element (objective), represented by the fraudulent manoeuvres, that is to say machinations, artifices, deceitfulness, falsification of documents, to distort reality and to conceal the truth, which is called positive wilful misconduct, for example, changing the odometer in a car before selling it to hide how long it has been used, and the negative wilful misconduct (by reticence) consists of concealing or failing to inform the other party about certain critical circumstances which, if the other party had known, he/she would not have

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<sup>2</sup> C.Hamangiu, I.Rosetti-Bălănescu, al.Băicoianu – *Tratat de Drept civil român (Romanian Civil Law Treaty)*, All Beck Publishing House, 2002. p. 83.

signed the legal document, such as the concealing by the seller of a house the fact that it was built of adobe and failing to inform the buyer about this reality because if he/she had known the reality, he/she would not have contracted.

- the subjective element, that is to say the intention to deceive the other contracting party in order to persuade him/her to sign the legal document. We meet the intention to deceive also in the case of the liberalities where the wilful misconduct has the form of obtaining by insidious means and suggestion<sup>1</sup>. Thus, a part, in the case of *obtaining by insidious means*, uses its influence over the testator and directs the liberality that he/she will perform. That means the use of evil means in order to win the holder's affection and thus determine him/her to make a liberality (a donation, a legacy) for the author of these cunning means, which otherwise he/she would not have done.

Obtaining by insidious means consists of fraudulent means to gain the holder's confidence and to deceive his/her good faith to determine him/her to donate a good to be gratified by will, and the suggestion is exercised by concealed and tendentious means in order to plant in the holder's mind the idea of making the liberality which he/she would not have made on his/her own initiative

*Suggestion* is the act through which the testator is suggested the idea of making a liberality to an individual to whom he/she would not have made such gratification.

Suggestion is exercised by concealed and tendentious means in order to plant in the holder's mind the idea of making a donation or of establishing a legacy that he/she would not have done on his/her own initiative.

The obtaining by insidious means and the suggestion represent the cause for revocation of liberality only if the means used are indeed deceptive, fraudulent. The insidious means cannot invalidate the liberality if they are not characterised by wilful misconduct. Therefore, liberality may be cancelled only if the fraudulent manoeuvres had as result the alteration of the holder's will, in the sense that without their exercise, the holder would not have made the act of liberality.<sup>2</sup>

In case we have an intention to mislead and the party is still deceived, the legal document will be cancelled for error and not for wilful misconduct.

#### *Terms*

To be considered wilful misconduct, two conditions must be fulfilled:

- the error caused by the wilful misconduct to be decisive, that is to say that without it, the respective party would not have signed the act, although the Civil Code no longer provides the crucial character of fraudulent (evil) manoeuvres. The wilful misconduct is defined as having two assumptions, namely:

a) *the party was involved in an error caused by a fraudulent manoeuvres of the other party;*

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<sup>1</sup> Decision no.1160/16.06.1992 of the Supreme Court

The provision documents available as a gift are subject to the rules of the common law regarding vices of the consent. The wilful misconduct is a cause of nullity of the legal act when the evil means employed by one of the parties are such that it is obvious that without these manoeuvres the other party would not have contracted.

In terms of liberalities, the wilful misconduct manifests itself as obtaining by insidious means and suggestion. Obtaining by insidious means consists of fraudulent manoeuvres and fraudulent means to gain the holder's confidence and to deceive his/her good faith to determine him/her to donate a good or to be gratified by will, and the suggestion is exercised by concealed and tendentious means in order to plant in the holder's mind the idea of making the liberality which he/she would not have made on his/her own initiative.

Obtaining by insidious and suggestion represent the grounds for nullity of liberality only if the means used were deceptive, fraudulent and resulted in the alteration of the holder's will, meaning that without their exercise he/she would not have made the act of liberality.

<sup>2</sup> Decision no. 953/08.06.1978 of the Supreme Court. Civil Division

Decision no. 1917/27.08.1974 of the Supreme Court. Civil Division

Repertoire of civil judicial practice of the Supreme Court and of other courts for the years 1969 to 1975.

b) the *wilful misconduct by reticence when the party failed, fraudulently, to inform the contractor of the circumstances which ought to have been reveal to him/her.*

- the wilful misconduct comes from the other contracting party (there are also situations where the wilful misconduct comes from a third party, but aiding and abetting of the party using the error caused).

This condition concerns the contracts for pecuniary interest, the wilful misconduct coming from the other party. This condition is not met in the unilateral acts, such as the case of the will when we talk about obtaining by insidious means or suggestion and not by the other contracting party.

The contract can be annulled and when the wilful misconduct comes from the representative, the official in charge or the managing director of the other party's business.

*The wilful misconduct committed by a third party*

The party who is the victim of a third party's wilful misconduct may not request the cancellation of the legal act concluded except if the other party knew or, according to the case, should have known the wilful misconduct upon signing the contract.

Independent of the cancellation of the contract, the author of the wilful misconduct is liable for damage that would result.

*Classification of the wilful misconduct*

Originating in Roman private law – which distinguishes between *Dolus malus* (serious wilful misconduct) and *Dolus bonus* (minor wilful misconduct), the new regulations do not make this distinction anymore, the old civil code distinguished according to the consequences it had on the validity of the legal act, distinguishing between *the primary wilful misconduct* and *the incident wilful misconduct*.

The primary wilful misconduct covers the main elements of the contract and has the effect of cancellation.

The incident wilful misconduct refers to the secondary elements, accessories and which do not entail the nullity of the contract.

*Direct and indirect wilful misconduct*

*The direct wilful misconduct* is crucial for the very completion of the legal act; it is a ground for nullity.

*The indirect wilful misconduct* does not lead to the cancellation of the act, but only justifies the introduction of an claim for damages.

*Wilful misconduct by committing and wilful misconduct by omitting*

The Civil Code distinguishes between the wilful misconduct by committing and omitting which are also called positive wilful misconduct, respectively negative wilful misconduct or by reticence.

The positive wilful misconduct (by committing) – the consent is vitiated by wilful misconduct when the party was involved in an error caused by the fraudulent manoeuvres of the other party, it is materialised in fraudulent manoeuvres, machinations, artifices, deception, falsification of documents.

For example, the transaction which covers all the disputes between the parties remains valid even if subsequent to the clinching of the transaction there were discovered documents unknown to the parties, except when they had been concealed by the deed of one of the contracting parties or by either party knowingly, by a third party, in which case the transaction is cancellable by invoking the wilful misconduct (article 2276 paragraph 1 of the Civil Code) "*The subsequent discovery of documents unknown to the parties and which could have influence the content of the transaction does not represent a ground for its invalidity, except the situation in which the documents were concealed by one of the parties or, knowingly, by a third party.*"

The negative wilful misconduct (by omitting or by reticence) – the other party has fraudulently omitted to inform the contractor of the circumstances which ought to have been

revealed to him/her, is materialised in the failure to inform the other party about the conditions of closing the legal act or about the hidden defects of the property that is the subject of the contract, although he/she had this obligation.<sup>1</sup>

According to article 298 of the Civil Code, marriage can be annulled at the request of the spouse whose consent was vitiated by error, wilful misconduct or violence.

A marriage may be annulled because of the error caused by wilful misconduct if the person whose consent has been vitiated in this way had a false representation of his/her future spouse's qualities which if he/she had known in reality, would not have consented to the marriage.

It is noteworthy that the wilful misconduct can be considered a vice of consent also in the case when the cunning manoeuvres were manifested by reluctance.

An example of wilful misconduct by reticence is met when one of the future spouses did not communicate his/her health condition to the other future spouse and has knowingly concealed a certain disease, its extent and manifestations, although he/she had this obligation; thus article 278 of the Civil Code provides that marriage does not happen unless the spouses declare that they have notified each other of their health.<sup>2</sup>

The most common cases of wilful misconduct by reluctance is the concealment of a serious chronic disease state upon entering marriage, but not the concealment of: some minor ailments curable even if they have a sexual nature (they may be invoked as a ground for divorce, but not as nullity of marriage), the poor material status, the spouse's age or the existence of a child out of wedlock. It is considered wilful misconduct when concealing a serious chronic disease such as inability to conceive<sup>3</sup>, except the state of insanity or mental debility which entails the absolute nullity of the marriage according to article 293 of the Civil Code or in the case of the wilful misconduct the sanction is relative nullity.<sup>4</sup>

The marriage annulment for wilful misconduct by reticence was ruled by the court of justice when, in case the wife hid in marriage the pregnancy condition as a result of her

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<sup>1</sup> Law no. 363 of 21.12.2007 on fighting unfair practices of professionals in their relationship with the customers and harmonisation of regulations with the European legislation on consumer protection, published in the Official Gazette, Part I no. 899 of 28.12.2007, as amended by Law no.130/2010 published in the Official Gazette no. 453/02.07.2010. Article 7

A commercial practice shall be regarded as misleading omission if, under the present facts, taking into account all its features and circumstances, as well as the limits of the media used to transmit the information, omits essential information necessary to the average consumer, given the context for making a trading decision knowingly and therefore causes or is likely to cause the consumer's making a transaction decision that otherwise he/she would not have taken.

A commercial practice shall also be regarded as misleading omission when, taking into account the matters referred to in paragraph (1), a trader conceals or provides in an unclear, unintelligible, ambiguous or out-of-time manner essential information or does not indicate the commercial intent of the practice, unless it is already apparent from the context, and when, in any of the cases, the average consumer is caused or is likely to be determined to make a trading decision that he/she would not have taken otherwise.

<sup>2</sup> Decision no.324/1990 of the Supreme Court. Civil Division

Decision no.658/1971 of the Supreme Court. Civil Division. R.R.D. no.7/1972, p.115-117.

<sup>3</sup> Decision no.5267/2005 of HCCJ. Civil and Intellectual Property Section.

<sup>4</sup> Decision no.1206/2003 of the Supreme Court

Absolute nullity occurs without distinguishing if the insane or the feeble-minded are or are not banned or if they marry during moments of transient lucidity or during moments when they do not have such lucidity. It is essential to determine whether, because of the mental illness one suffers from, a person is classified as someone who cannot enter into marriage, even if the conclusion date would be in a moment of lucidity.

Therefore, the insane or the feeble-minded cannot marry, not only because their condition is exclusive of free consent expression, but also because of the biological considerations. In order to establish the nullity of marriage in the case of insanity or mental debility, these situations must exist on the date of marriage and may be proved by any means, not only at the time of the marriage, but also later. The circumstance in which the spouse had known or not, prior to the marriage, the existence of a state of insanity or of mental debility in the other spouse is irrelevant and therefore absolute nullity sanctioning the marriage cannot be ruled out, being justified by a social interest. The acknowledgement of the spouse's poor health status at the time of entering into marriage does not lead to its validation.



relationship with another man, although the wife was not required to notify this state to her husband, because according to article 278 of the Civil Code, marriage does not happen if the future spouses do not declare that they have notified each other of their health, yet her conduct is fraudulent affecting the trust between the spouses on which marriage is based.<sup>1</sup>

The wilful misconduct by reticence is characterised by that the material element of its structure consists of a fact by omission (inaction) materialised in the concealment by one of the contract partners, or by the fraudulent non-communication with the other party of an essential circumstance that had to be known by him/her in order to have a correct representation of the real facts of concluding the civil act (the contract), a circumstance that ought to have been revealed.<sup>2</sup>

#### *The evidence of the wilful misconduct*

The wilful misconduct is not assumed, it must be demonstrated so that the party invoking the nullity of a legal act based on the fact that vitiation of consent has occurred through wilful misconduct must prove by any evidence, written documentary evidence, assumptions, including witnesses<sup>3</sup> and according to the rules applicable to the probation of the legal fact.<sup>4</sup>

According article 1214 paragraph 4 of the Civil Code the wilful misconduct is not assumed.

The wilful misconduct involves, in addition to the intention of misleading, an actual activity.

In the case of the wilful misconduct by reticence when the party has fraudulently failed to inform the other, such as concealing a defect of the item sold, the proof will be done with the defect of the item and which if the party had known, would not have signed the contract.

#### *Fraud and wilful misconduct*

The Civil Code regulates in article 14 the bona fide, so that any natural or legal person must exercise their rights and perform their civic obligations in bona fide, in accordance with the public order and the good morals.

According to article 723 of the Code of Civil Procedure, “Procedural rights must be exercised in good faith and in accordance with the purpose for which they were acknowledged by law. The party using these rights abusively is responsible for the damages caused.”<sup>5</sup>

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<sup>1</sup> Decision no.1049/10.06.1976 of the Supreme Court. Civil Division

<sup>2</sup> Sache Neculaescu, Livia Mocanu, Gheorghe Ghiorghiu, Ilioara Genoiu, Adrian Țuțuianu – Instituții de drept civil (Institutions of civil law). Universul Juridic Publishing House. Bucharest 2012. pp.57-60.

<sup>3</sup> Law no.134/2010 Civil Procedure Code, published in the Official Gazette no.485/15.07.2010 amended by Law no.76/2012 published in the official Gazette no.365/30.05.2012, republished in the Official Gazette no.545/03.08.2012. Article 309 paragraph 4

(4) The testimony with witnesses is also inadmissible if in order to prove a legal document the law requires the written form, except the cases in which:

1. the party was in material or moral impossibility to produce a document to prove the legal act;
2. there is a beginning of written proof, according to the stipulations of article 310;
3. the party lost the evidencing document because of unforeseeable circumstances or force majeure;
4. the parties agree, even tacitly, to use this proof, but only regarding the rights that they may have;
5. the legal act is attacked for fraud, error, wilful misconduct, violence or is null and void for illegality or immorality, according to the case;
6. it is required to clarify the terms of the legal act;

<sup>4</sup> Decision no. 2330/2001 of the Court of Appeal Bucharest. 3<sup>rd</sup> civil section

The wilful misconduct is a ground for nullity of the agreement when one of the parties has used evil means (machinations, artifices, cunningness, fraudulent manoeuvres) to mislead.

The wilful misconduct is not assumed, so that the claimant must prove by relevant evidence the nature of the evil means used by the defendant to cause the signing of a different act than the agreed one.

<sup>5</sup> Law no.134/2010 Civil Procedure Code, published in the Official Gazette no.485/15.07.2010 amended by Law no.76/2012 published in the Official Gazette no.365/30.05.2012, republished in the Official Gazette no.545/03.08.2012

Article 12 Good faith

(1) Procedural rights must be exercised in bona fide, according to the purpose for which they were acknowledged by law without infringing the procedural rights of another party.

The enforcement of the law, in its letter and spirit, is a public interest necessity and therefore the legal acts committed fraudulently shall be penalised with absolute nullity.

Fraud differs from wilful misconduct, although it has a common element: the bad-faith of its author.

While the wilful misconduct is exerted on one of the parties of the legal act, whose consent it vitiates, fraud is committed by the parties at the expense of the third parties, leaving unaltered the consent of the parties in order to achieve an unfair advantage for those who commit fraud.

Fraud to law represents a fraudulent manoeuvre used by the parties to make, by means of the legal act, a finality prohibited by the regulations in force, by the occult and indirect circumvention of a prohibitive rule. Unlike the wilful misconduct practiced by one party over the other, thus vitiating his/her consent, fraud to the law is an act committed by collusion by the contractors at the expense of the third parties.

Absolute nullity, as civil penalty, occurs in case of infringement upon the conclusion of a legal act of certain mandatory rules and which protect the general public interest and has the effect of abolishing the legal act and of restoring the parties to the previous situation.<sup>1</sup>

The interest of the distinction between fraud and wilful misconduct is that the former is sanctioned by the absolute nullity of the legal act and the latter draws the relative nullity.

According to article 45 of the Civil Code, the fraud committed by the incapable is the simple statement that he/she is able to contract, made by the one lacking the exercise or with limited exercise capacity, and does not remove the cancellability of the act. *But if he/she used fraudulent manoeuvres, the court, at the request of the party misled, may keep the contract when it considers that this would be an appropriate civil penalty.*

According to article 1237 of the Civil Code, fraud by law is also when the cause is illicit and when the contract is only the means to circumvent the application of mandatory legal rules.

#### *The sanction of the wilful misconduct*

According to article 1214 paragraph 2 of the Civil Code, the party whose consent was vitiated by wilful misconduct may request the cancellation of the contract, even if the error in which he/she was involved in was not essential.

The penalty is the relative nullity of the legal act concluded, because the rule of law protects a private interest, with the right of the victim of the wilful misconduct to claim damages as well, that is to say damages covering the loss suffered.

Being a relative nullity, it can only be invoked by the party whose consent was vitiated, the heirs have no active procedural standing to invoke the relative nullity because it is a personal action, they may continue the lawsuit if after starting the legal action the victim of the wilful misconduct died.<sup>2</sup>

According to article 1214 paragraph 3 of the Civil Code, the contract is also cancellable when the wilful misconduct comes from the representative, official in charge or the managing director of the other party's business.

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(2) The party exercising his/her procedural rights in an abusive way is liable for the material and moral damages caused. It may be required, according to the law, to pay a judicial fine.

(3) The party who fails to fulfil in good faith his/her procedural obligations is liable according to paragraph (2).

<sup>1</sup> Decision no.32/2010 of Craiova Court of Appeal. Commercial section.

By the fraudulent manoeuvre of the two defendant companies it was aimed that SC S. J. SRL created a state of forced, artificial insolvency and which cannot be enforced for those earlier claims because the amount from the sale price obtained from selling the two estates by N. to SC E. COM SRL was not reflected in the heritage of SC S. J. SRL at the onset of the judicial liquidation procedure.

Also the aim of the sale was that in case of restoring the previous situation, the applicant is unable to repossess the properties, just by raising the status of bona fide purchaser of SC E. COM SRL, in reality he/she was a screen interposed by SC S. J. SRL.

This makes the legal object of the contract, the aim set by the parties to be an illicit one.

<sup>2</sup> Gabriel Boroi, Liviu Stănciulescu – Instituții de drept civil (Institutions of civil law). Hamangiu publishing House. Bucharest 2012. pp. 105-109.

In all cases, the act ended as a result of the wilful misconduct is not null and it entitles the victim only to an action for annulment. The act of a person of using cunning means in relation to another person may represent, in criminal law, the offense of fraud.<sup>1</sup>

According to article 1249 paragraph 2 of the Civil Code, relative nullity may be invoked by means of action only in the prescription term established by law. However, the party asked to perform the contract can always oppose the relative nullity of the contract at any time, even after reaching the prescription term of the right to action for annulment.

According to article 2529 of the Civil Code, the prescription term of the right to an action for annulment of a legal act begins:

- a) in the case of violence, since the day it ended;
- b) in the case of the wilful misconduct, since the day when it was discovered;
- c) in case of error or in the other cases of cancellation, since the day when the righteous, his/her legal representative or the one called by the law to approve them or to authorise their acts, has known the cause of the cancellation, but no later than 18 months from the completion of the legal document.

In the cases in which the relative nullity may be invoked by a third person, the prescription begins to run, if it is not otherwise provided by law, since the date when the third party knew about the existence of invalidity cause.

According to article 298 of the Civil Code, marriage can be annulled at the request of the spouse whose consent was vitiated by error, by wilful misconduct or by violence.

The error represents a vice of consent only when it concerns the physical identity of the future spouse.

According to article 301 of the Civil Code, marriage annulment may be claimed within 6 months.<sup>2</sup>

In the case of the nullity for vices of consent or for lack of discernment, the term begins to run from the date of cessation of violence or, where applicable, since the date on which the person concerned has undergone the wilful misconduct, the error or the temporary lack of discernment.

According to article 479 of the Civil Code, adoption may be cancelled at the request of any person called upon to consent to its conclusion and whose consent was vitiated by error related to the adoptee's identity, wilful misconduct or violence.

The action may be brought within 6 months from the discovery of the error or wilful misconduct or from the cessation of the violence, but not later than 2 years since the end of the adoption.

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<sup>1</sup> Article 215 of the Criminal Code in force  
Fraud.

Paragraph 3 Misleading or maintenance in error of a person on the occasion of entering into or performance of a contract, committed so that, without this error, the wronged would not have concluded or executed the contract under the terms stipulated, shall be sanctioned by the penalty provided in the preceding paragraphs according to the stipulations shown there.

Article 244 of the Criminal Code – Law no.286/2009 published in the Official Gazette no.510/24.07.2009.

Fraud

1) The misleading of a person by presenting as true a deceitful deed or as deceitful a true deed in order to obtain for oneself or for another person an unjust patrimonial good and if there has been done any damage it shall be punished by imprisonment from 6 months to 3 years.

2) Deception committed by using false names or deceitful qualities or other fraudulent means shall be punished with imprisonment of one to five years. If the fraudulent means are in themselves an offense, the rules on offenses are applied.

3) Reconciliation removes the criminal liability.

<sup>2</sup> Decision no.3746/2003 of the Supreme Court

In the action for annulment of marriage, the plaintiff has the obligation to prove that his/her claim was brought within 6 months after the discovery of the deception ascribed to the defendant.

According to article 1215 paragraph 2 of the Civil Code, independently from the cancellation of the contract, the author of the wilful misconduct is liable for the damage that would result. Thus, if through the wilful misconduct produced the author caused damage by his/her unlawful conduct, there arises the right of the victim to request, together with the request for annulment of the contract or separately, the repair of the damage caused by the wilful misconduct according to article 1357 of the Civil Code.<sup>1</sup>

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<sup>1</sup> Article 1357 of the Civil Code

He who causes injury to another by an unlawful act committed with guilt, is forced to fix it.  
The author of the damage is liable for the slightest fault.

# THE RIGHTS OF JUVENILES IN DETENTION IN THE INTERNATIONAL DOCUMENTS

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## **Abstract:**

*International documents extensively regulate children's rights also in the case of committing an offense stipulated by the criminal law.*

*Criminological research has shown that delinquency among minors must be prevented primarily through measures of protection, education and rehabilitation of juvenile offenders. School and family are two important factors for juvenile integration into society.*

*The educational measures meet this preventive nature, being a function of training, of educational and professional training, of delinquent behaviour correction. Unlike educational measures, the punishments perform coercion and exemplarity functions.*

**Keywords:** *juvenile, detention regime, international documents, human rights.*

The method of resorting to other penalties penalty instead of imprisonment represents an important one for reducing the criminal antecedents, as studies show that the minors detained are more likely to commit new offences.

International documents extensively regulate children's rights also in the case of committing an offense stipulated by the criminal law. The main international documents in this field are: the Convention on the Rights of the Child, the United Nations Standard Minimum Rules for the Administration of Juvenile Justice (Beijing Rules), the United Nations Rules for the Protection of Juveniles Deprived of their Liberty, the United Nations Guidelines for the Prevention of Juvenile Delinquency (Riyadh Guidelines).

I. *The Convention on the Rights of the Child* was adopted by the UN General Assembly on 20 November 1989 and entered into force on 2 September 1990.

This Convention stipulates rights such as: the right to life (article 6), child protection against all types of discrimination regardless of race, gender, language, religion (article 2), the right to express one's views freely (article 12); to seek and impart information and ideas of all kinds (article 13); the right to freedom of thought, of conscience and religion (article 14); the right to have access to any information source, to rest and to vacation (article 31), etc. These rights are protected both during times of peace and war.

The signatory countries in this Convention are obliged to harmonise their national legislation with its provisions.

There is special protection against deprivation of liberty done unlawfully or arbitrarily. Thus, article 37 letter b. of the Convention on the Rights of the Child states that: "no child shall be deprived of liberty unlawfully or arbitrarily. The arrest, detention or imprisonment of a child under the law shall only be a last resort measure and shall be as short as possible." Further on in the article, at letter c. and d., it is mentioned that treatment with respect of any child deprived of liberty according to his/her age is absolutely necessary. Children deprived of liberty shall be separated from adults unless it is considered preferable not to be separated; they have the right to keep in touch with their family through mail and visits, as well as the right of access to legal assistance. Article 37 letter a. also stipulates that the death penalty or life imprisonment does not apply to people aged under 18. In the same paragraph of the article it is also mentioned that the child shall be protected against torture, punishment or cruel, inhuman or degrading treatment.

A number of criminal procedural guarantees are stipulated in article 40 point 2 letter b: the child must be informed of the charges against him/her and be given legal assistance;

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he/she must benefit from the presumption of innocence; the case must be settled without delay; he/she shall not be compelled to confess his/her guilt; he/she must be given the right to appeal, the right of his/her views to be taken into account, etc. Particular importance is given to the child's right to be heard in any judicial or administrative procedure, a right which before the adoption of this Convention was inserted only in special laws, but not in a treaty.

Mainly speaking, the rights of the minors are considered as a whole. However, the novelty brought by the Convention on the Rights of the Child is that "it introduced in the international law new rights that had not existed before, such as the right of children to preserve their nationality, name and family relations, as well as the right of local children to maintain their own culture (article 8 and 30) (Versavia Brutaru, 2012)".

II. *The United Nations Standard Minimum Rules for the Administration of Juvenile Justice (the Beijing Rules)* was approved by the UN General Assembly Resolution no. 40/33 of 29 November 1985 and adopted by the Seventh United Nations Congress on the Prevention of Crime and Treatment of Offenders.

The Beijing Rules are divided into six sub-sections: general principles; instruction and prosecution; trial and resolution of the causes; treatment in an open environment; treatment in institutions; research, planning, policy development and assessment.

These minimal rules do not have the status of a treaty, not being binding for the states, they act as a recommendation, and some of them became mandatory to the extent to which they were included in the Convention on the Rights of the Child. (Versavia Brutaru, 2012)

The articles from the beginning, especially 1.1 and 1.3 focus on the need to ensure the welfare of the minor and the effective, human and equitable treatment of the person in conflict with the law.

Article 1.4 states that juvenile justice is an integral part of the national development process of each country and it contributes to the protection of young people. The rules in this set are expressed so as to take into account the existence of economic, social and cultural conditions of each Member State (article 1.5)

The minimum rules apply to juvenile offenders impartially, regardless of race, colour, gender, language, religion, political or other opinions, national or social origin, wealth, birth or other status (article 2.1). The terms of "minor" and "offense" are defined in article 2.2, at the end of it, by joining the two terms the meaning of "juvenile offender" is outlined. Thus:

- "the minor" is a child or a young person who may be responsible for an offense under a system of sanctions different from those applicable to an adult;
- "the offence" means any conduct that may be action or inaction and which is punished according to a legal system;
- "the juvenile offender" may be a child or a young person accused or found guilty of an offense.

The adoption of national laws is necessary to ensure a better applicability of this set of minimum rules (article 2.3).

The limit of criminal liability greatly differs depending on periods and cultures. In order to determine the age of criminal liability we take into account a child's capacity of discernment and understanding in order to see if he/she can bear the moral and psychological consequences of the criminal liability, that is to say if he/she can be held responsible for an antisocial behaviour. When the age of criminal liability is set too low or there is no age limit, then the concept of criminal liability does not make much sense. There must be a relation between the notion of criminal liability and other social rights and responsibilities (for example the civil adulthood, the marital status, etc.).

The threshold of criminal liability should be set at a reasonably low limit and be applicable in all countries (article 4.1).

Article 5.1 aims at two important objectives of juvenile justice. The first objective is to ensure the welfare of the minor by making a sanctioning system appropriate for minors. The second objective considers “the principle of proportionality” of the punishment. It is necessary to take into account the seriousness of the offense and the personal circumstances, as well as the social situation, the family situation or other factors (for example, to take into account the offender’s effort to compensate the victim or his/her desire to return to a healthy and useful lifestyle).

Juvenile justice must be effective, reasonable and humane, as highlighted in article 6.1, 6.2 and 6.3. Responsibility and professionalism are some of the most important qualities in applying fair justice to juvenile offenders.

Fundamental procedural warranties to ensure a fair trial are set out in article 7.1: the presumption of innocence, the right to be informed about the charges brought, the right to remain silent, the right to defence, the right to the presence of a relative or guardian, the right to examine and confront witnesses and the right to trial in two levels of court. The presumption of innocence is emphasised, which is also included in article 11 of the Universal Declaration of Human Rights, as well as in paragraph 2 of article 14 of the International Covenant on Civil and Political Rights.

The minor’s right to privacy must be respected at all stages of the trial, especially since young people are particularly sensitive when qualified as “delinquent” or “offender”. This conclusion was reached based on criminological research. Young people must be protected against the harmful effects of the media; no information should be made public if it may lead to the identification of a juvenile offender, such as the name of the minor in preventive or final detention (article 8.1 and 8.2).

Article 10.3 stipulates matters related to the conduct of the police officers or other agents of coercive services in cases of juvenile delinquency. It is necessary to respect the legal status of the minor and to avoid causing damage, by this one can understand verbal aggression, physical violence, psychological violence etc. By this expression we must understand that the aim is to do justice and less harm to the minors.

Recourse to extrajudicial means can be taken at any time by the police, the prosecutors and other services responsible for delinquency problems (courts, tribunals, commissions or councils), without applying the formal criminal proceedings (article 11.2).

The custodian or parent must give his/her consent for sending the minor to community services, without this consent the decision is contrary to the Convention on the Rights of the Child. Juveniles should not be forced to give their consent, this being specifically underlined in article 11.3.

Article 11.4 recommends developing community programmes, especially those that provide temporary supervision and guidance for children not to come into conflict with the law or returning the goods and indemnities to victims. Recourse to extrajudicial means can also be justified in case worse offences were committed.

All those involved in the administration of juvenile justice must have good special training, especially the police, being the first body notified in performing juvenile justice. The police officers must act according to the situation, so as not to endanger the physical or mental integrity of the minor (article 12).

Preventive detention should be the last measure that could be taken on a short period of time. There must be the possibility that preventive detention be replaced by other measures, such as close supervision, assistance granted with utmost care or placement in a family, institution or educational home (article 13.1 and 13.2) .

Juveniles in preventive detention should receive all the rights and guarantees set out in the Standard Minimum Rules for the Treatment of Prisoners and the International Covenant on Civil and Political Rights (article 9 line b paragraph 2 and article 10 paragraph 3) (article 13.3).

The adult offenders' harmful influence should be removed so that juveniles shall be separated from adults. This is necessary because during preventive detention juveniles shall receive care, protection and full personal care, on social, educational, vocational, psychological, medical and physical level, taking into account their age, gender and personality (article 13.4 and 13.5).

*The 6<sup>th</sup> Congress of the United Nations* for crime prevention and treatment of offenders highlighted in the 4<sup>th</sup> Resolution regarding the Standard Minimum Rules for the Administration of Juvenile Justice that there is no need to resort to detention prior to trial and that juveniles should be separated from adult offenders taking into account the child's stage of development.

The right to be represented by a lawyer or of asking to be appointed a lawyer is required during the entire procedure. The parents or legal guardians may participate during the proceedings, but if their presence has a negative effect during the hearing, for example they have an attitude that frightens the minor, they may be excluded (Article 15.1 and 15.2).

Social inquiry reports aim at informing the competent authorities on issues such as the minor's antecedents, the conditions in which he/she lives, the school situation, the family situation, the circumstances in which the offense was committed, etc. The role of the social inquiry is to facilitate the trial. Article 16.1 recommends that the accomplishment of these reports be done by certain social services such as probation services officers (article 16.1).

For the juvenile offender the proceedings shall be conducted according to certain guidelines (article 17.1):

- to have proportionality between the court decision and the circumstances, the seriousness of the offense, the offender's circumstances and needs;
- restrictions on the personal liberty of the juvenile shall not be made until thorough examination of the case;
- in case there is no other alternative, imprisonment shall be imposed to the juvenile only if it is estimated that by the offense committed the minor caused damage to another person or he/she is a recidivist;
- the decisive criterion in the examination of the case shall be the welfare of the minor.

The purpose of the principles laid down in article 17.1 is to ensure the protection of the fundamental rights of young people and to define a procedure as close as possible to the universally accepted principles.

Article 17.2 completely prohibits the application of the juvenile death penalty. A similar statement is found in article 6, paragraph 5 of the International Covenant on Civil and Political Rights.

Corporal punishment is prohibited (article 17.3), an aspect also met in article 7 of the International Covenant on Civil and Political Rights, as well as in other international documents: the Declaration on the Protection of All Persons from Being Subjected to Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment and the Convention on the Rights of the Child.

The family is the most important element in the minor's development (article 18.2) or "the natural and fundamental element of the society" (article 10 paragraph 1 of the International Covenant on Economic, Social and Cultural Rights). The minor's separation from his/her parents is a serious measure and can be applied only in exceptional cases (for example maltreatment of the minor applied by his/her parents).

The admission of a juvenile in an institution shall be a measure of last resort, and its duration should be as short as possible (article 19.1). The 4<sup>th</sup> Resolution of the Sixth United Nations Congress states that no young offender shall be incarcerated in a penitentiary unless there is no other appropriate means.

The rapidity of the procedure is extremely important for the minor. A long time taken in the procedure is an obstacle for the minor in terms of intellectual and psychological



aspects. The lack of celerity makes the transition from the deed to the procedure that led to his/her sanctioning more difficult to overcome (article 20.1).

The mode of execution of the court decision must be carefully supervised by the competent authority or body (article 23.1 and 23.2). Thus, in certain countries there has been appointed a judge specifically charged with the enforcement of the sentences.

The 9<sup>th</sup> Resolution of the 6<sup>th</sup> Congress of the United Nations directs the states to ensure equitable treatment for the juvenile offenders during the course of the court proceedings and to pay extra attention to the problems of these offenders. There is a special requirement to ensure fair treatment for female offenders in order to avoid any form of discrimination. This is included to some extent in the recommendation contained in the Declaration of Caracas, which explicitly required ensuring equal treatment in the administration of criminal justice, and in the Declaration on the Elimination of Discrimination against Women and the Convention on the Elimination of all Forms of Discrimination against Women.

Article 26.1 and 26.2 underline the importance of treatment in an institution in the harmonious development of the minors. Medical and psychological care is extremely important for young drug addicts, violent and mentally ill people admitted in an institution.

The 4<sup>th</sup> Resolution of the 6<sup>th</sup> Congress of the United Nations recommends avoiding the negative influences of adult offenders and encourages the social reintegration of juveniles placed in institutions.

If it is proven that the minors have opportunities for reintegration, they can benefit from the parole system. The parole regime may be granted if certain conditions required by the relevant authorities during the probation period stipulated by law are met (article 28.1 and 28.2).

Article 30 draws attention to the review and development of programmes for juveniles and of planning juvenile justice in the context of global development. It is necessary to ensure community support for the successful implementation of the programmes adopted.

III. *The principles of the United Nations for preventing juvenile delinquency*, also known as the *Riyadh Principles or Guidelines* adopted by Resolution 45/112 of 14 December 1990 by the General Assembly of the United Nations.

The principles emphasise that the prevention of juvenile delinquency requires efforts from the whole society, which must ensure the harmonious development of teenagers. For the children to be reintegrated into society it is suggested to attract the family, the school and the community in this process.

The Riyadh Guidelines recommend the following:

- minors and young people should have an active role in partnership with the society and not be considered as objects of socialisation or control (paragraph 3);
- implementation of the principles will be done in accordance with the national systems, having as main objective the welfare of the young people (paragraph 4);
- the policies of progressive delinquency prevention and their study are necessary (paragraph 5).

For the measures to be effective it is recommended that they be implemented along with other fundamental documents in the field: the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Declaration on Children's Rights and the Child's Rights Convention and the United Nations Standard Minimum Rules on the Administration of Juvenile Justice (the Beijing Rules) (Part 2: Purpose of Principles).

The prevention policies should facilitate socialisation and integration of children and youth, especially with the help of the family, community, compatible groups, schools, voluntary organisations, training and employment system (paragraph 10).

The 4<sup>th</sup> part of these principles, called Socialisation processes, has a section entitled Family. Thus, the principles want to emphasise that the family is the nucleus of the society, “the basic unit responsible for the primary socialisation of children” (paragraph 12). The society must give priority to the needs and welfare of the family and its members. If there is not a stable family environment and the family did not fulfil its role and the society failed in its mission to assist the parents in this conflict, there will be taken alternative placement measures including careful supervision and adoption (paragraph 14). The family performs the socialisation function, an aspect emphasised in this section.

Education and learning are key factors in preventing psychological failures, in emotionally supporting youth and their training.

Community services will be directed to advise young people and their families. The media should encourage the positive contribution of young people in society and to minimise the level of drugs, pornography or violence and to present violence and exploitation adversely (paragraph 41-43).

Legislation will be developed in preventing the victimisation, abuse, exploitation and use of children and youth in criminal activities (paragraph 53).

IV. *The 8<sup>th</sup> Congress of the United Nations on the Prevention of Crime and Treatment of Offenders adopted the New Standards Minimum Rules for Non-custodial Measures*, appointed on the recommendation of the Committee on Crime Prevention and Control, Tokyo Rules.

The Tokyo Rules were adopted by the United Nations General Assembly Resolution 45/110 within the 68<sup>th</sup> plenary session of 16 December 1990. The fundamental objectives of these rules are:

- encouraging the community to get involved more in the criminal justice process and in the treatment of offenders (rule 1.2);
- achieving a fair balance between the rights of the offender, the rights of the victims and the concerns of the society for the public safety and crime prevention (rule 1.4);
- development of non-custodial measures to rationalise criminal justice strategies taking into account the observance of human rights (rule 1.5);
- application of non-custodial measures shall be done in compliance with the offender’s and his/her family’s right to privacy (rule 3.10);
- provisional detention can only be a measure of last resort in criminal proceedings, taking into account the protection of society and of the victim (rule 6.1).

The Tokyo Rules represent both a “new international regulation and they also reflect the major changes occurring in the criminal philosophy and criminology.” (Versavia Brutaru, 2012).

Chapter 5 of these rules refers to the implementation of the non-custodial measures. The duration of the measures should be adapted to the behaviour and integration efforts of the offender. The purpose of the offender’s surveillance is to reduce reoffending and to ease the offender’s reintegration into society (rule 10.1).

For each non-custodial measure it is good to determine the supervision system or the treatment adapted to the delinquent (rule 10.3). If the offender responds favourably to the preventive measure it is likely to reduce the period of its application (rule 11.2).

Since the detention itself offers vulnerability to the person subjected to this regime, especially if he/she is a minor, it is estimated that the implementation of certain rules, as well as those outlined above, is absolutely necessary in a modern and civilized society for a better observance of the human rights and human dignity in particular.

V. *The European Prison Rules* were adopted by the Committee of Ministers on 11 January 2006, during the 952<sup>th</sup> meeting of the delegated Ministers. These rules state the following: children under 18 years old shall not be detained in prisons for adults, but in institutions specially designed for this purpose (rule 11). If, in exceptional circumstances,

children are incarcerated in these prisons, their situation and needs must be regulated by special rules.

The children imprisoned shall have access to social, psychological and educational services, to religious education and recreational programmes or their equivalent. There will be further assistance for the children released from prison (rule 35).

The legislator of the Romanian Criminal Code abandoned the mixed and penalising system consisting of educational measures and penalties, and adopted the theory of exclusive application of educational measures on juvenile offenders, a theory which was accepted during the communist period, adopted by Decree no. 218/1977, which only stipulated the measure of placement in a special working and re-education school for a period of 5 years at most, even for serious offenses (murder, robbery, etc.) (Gheorghe Ivan, Mari-Claudia Ivan, 2012).

Thus, in order to avoid subjecting juvenile offenders to torture, ill-treatment or contact with adult offenders during serving the sentence, the New Criminal Code brings a number of educational measures that are new as compared to the current regulation. The non-custodial educational measures regulated in the New Criminal Code are stipulated in article 115 as follows: the stage of civic training, supervision, confinement at weekends, daily assistance, and deprivation of liberty (articles 124 and 125 New Criminal Code) consist of the following: placement in an educational centre, placement in a detention centre.

Due to their nature and especially to their purpose, in accordance with the provisions of article 133 of the New Criminal Code, the educational measures applied by courts to juvenile offenders do not attract any prohibition, disqualification or disability (Costel Niculeanu, 2012).

### **Conclusions:**

The international documents presented in this study reflect best the juvenile offenders' rights internationally. Thus, the Convention on the Rights of the Child introduced new rights in the international legislation in this area; the Beijing Rules emphasise that juvenile justice is an integral part of the national development process of each country and contributes to the protection of young people; the Riyadh Guidelines emphasise that the prevention of juvenile delinquency requires efforts from the entire society; the Tokyo Rules reveal that the implementation of certain rules in this area is absolutely necessary in a modern and civilized society; the European Prison Rules provide the legal framework at EU level for juvenile offenders.

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# GOVERNMENTAL STRATEGY TO COMBAT CORRUPTION IN ROMANIA

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## Summary:

*Corruption in the public administration is an act, attitude or behavior of a person who holds himself a dose of power in certain spheres of social, politic, economic, legal, etc, or in certain professional fields whereby fulfills/does not fulfill certain tasks and aims to obtain goods, benefits, services for himself or for his family. Thus, corruption is directly related to the holding of power in a certain field and constitutes a threat to democracy, the rule of law, social equity and justice, eroding the principles of efficient administration, undermining the market economy and threatening the stability of state institutions.*

**Keywords:** *corruption, acts of corruption, anticorruption procedures, principles.*

Although corruption has been the subject of numerous studies and public debates so far there has not been reached a comprehensive definition, universally valid. This is because corruption is an extremely complex issue, which is presented in different forms, is manifested in all spheres of social life, threatening the stability and credibility of public authorities and institutions, and even the rule of law.

Corruption has been reported since ancient times, so it is not a product of the new democracy; it has been seen in the communist regime when it was facilitated by the lack of goods specific to that period. An example that seems relevant is the one of marketing color TVs' on the Romanian Market. The Romanian electronic industry started to produce in the 1980's color TV's. Sometimes there were also imported from URSS, but no one ever saw these TV's in shops. Being in insufficient quantities, the only methods to procure them was either through an acquaintance, or due to bribe, of both of them combined. Meaning, under conditions of tight supply over the official price there was added one typical to corrupt practices (Gulyas, Radu, Balică, Haruța, 2011) .

We all know that often, to easily solve a personal interest, a citizen goes to the doctor, city hall, police with a "gift", meant to guarantee the solving of the problem. Always, the doctor, public official or police man receive that "gift" in a natural manner, as a natural fact, ordinary, that they deserve, although the solving of that problem represents to them a duty. In all these cases we are standing in front of giving and receiving bribery crimes, in other words, corruption. Of small corruption that do not hurt the interests of a wider community, of a state.

When we talk about crimes like deception with serious consequences, tax evasion, bid faked embezzlement, money laundering, etc. terminating with the acquittal of the ones implicated or there are disposed only punishments with suspension, we tend to ask ourselves, regarding the corruption in justice, in the political area, about the big corruption. That corruption that affects the national economy, stigmatizing the cheek of a nation, destroys a nation's dignity. Corruption at a high level represents the most dangerous form of corruption because these acts can not be known by the public opinion but only when they are felt in the good administration of public business, under the shape of prejudice bought to the national economy, slowing the good functioning of the administrative apparatus.

After 1989, at a national level, the appearance of corruption, determined regulation laws, such as:

-Law no.78/2000 for preventing, revealing and sanctioning of acts of corruption<sup>2</sup>. This law establishes an obligation for persons holding a public position to perform their duties in

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<sup>2</sup> Published in the Official Gazette no. 219 of the 18th of May 2000.

strict compliance with the laws and rules of professional conduct, to protect the legitimate rights and interests of citizens, without the use of powers acquired in virtue of his position to acquire for themselves or others of money, goods or favors;

-Law no.161/2003 regarding some measures for ensuring transparency in exercising the public dignities, of public positions and in the business environment, prevention and sanctioning of corruption<sup>1</sup>;

-Law no.144/2007 regarding the establishment, organization and functioning of the National Integrity Agency<sup>2</sup>.

All these laws, adopted only in view of Romania's accession to the European Union that contained ambiguous, repetitive provisions, did not produce the desired effect; corruption has grown and increasingly diversified.

In parallel, international, also in accession to European structures, our country has signed many agreements and conventions on corruption, including:

- The United Nations Convention against Corruption, adopted in New York on the 31st of October 2003, ratified by Romania by Law no. 365/2004, published in Official Gazette of Romania, Part I, nr.903 on the 5th of October 2004;

- The Civil Law Convention on Corruption, adopted in Strasbourg on the 4th of November 1999 ratified by Romania by Law no.147/2002, published in the Official Gazette of Romania, Part I, no. 260 of the 18th of April 2002;

- The Criminal Law Convention on Corruption, adopted in Strasbourg on the 27th of January 1999 ratified by Romania by Law nr.27/2002;

- The Additional Protocol to the Criminal Law Convention on Corruption of the Council of Europe, adopted in Strasbourg on the 15th of May 2003, ratified by Law no. 260/2004.

According to the definition given by Transparency International, taken from the UN Convention against corruption, this represents „abusive use of the power entrusted, Either in the public sector, either in the private one, with the purpose of satisfying some personal or group interests”.

The Convention<sup>3</sup> considers to be corruption, the offering or accepting of undue advantages for himself or for another person or entity.

According to the DEX, corruption represents an „deviation from morality, from honor, from debt; debauchery, depravity”<sup>4</sup>, when the penal Code, without defining corruption, establishes the crimes that are in its competence: taking bribes, bribery, reception of undue benefits, traffic of influence, conflict of interest.

Therefore, we are talking about corruption whenever a holder of power, a civil servant or any occupant of a public office, is determined by financial or other rewards, such as the promise of promotion, that are not required by law to take any action, that favors the one offering the reward thus causing harm to the public and its interests (Friedrich, 1999).

To summarize, but keeping constant elements, in our opinion, corruption in the public administration is an act, attitude or behavior of a person who holds himself a dose of power in certain spheres of social, politic, economic, legal, etc, or in certain professional fields whereby fulfills/does not fulfill certain tasks and aims to obtain goods, benefits, services for himself or for his family. Thus, corruption is directly related to the holding of power in a certain field.

In the specialized literature, the power was defined as a set of social relations that express the authority of an individual or group of individuals vested with the right to

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<sup>1</sup> Published in the Official Gazette no. 279 of the 21st of April 2003.

<sup>2</sup> Published in the Official Gazette, Part I no. 359 of 25/05/2007. The law came into force on 28.05.2007.

<sup>3</sup> On the 9th of December 2003, Romania signed the UN Convention against Corruption (UN Convention Against Corruption - UNCAC), ratifying it by Law. 365 of the 15th of September 2004.

<sup>4</sup> The Romanian Academy, The Romanian Explanatory Dictionary, Second Edition, The Encyclopedic Universe Publishing House, Bucharest, 1996.

command, order and impose to the members of the society, the attitude adopted by them in order to achieve a common goal(Grădinaru, Mihalcea, Popescu, Neagu, 2011).

We observe that corruption is a threat to democracy, to the rule of law, to social equity and justice, eroding the principles of efficient administration, undermining the market economy and threatening the stability of state institutions (Ciuncan, 2003).

In order to eradicate corruption or at least substantially reduce corruption there must first be analyzed the causes which favor the occurrence of this phenomenon. There were identified a number of causes which favor the appearance of corruption, as follows:

-The desire for rapid enrichment of some people in public office. Starting from the question of who are the corrupt, we will also have the answer, who is corruptor. The corrupt are persons who, by nature of the office, have a dose of power-managers of public institutions, even private, the big companies that have a monopoly, ministers, state secretaries, experts in various fields, parliamentarians, who have the possibility to hide debts, or to conceal income through subcontractors, mayors, prefects, etc.

- The tendency to obtain a specific service or good in an easy way. This time initiative must belong to corruptor. He is the one that, in order to satisfy some interests regarding which he does not have certainty that he will get otherwise, tends to 'ensure' success by offering benefits to the person who has the power to fix the problem. This attitude is encouraged by the deterioration of living standards, the absence of effective control, the chase continues after additional earnings, inherited attitudes during totalitarian regime under which that benefit is proper;

- Tolerance, lack of involvement and disinterest of the authorities with control attributions. The direct involvement of decision makers and political leaders in acts of corruption, perpetuation of the communist political power structures, inefficient political structures, which adopts laws, according to their own interests just in order to promote corruption, mismanagement of public interest (often even losing sight of the interests in favor of private interests), closing contracts to the disadvantage of the state at governmental level, promoting in hierarchy based on political criteria or other criteria than those related to competence, misuse of government institutions, illegalities committed during electoral campaigns, directing government auctions, are acts that favor corruption.

The National Anticorruption Strategy, Government's for the years 2012-2015 is a document of strategic vision in medium term, which provides the major coordinates action in support of promoting integrity and good governance in all public institutions<sup>1</sup>.

This strategy is based on a set of principles whose observance is necessary to achieve a more efficient public administration: the rule of law, accountability, assessment and management principle, risks of corruption, the principle of proportionality in the development and implementation of anticorruption procedures, the principle of responsibility at the highest level of commitment to the principle of committing corruption prevention, the effectiveness in combating corruption, cooperation and coherence, public-private partnership aims to prevent and reduce corruption through rigorous application of the regulatory and institutional framework in order to achieve maximum results in the fight against this phenomenon.

Results of regular reports of assessment of anti-corruption measures implemented by Romania indicates that it is not necessary to adopt new legislation but must, however, that in each public or private, to emphasize the effective implementation of international anticorruption standards, promoting institutional integrity by implementing ethical codes, implementing control standards at every level and measures to streamline administrative sanction mechanisms.

The National Anticorruption Strategy proposes the implementation of new tools dedicated to as best European practices, such as risk assessment methodology for corruption. This methodology has been successfully tested by DGA in the SNA 2008-2010, and during

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<sup>1</sup> Published in the Official Gazette of Romania, Part I, no. 202/27. III.2012.

the implementation of the new strategy is aimed at testing the application of this instrument in other public institutions, and depending on the results it may decide to prepare a new uniform methodology, which is to later be implemented by all public institutions<sup>1</sup>.

Also, one of Romania's major objectives is the accession to the Organization for Cooperation and Development in Europe (OECD) and obtain the status of a full member of the Working Group on Combating Bribery in the International Business Transactions of the OECD is a priority for the Agency national Anti-Corruption.

Another strategic objective of SNA it represents, fixing vulnerabilities specific of the public institutions through the systematic implementation of preventive measures. For the practical implementation of this measure it is necessary to introduce it gradually in all public institutions of a uniform methodology for assessing the risks of corruption, strengthening the role and status of the ethics counselor, increase institutional transparency by increasing the availability of open public data provided by public authorities.

Strategic objectives of the SNA can be found in justice. Thus, according to the National Anticorruption Strategy 2012-2015, special attention should be paid to strengthening the integrity and transparency of the judicial system by promoting anti-corruption measures and ethical standards of professional disciplinary judiciary system by strengthening the role and status of the Judicial Inspection.

It also will aim to increase the transparency of financing political parties and electoral campaigns by providing public funding sources for the activities of political parties by the regular organization of Permanent Electoral Authority of training sessions for political parties and capacity building in the administration and control of the agencies.

It is aimed to increase the integrity among lawmakers by adopting a code of ethics for parliamentarians and by regulating prohibitions for ombudsmen to provide advice or to represent public authorities or other economic-financial entities with majority stockholder state.

In the public procurement field it aims to increase the effectiveness of prevention of corruption by preventing conflicts of interest in managing public funds, the systematization of legislation, of procedures and materials of a guiding nature, building a database of companies that have executed corresponding contracts with public funds, organizing regular training courses to promote multidisciplinary good practices both nationally and internationally in this field<sup>2</sup>.

In order to promote a competitive business environment and with integrity, it is envisaged to implement international standards concerning anti-corruption policies also in the private sector, to promote fair competition by identifying, deterring and penalizing anti-competitive practices, the exchange of best practices in the implementation of integrity programs between the public and private business.

At local government level, to enhance the integrity, efficiency and transparency it is considered a simplification of administrative procedures for issuing permits and certificates, adapting organizational structures to the standards of price and population served, organizing regular consultations with citizens in order to increase their level of trust in public institutions and their representatives.

To improve anti-corruption education, and of institutional integrity, it is to be taken into account the knowledge of the civil servants, of the underlying ethical exercise of public functions or public dignity, the duties, the mission and mandate of the public institutions, the applicable

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<sup>1</sup> Government Decision no. 215/2012 regarding the approval of the National Anticorruption Strategy for the period 2012-2015, of the inventory of corruption prevention measures and evaluation indicators as well as the National Action Plan for implementing the National Anticorruption Strategy published in the Official Gazette no. 202 of the 27th of March 2012.

<sup>2</sup> Government Decision no. 215/2012 regarding the approval of the National Anticorruption Strategy for the period 2012-2015, of the inventory of corruption prevention measures and evaluation indicators as well as the National Action Plan for implementing the National Anticorruption Strategy published in the Official Gazette no. 202 of the 27th of March 2012..

penalties. In this respect, the NAS will conduct activities to inform citizens about the obligations of the public institutions and civil servants, but also on the legal and civic modalities to fight against corruption in public administration that every citizen has at its disposal.

The National Anticorruption Strategy for 2012-2015 is considering measures to combat corruption through administrative and penal tools. Thus DNA results on the investigation and prosecution of high level corruption cases, including cases involving current or former members of Parliament or Government, are still compelling and has seen a marked increase in the number of convictions, but the results recorded in courts still present a mixed picture. Although most cases of high level corruption are settled within three years, a significant number of major cases involving officials are pending for over three years, and in some of these cases has already reached the limitation period<sup>1</sup>.

To do this it is necessary to continue the investigation processes, impartially, of the acts of corruption also at the local level, improving all aspects of the the monitoring activity and evaluation of assets and achieving effects that allow a significant reduction in cases of unjustified wealth, conflicts of interest or incompatibilities. It also seeks to ensure the highest possible protection of the financial interests of the European Union in Romania by all legal and specific informational means, and strengthening the administrative control levers through the regular publication of a report on disciplinary measures imposed or ordered, as well as enhancing cooperation with judicial authorities in order to maximize the results of internal control.

But, beyond the measures taken by the Government, we believe that for the elimination or at least reduction of corruption would be necessary to remove the causes that generate and the means which facilitate it:

- A first solution would be monitoring and permanent control of persons exposed to the risk of being corrupted. This form of control should be unannounced and above the hierarchical control that takes place usually at the level of each public institution. It is felt currently in the Romanian society, a crisis state, institutionalized at all levels of social life, which manifests itself by weakening the legal and social controls, a crisis of credibility of some institutions of the state, an extreme, incomprehensible tolerance, of the factors of decision or control. Most times people definitively convicted for corruption are precisely those invested with the powers of security, surveillance, control and management of some public institutions;

- Moral and civic education from a very young age. We stated above that corruption is an abnormal behavior, but is also closely linked to education, individual's mentality inculcated from childhood. This behavior is considered specific to human nature in general and those in official positions, in particular. Exactly in order to prevent the development of this behavior, it would be necessary to introduce in primary, secondary or high schools or in the form classes, programs of moral education by which the small people to be aware of the dangerousness of this phenomenon and its impact on society. If this were would be cluttering too much the curriculum, it might organize annually in educational institutions symposiums, conferences, seminars on corruption;

- Increase of the efficiency of the judicial system by eliminating political interference in the justice by prosecuting the matter without delay regarding acts of corruption, and application of appropriate penalties, to those guilty, and the confiscation of their property. One of the causes that determine proliferation of corruption is caused by the lack of a coherent legal framework with uniform regulations and harsher penalties. Currently judges face a huge amount of cases and legislative acts to which they relate, contain provisions contrary ambiguous leading to the adoption of non-unitary decisions, contradictory and very late in relation to the time of the offense. The penalty should be applied in a timely fashion after the deed, otherwise educational and preventive effect is not achieved;

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<sup>1</sup> [http://www.mt.ro/nou/\\_img/documente/HG%20215\\_2012.pdf](http://www.mt.ro/nou/_img/documente/HG%20215_2012.pdf)



- Fighting corruption would prove effective in the situation of the country's economic recovery, and recovery is not possible without reducing corruption. In other words, it is difficult to fight against those who violate the law, police officers who do not have a decent salary. For this purpose, it is necessary to increase the salaries of civil servants so that they do not resort to such acts. In parallel requires the organization of professional education courses of such officials, in which they focus on their integrity, impartiality, fairness and accuracy;

- The involvement of the civil society in reducing corruption, through campaigns in which corrupters are to be discouraged from resorting to such acts. Corruption gangrened the whole society; we all want to live in a country in which competence and professionalism to constitute selection criteria in any function, a country in which an auction is won on points and not relationships, not to have to "stimulate" the customs official so that he does not control your luggage. We must not forget that public services are not paid; those who provide these services are paid by the state to do so.

In this situation, the community is one that should impose.

Corruption is an issue that belongs to all countries of the world, there was in all kinds of political regimes being characteristic to all social organizations. However, it presents dangerous degrees of intensity and very different from one state to another, in relation to the level of development, and their civilization. However, major cases of corruption were reported over time in countries such as USA, France, UK and Germany. Recently there have been reported unethical behavior in countries considered immune to this phenomenon, such as the Netherlands or Finland, and experts in the field from these countries increasingly expressing more concerns that they would see a significant increase of acts in conflict with the moral rules (Radu, Gyula, 2010).

### **Conclusions**

The modern society has become more and more violent, more and more eroded by obscure interests, by the desire for fast gain by any means and with any risk. Corruption represents the most dangerous phenomenon with which a nation can face with, it is a destructive attitude, a sick mentality that affects the majority of fields of the social, political, economical, juridical and administrative life. It has become an organized phenomenon, specialized, a practice, already gaining the shape or organisation networks or persons that have the possibility to influence different representatives of the state from the political, juridical or administrative structures.

The fight against corruption, although pretty tough and more efficient, will not succeed to totally eliminate this phenomenon. And that is because, aside from the silent complicity between the corrupt and the corruptant, the corruption phenomenon continues to be understood as a mentality, a tradition, a behaviour.

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# MANAGING GAINS AND LOSSES IN TRANSLATIONS

Georgiana, Mîndreci<sup>1</sup>

## Abstract

*This article focuses on the well-known opposition in translation: gain vs. loss. The starting point is the comparison of two Romanian translations of the same American novel: J. D. Salinger's "The Catcher in the Rye." The reason for choosing these particular cases of translation and re-translation is represented by the extensive use of euphemisms in the Romanian translation to avoid the explicit use of taboo words as written by Salinger. I have also mentioned the issue of infidelity in translation. An important aim of this article was the focus on the problem of the translator's visibility or invisibility in the target text (TT). The translator's visibility refers to his / her presence in the TT through notes, footnotes or comments in brackets. To support this idea I have provided some examples in point referring to the use of "explanatory circumlocutions" or footnotes in the first Romanian version of Salinger's novel, representing the lack of transparency in this version. Nevertheless, the question of whether to use such explanatory sequences in a translation or not is a highly debatable one; some critics being in favour, some against its use.*

*My aim in this article was that of analysing and providing examples of cases of linguistic untranslatability and the use of footnotes to avoid ambiguity or misunderstanding in the TT. This can be regarded as either a loss or a gain, depending on which critical theory one adopts. I believe that the excessive use of such footnotes can be detrimental to the TT, but they can be used moderately, only when imperatively necessary. The main difference between the two Romanian versions of Salinger's novel is that the first one used such explanatory footnotes abundantly in the TT, while the second version never did.*

**Keywords:** gains, losses, translation studies, untranslatability.

## 1. Introduction

This article aims at highlighting the balance between gains and losses and its management in a translation starting from an analysis and comparison between an American novel, J. D. Salinger's "The Catcher in the Rye" (published in 1951) and its two different translations into Romanian: the first one by Catinca Ralea and Lucian Bratu, entitled "De Veghe în Lanul de Secară," published in 1964, and the second one by Cristian Ionescu, with the same title, published in 2005.

The translation theory was defined by Lawrence Venuti "as a set of changing relationships between the relative autonomy of the translated text, or the translator's actions, and two other concepts: equivalence and function" (5). These two concepts are extremely important for the analysis of both translations discussed by this article. The definition of the concepts of equivalence and function support the issue concerning the social and cultural context in which both the source language (SL) text and the two target language (TL) texts appeared. These two notions are also closely related to the notion of faithfulness or fidelity which usually refers to the relationships between the texts themselves and thus "loyalty stresses the translator's responsibilities towards people, i.e. not only with regard to the authors of the ST" (Schäffner and Wiesemann 19). This is a very strong reason in favour of the importance of translation or retranslation of a literary text.

## 2. Methods

The main methods I have used in this article are the content analysis method of the reference sources and of the texts chosen to emphasise the examples in point, the comparative approach through qualitative research, and the observation method starting from empirical research in the field.

The main strategy I have used was the practical act of comparing the Source Language (SL) text with its translation into the Target Language (TL) and discussing mainly the cases of gains and losses in translation, misunderstandings and mistranslations, problems of equivalence and cases of linguistic untranslatability.

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### 3. Background

In Romania, the translation of the novel did not appear as rapidly as in other countries, but it does not mean that it did not have the same success as the original. Nevertheless, I can say that the Romanian translators have managed to keep and render almost the entire metaphorical structure and atmosphere of the original book and its title while translating it into Romanian, “De Veghe în Lanul de Secară”, just as Salinger did with Holden and his “The Catcher in the Rye.”

Original Version	First Romanian Translation	Second Romanian Translation
(200) “You know that song ‘If a body catch a body comin’ through the rye?’ I’d like – “It’s ‘If a body <i>meet</i> a body coming through the rye!’ old Phoebe said. It’s a poem by Robert Burns.” (Ch. 22, 154)	“– Știi cîntecul ăla: <i>Dacă cineva prinde pe careva venind prin lanul de secară</i> . Mi-ar plăcea ... – E <i>Dacă cineva</i> întîlnește <i>pe careva venind prin lanul de secară</i> , spuse Phoebe. E o poezie de Robert Burns.” (210)	“– Știi cîntecul ăla, ‘Dacă cineva prinde pe cineva venind prin secară?’ Mi-ar plăcea ... – E ‘Dacă cineva se întîlnește cu cineva venind prin secară’! mi-a spus Phoebe. E o poezie de Robert Burns, să știi” (227)

After a first reading of the Romanian versions, the general impression is that the translators have an “intermediary position.” It has been scientifically proved that it may, and often does happen, that not all the elements of the original can be rendered exactly the same way in the TL as in the SL. This is not necessarily a “loss,” and thus there is the possibility of finding poetic equivalents of the SL which have an aesthetic value as close to the original text as possible. And this is exactly what the translators tried and mostly managed to accomplish with the translation of the American novel; they did not just simply translate only the idea of the original, they gave it an aesthetic form, a “personality” of its own, a place in the Romanian culture as well, next to all the other great foreign creations.

### 4. Case study

The main point for the case study is the very language of the novel’s main character, Holden Caulfield, his typical speaking style and for the translators’ rendering of Salinger’s original way of writing. First of all, I would like to mention that the first two Romanian translators saw and appreciated the importance of the italics and intonational stress used in the original text and decided to render them in their version as well. The italics were used by Salinger as a mark of oral speech, in order to emphasise the rhythm of oral speech and to show that Holden’s speech is indeed vocal. In Romanian the italics usually render the same words as in English or their adaptations, with some exceptions, of course, but not major ones. There were also many situations in which some SL italicised words were not rendered by the first Romanian translation or in which the stress was put on different words, but the overall conclusion is that the intonational stress was rendered in the first version and this is a gain in translation. On the other hand, C. Ionescu chose not to use italics, and this may be considered a great loss, as they play a very important role in the novel.

There have also been many situations in which the first version accumulated many losses in translation because of the inappropriate use of certain regional or dialectal terms (words such as “a trînti,” “a trage bărbi,” etc.) which lead to the often argued and discussed problem of obsolescence in translation. Such cases were not recorded in the second version (mostly due to obvious reasons related to the modernity of language use) and this becomes a gain. An important aspect of the gain vs. loss opposition in the comparison of the two Romanian translations is represented by the extensive use of euphemisms to avoid the explicit use of taboo words by the first version. C. Ionescu’s version is more audacious and uses the same taboo words of the SL without trying to cover up their bad or negative meaning, at least most of the times, but there are also exceptions.

When referring to a translation, the traditional adage of “Traduttore, Traditore” is well known since nothing can be perfect; there are always “losses” and “gains.” Roman Jakobson

in “On Linguistic Aspects of Translation” comments this adage saying that if it were translated into English as “‘the translator is a betrayer,’ we would deprive the Italian rhyming epigram of all its paronomastic value. Hence a cognitive attitude would compel us to change this aphorism into a more explicit statement and to answer the questions: translator of what message? Betrayer of what values?” (qtd. in Venuti 118). In the specific case of Salinger’s novel I believe that the message the translator has to convey is that meant by the writer himself, namely that of fighting against phoniness using its very means symbolised in the book by the use of trite language and by the power of ideas and attitudes expressed in the novel once again through language. Thus, in my opinion, language becomes a key element of the message the translator has to transmit to the reader without betrayal. The problem of the values that the translator has to convey is more delicate since two different cultures are involved, in this specific case two opposing cultures, at least from the political and social point of view at the time of the novel’s publication. In terms of the first and second versions this issue becomes all the more complicated since the two translations occurred at different times in history when the society of the TL was changed both politically and socially, and thus the values within the original novel and their perception have changed dramatically.

Any translation tends towards perfection, and of course, the Romanian ones are not an exception to this tendency. A translation means both decoding and interpreting; and it also means knowing the culture of the SL. Jiang Tianmin argues that “[t]ranslation is simultaneous decontextualization and recontextualization, hence is productive rather than reproductive.” This idea leads to and supports the concept of infidelity in translation. Jiang Tianmin also believes that “infidelity is built in translation because it inevitably describes domestic scenes that are loaded not only linguistically and culturally, but also socially and politically.” Infidelity occurs in translation because the “translator cannot avoid being faithful to his/her own circumstances and perspective, [and] she/he cannot be really faithful to the text he/she translates” (Tianmin). Infidelity can thus also explain why “[t]he source text does not reach the target society unscathed, but refracted” (Tianmin).

I believe that this idea of infidelity in translation is also closely connected to the earlier discussed problem of the translator’s visibility or invisibility in the TT. Cristina Schäffner and Uwe Wiesemann talk about visibility change as part of the translation strategies (namely pragmatic translation strategies) and this visibility concerns the author’s or translator’s presence through translator’s notes, footnotes or comments in brackets (30). A good example in point is the already discussed use of “explanatory circumlocutions” or footnotes used by the translators of the first Romanian version of Salinger’s novel and which represent the lack of transparency in this version. The question of whether to use such explanatory sequences in a translation or not is a highly debatable one. Vicky Hartnack argues that “it takes a while before we perceive how the culture of the other emerges in the text through the use of genre and rhetorical devices, and that this difference and distinctiveness should be preserved and transmitted. We cannot straitjacket the texts of others to fit in with our notions of suitability in the target language” (65). But there is another important question which refers to whether or not there should be “an on-going dialogue between the source-text producer and the translator, content and context may always be adapted, however slightly, to better suit the translator’s idea of how readily the target reader/listener will perceive such cultural distinctions” (Hartnack 65). This idea leads to the already discussed problem of using “foreign notes” in a translation and to the translator’s difficult dilemma of choosing between using or not using such text-breaking explanations in the TT. Vicky Hartnack also argues that important critics in translation studies, such as Venuti and Hatim defend the use of “foreign notes” in translations of other languages and that “they are highly critical of ‘domesticating’ the original by absorbing and appropriating it” (65). The concept of “foreignising” the translation means that there is much attention on the language of translation itself even though

many critics also bring counter arguments that “foreignisation” “puts readers off” because they expect to familiar expressions in the literary text they are reading (Hartnack 65).

Nevertheless, Mahmoud Orudari argues very well that although too many footnotes are undesirable in a translation, “their uses can assist the TT readers to make better judgment of the ST contents.” In his opinion it seems that such notes have a higher potential for conveying SL concepts which represent cases of linguistic or cultural untranslatability and it can also be claimed that a combination of these strategies would result in a more accurate understanding of such problematic concepts than other procedures. Mahmoud Orudari also mentions that “various strategies opted for by translators in rendering allusions seem to play a crucial role in recognition and perception of connotations carried by them” and that all translators should pay special attention to such allusions and connotations in a literary text. If a translator fails to acknowledge such allusions or connotations there is the risk of not rendering them in the TL which leads to their entire loss and in the end to an ineffective translation.

In the case of Salinger’s first translation into Romanian such footnotes were used quite often, when there was not a Romanian word to perfectly render certain English notions, mostly in cases of linguistic untranslatability, and in order to avoid ambiguity or misunderstanding. The second Romanian version did not use footnotes at all. This can be regarded as either a loss or a gain, depending on which critical theory one adopts. Here are some examples of such explanations provided by C. Ralea and L. Bratu’s translation:

- for “this old beat-up Navajo blanket” (Salinger, Ch. 2, 6), the two translators provided the following explanation: “Pătură lucrată de indieni aparținând triburilor Navajo care trăiesc înghesuite într-o rezervație situată la hotarul dintre Arizona, New Mexico și Utah” (12);

- or for “six foot two and a half” (Ch. 2, 8) the translation was “șase picioare și doi țoli juma” with the explanation “circa 2 m.” (15); the second Romanian translation did not use a footnote in this case and the translation of the ST was adapted to the TL “pentru că am 1,89” (15). Cristina Schäffner and Uwe Wieseemann call this type of translation problems “intercultural translation problems” and mention that they “arise from the differences in conventions between the two cultures involved, and therefore cultural filtering will apply as well” (36). They mention as examples of such problems measuring conventions (as in the present case), forms of address, and text-typological and genre conventions. The two authors offer a solution for the problems raised by measuring conventions: “[d]epending on the translation brief, it may become necessary to convert references to measurements” (36). Thus, I can say that C. Ionescu’s decision to use the Romanian measurement system (meters and centimeters) is a gain in translation since it does not put unnecessary weight on the TT.

- “station wagon” (Ch. 5, 34) was explained as “Tip de automobil închis, cu caroserie de lemn, cu nouă pînă la zece locuri” (50);

- or for the English word “Mac” (Ch. 9, 54) the two translators provided the following explanation: “Apelativ american, adesea folosit și ca termen impersonal de adresare, îndeplinește o funcție aproximativ echivalentă cu românescul ‘șefule’” (75);

- “Jack” (Ch. 9, 57) was also explained as “Apelativ american, folosit ca termen de adresare în convorbirile cu interlocutori necunoscuți” (81);

- “jitterbug” (Ch. 10, 65) received the explanation “Dans cu figuri, executat după o muzică de jazz în ritm rapid” (90);

- and for “Joe Blow” (Ch. 19, 129) the Romanian translators mentioned the context of its use in the USA “Apelativ folosit în S.U.A. spre a desemna o persoană al cărei nume nu e cunoscut” (175) and the examples could go on because they are very numerous, one can find them on almost each page. I believe that the presence of too many such footnotes and explanations can interfere and affect the natural flow of the reading process and that the translator’s presence becomes too obvious and somehow disturbing for the reader who has to be able to immerse into an atmosphere at least similar (if not identical) to the one of the

original. On the other hand, the moderate use of such explanatory notes can help the reader realize the foreign origin of the text and become more aware of the cultural differences, as well as other types of differences.

Salinger worked with words, and the force of his words, as of any writer, is tremendous. But the translators were the ones who had to discover the meaning of words, which is often hidden, to discover the surprising associations and the perfect “matching” of the expressions. The writer used specific meanings for a specific time and place—meanings that the translators had to respect and render exactly the same way—because a translator has to be faithful and devoted to the writer and his intentions. L. Levițchi says that everything can be translated but only with extreme efforts, and thus the work of a translator is much harder than the writer’s. The translators have used their right of changing the position of certain words in the text, but this without altering the original meaning. They have generally respected the limits imposed by the writer, but there were also cases of losses in translation especially in the use of euphemisms for Salinger’s controversial and taboo words and expressions.

Thus, we can say that there are some gains on the level of accuracy and clarity, but of course, also some inevitable losses, which are obvious especially while reading and comparing both versions. Cristina Schäffner and Uwe Wiesemann believe that such cases of (interlingual) problems, and implicitly losses, in translation and difficulties in the translator’s task “result from structural differences in the vocabulary and syntax of the two languages, i.e. they are more specifically related to the linguistic systems of the SL and TL” (38). The two authors also point out that the functionalist approaches of translation “stress that no clear line can be drawn between language and culture” and that “[tr]anslation means crossing cultural boundaries, not only language boundaries” (39). The translator does not have to make the translation in a foreign language more difficult to understand than the original. A translation is always “a cross-cultural process between cultures” (Meylaerts qtd. in Duarte, Rosa and Seruya 85) and that is why it is so difficult to render all the nuances of the ST into the TT and that is also why the translation of any literary text is always bound to the social, cultural and political contexts of both the SL and the TL. The reading and comprehension of a literary translation cannot happen outside these contexts and I also believe that the very unavoidable losses in any good translation, necessarily compensated by gains, do nothing else but add to the flavour of the TT and make it a unique creation in its own way. In my opinion, there is no need for the translation to compete with the ST, it only has to recreate the same effect on the readers, to complement the original and make readers understand the original text in case they do not speak the SL or better understand the text even if they do speak the SL. I also believe that many times numerous hidden meanings, allusions and connotations are revealed or become more obvious when comparing a ST with its translation in any TL, as there was the case of Salinger’s comparisons with the Romanian and French versions in this chapter.

## **5. Conclusions**

In this article I have tried to focus on presenting the two Romanian versions of Salinger’s novel and their comparison in order to find the main reasons for the publication of a retranslation. I have tried to achieve this aim by centring on the case study of comparing and analysing in detail the differences and similarities, and the gains and the losses that have occurred both in the two Romanian versions. This has been mainly achieved by the careful and analytic comparison of some identical passages from the ST with its translations.

The main strategy I have used was the practical act of comparing the above-mentioned versions, focusing on the importance of Salinger’s writing style and use of language, on discussing mainly the cases of misunderstandings and mistranslations, of problems of equivalence, of losses and gains, of linguistic untranslatability, of the translators’ visibility or invisibility in the TT, on accuracy in translation, adaptability, fidelity and faithfulness or

infidelity—all these cases seconded by examples in point and by my suggestions of other possible translations of certain (more challenging) words or passages from Salinger’s novel.

One of the conclusions I have reached is that the first Romanian version was the farthest from the original because of its abundant use of euphemisms and euphemistic formulations throughout the book, and the second version used more daring equivalents than the first one, but not all the time.

Another important aim of this chapter was to provide some examples of misunderstandings, mistranslations, deviations and inaccuracies and an important conclusion is that the law of compensation always functions in a translation, as in the case of the discussed versions of Salinger’s novel. The law of compensation is a technique used in translation to make up for the losses present in the TT and it works by (re)creating other effects, similar to the ones specific to the ST, but in the TT when possible and using the TL resources.

A very important conclusion I have reached is that translations and retranlations are necessary and should happen more often since they play an enormous role in a country’s literary system. Another important aspect concerning the importance of translations in general, and of Salinger’s second Romanian version in particular, is that much of the target audience has access to a literary text only through its translation in the TL. To this I can also add the idea that even native speakers can get more meanings from a ST and its translation than by simply reading the ST in original.

All the analyses and comparisons in this article helped me in drawing the general conclusion that the second Romanian translation was indeed needed and long-awaited by the Romanian readership, to some extent better than the first version, it managed to achieve its aim of offering a newer, freer, more audacious and more modern version of Salinger’s story, especially addressed to contemporary times, readers and demanding requirements of a modern translation. C. Ionescu’s translation has also accomplished its aim by the fact that it addresses young people and it uses 80-90% of their typical language, with very few exceptions (most likely limited by the social and cultural constraints of our modern society). If we were to take two randomly chosen passages, without knowing to which of the two Romanian versions they belong, we could realise from the typical language used by each to whom each translation belongs.

Thus, I can say that the first translation is more appropriate for the parents of the young people to whom C. Ionescu’s version is addressed, but this is an obvious appreciation given the 40-year gap between the two Romanian versions and generations. In conclusion, I believe that a translation does not necessarily have to be better than another one; all it has to do is to achieve its goal and reach its target audience successfully. It is also important to mention that certain mistakes, as well as some gains, are sometimes more visible by comparing two or more translations of the same ST, which represents one of the main reasons for this type of analytical approach and it underlies this way the translator’s need to know how to manage the gains and losses of a translation and to find the best way to compensate one for the other so that the reader does not feel or notice them.

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# APPEAL IN THE INTERESTS OF THE LAW WITHIN CURRENT REGULATIONS

Licuța, Petria<sup>1</sup>

## Abstract

*The paper approaches theoretical issues of appeal in the interests of the law, emphasizing the role of such legal institution which aims at ensuring the uniform interpretation and application of the law across the country. The constitutional attribute of ensuring the uniform interpretation and application of laws by all courts rests with the High Court of Cassation and Justice which should only refer to the interpretation of the law.*

**Key Words:** *appeal, appeal in the interests of the law, uniform application of the law, law court*

**JEL Classification:** K10

## 1. Preliminary Issues

An appeal in the interests of the law has acquired a new approach by Law no. 134/2010 regarding the Civil Procedure Code<sup>2</sup>, with subsequent amendments and additions.

By the reform brought about by the new regulations, the purpose has been for this legal institution to create the general framework meant to ensure the uniform interpretation and application of the law throughout the country where legal issues have been addressed differently by the courts. Currently, an appeal in the interests of the law is regulated by Article 514-518 of the Civil Procedure Code, and the provisions of the law state that such a legal institution is not a remedy at law<sup>3</sup>, since as shown in Article 517 Paragraph (2) of the Civil Procedure Code, the decisions ruling in the interests of the law do not affect examined judgments, nor do they affect the situation or interests of the parties in those trials. Therefore, the reason of this legal institution consists in building and maintaining a uniform practice throughout the country<sup>4</sup>.

## 2. Topics of an Appeal in the Interests of the Law

As results from Article 514 of the Civil Procedure Code, legal standing belongs to the general prosecutor of the Public Prosecutor's Office attached to the High Court of Cassation and Justice which may act ex officio or upon the request of the Ministry of Justice, the Board of Directors of the High Court of Cassation and Justice, the boards of directors of courts of appeal as well as of the Ombudsman. The actual wording of the provisions in Article 514 of the Civil Procedure Code clearly states that the authorities mentioned in it have the duty to demand the High Court of Cassation and Justice to rule on these law issues that have received a different resolution from the courts. Therefore, these authorities are required to notify the High Court of Cassation and Justice to rule on those law issues which have been settled differently by the courts, solving some controversial law issues being a real support to a judge to settle the causes dealing with such issues.

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<sup>2</sup> Reissued in Part 1 of Romanian Official Gazette no. 545 of 3 August 2012;

<sup>3</sup> For further details, see Ioan Leș, Noul Cod de Procedura Civila (New Civil Procedure Code), comments of articles ( 1 - 1133 ), CH Beck Publishing House, Bucharest, 2013, p. 758; Marian Nicolae, Recursul în interesul legii și dezlegarea în prealabil, a unei chestiuni de drept noi de către Înalta Curte de Casație și Justiție în lumina noului Cod de procedură civilă (Appeal in the Interests of the Law and Prior Settlement of a New Legal Issue by the High Court of Cassation and Justice in Light of the New Civil Procedure Code), in Law no. 2/2014, pp.20 – 21; Gabriel Boroi, Mirela Stancu, Drept procesual civil (Civil Procedural Law), Second Edition, revised and improved, Hamangiu Publishing House, 2015, p.746;

<sup>4</sup> Ioan Leș, Tratat de drept procesual civil (Civil Procedural Law Treaty), CH Beck Publishing House, Bucharest, 2001, p.645;

The obligation imposed by a lawmaker is justified because it is only this legal way that can help one remove the errors in the uniform interpretation and application of the law by all courts.

Yet, one can notice that a lawmaker does not impose any sanction where authorities empowered by the law do not refer the matter to the supreme court to rule on the issues of law that have received different resolutions.

### **3. Object of An Appeal in the Interests of the Law**

The object of an appeal in the interests of the law ensues from the provisions of Article 514 of the Civil Procedure Code. Thus, according to the final part of Article 514, an appeal in the interests of the law aims at the “law issues that have been settled differently by the courts”.

An essential provision in the analyzed material is also contained in Paragraph (2) of Article 517 which stipulates that resolutions are pronounced in the interests of the law and have no effect on the examined judgments or on the situation of the parties to those trials. Accordingly, an appeal in the interests of the law only concerns the law issues settled differently by the courts. As such, it does not concern matters of fact, even if they have been wrongly perceived by the courts<sup>1</sup>.

Concerning the scope of the judgments that can be challenged by an appeal in the interests of the law, Article 515 makes it clear that an appeal in the interests of the law covers only final judgments<sup>2</sup>.

### **4. Eligibility Conditions**

The eligibility requirements of an appeal in the interests of the law are provided by Articles 514 and 515 of the Civil Procedure Code and in order that the supreme court be legally notified, these requirements must be met cumulatively. Thus, the conditions of an appeal in the interests of the law envisage :

- a) active legal standing;
- b) object of the appeal;
- c) the existence of a legal issue which has received a different resolution from the courts.

The essential condition for the eligibility of an appeal in the interests of the law is the existence of a law issue which has been settled differently by the courts. Therefore, as already pointed out, the factual situations erroneously set by the courts cannot trigger an appeal in the interests of the law.

Practice has shown that an issue of law receives a different interpretation by the courts when it is unclear, questionable, incomplete etc<sup>3</sup>. However, it should be noted that only the presence of a legal issue is not enough, but it is necessary that this issue be given a different interpretation by the courts, which means that a legal issue settled differently can be the object of an appeal in the interests of the law provided it has been settled by the courts, not by other judicial bodies.

Another requirement envisages the situation where a legal issue has been settled differently by final judgments<sup>4</sup>.

A requirement that emerges from the statutory provisions in the field refers to the fact that contradictory final judgments must be attached to the appeal application. A lawmaker does not impose any condition regarding the number of contradictory judgments, but sets as eligibility requirement for an appeal in the interests of the law the existence of such resolutions as, otherwise, an appeal would be devoid of purpose.

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<sup>1</sup> Idem , p.648;

<sup>2</sup> Article 329 of the Civil Procedure Code of 1865 only included a general reference to judgments without making their delimitation;

<sup>3</sup> In this respect, also see Marian Nicolae, op. cit., p. 25;

<sup>4</sup> See Article 634 of the Civil Procedure Code;

## **5. Procedure to Settle an Appeal in the Interests of the Law**

The procedural rules to be followed in settling an appeal in the interests of the law are referred to in Articles 516-518 of the Civil Procedure Code. Thus, an appeal application shall include in principle all the elements of an application addressed to the courts. Additionally, it shall also decide the judgments including various solutions on the same issue of law under debate.

The Civil Procedure Code does not include any provisions regarding the reasoning of an appeal in the interests of the law, yet the reasoning is necessary for the supreme court to know which the contradictory views are that have given rise to different resolutions and to order accordingly.

It should be specified that it is also necessary to mention in an appeal application the resolution of law deemed to be in compliance with the statutory provisions in the field, as only showing the contradictory viewpoints is not enough, because the point of view of the person making the notification is also necessary, and the panel empowered to settle the appeal may form a correct view only after considering all the resolutions specified in the notification.

Regarding the term of exercise, it can be seen that the regulations in the field of an appeal in the interests of the law do not impose a specific deadline, which may be exercised at any time, regardless of the date on which the contradictory judgments were pronounced. The ability to settle an appeal in the interests of the law belongs in all situations to the High Court of Cassation and Justice which, according to Article 126 Paragraph (3) of the Constitution, ensures the uniform interpretation and application of the law by other law courts.

By the year 2010, an appeal in the interests of the law used to be settled by the United Sections of the Supreme Court. After the entry into force of Law no.202/2010, an appeal in the interests of the law is judged by a panel made up of 25 judges according to Article 516 of the current Civil Procedure Code. According to the above mentioned article, the panel is made up of the chairman or, in his/her absence, the vice-president of the supreme court, the presidents of its four sections and twenty judges of whom fourteen judges from the section/sections in whose jurisdiction the legal issue falls, settled differently by the courts, and 2 judges from the other sections.

When an issue of law is the concern of two or more sections or does not fall in the jurisdiction of any section, the ability of the panel is determined by Article 516 Paragraphs (2) and (3). In all cases, the appointment of judges making up the panel of settling an appeal in the interests of the law is made randomly, according to Article 516 Paragraph (4). According to the provisions in Paragraph (9) of Article 516, when there are objective reasons, appointed judges may be replaced following the rules for their appointment.

In order to examine an appeal in the interests of the law, the panel chairman shall appoint three judges of the panel members to draw up a report on the appeal, with the possibility of requesting the opinion of specialists on the issue of law that needs clarifying. The report shall include the elements provided in Paragraph (7) of Article 516, namely that different resolutions of the issue of law and the arguments underlying them, the relevant jurisprudence of the Constitutional Court, the European Court of Human Rights, or the European Court of Justice, where appropriate, the doctrine in the field, the opinions of specialists. The reporting judges shall prepare and motivate the project of the resolution suggested. All panel members participate in the hearing. According to Article 516 Paragraph (10), an appeal in the interests of the law is argued before the panel by the General Prosecutor of the Public Prosecutor's Office attached to the High Court of Cassation and Justice, or by the prosecutor appointed by him/her, by the judge appointed by the board of directors of the High Court of Cassation and Justice or of the Court of Appeal, or by the Ombudsman or his/her representative.

An appeal shall be heard within 3 months from the notification of the court, and the resolution shall be adopted with at least two thirds of the panel judges, nonvoting being rejected [Article 516 Paragraph (11)].

## **6. Potential Resolutions to be Pronounced in an Appeal in the Interests of the Law**

The panel of the High Court of Cassation and Justice rules on an appeal application by the decision to accept or reject it. Rejection of the appeal occurs when the requirements for eligibility expressly provided by the law are not met.

When an appeal is admitted, a decision is pronounced as shown in Article 517 Paragraph (2) only in the interests of the law and has no effect on the examined judgments or on the situation of the parties in these trials.

According to Article 517 Paragraph (3) of the Civil Procedure Code, a decision is motivated within 30 days from its ruling and is issued within not more than 15 days from its reasoning in Part I of the Romanian Official Gazette.

The settlement of legal issues judged by the supreme court is binding on the courts, from issuing the decision in the Romanian Official Gazette.

A decision expires on the date of the amendment, repeal or declaration of unconstitutionality of the legal provisions which have been the subject of interpretations (Article 518).

Of all the above mentioned provisions, it results that a judge must follow the decision given by the supreme court, with the provision contained in Article 518 being imperative. Violating this provision, however, is not sanctioned by the law, but a judge may get a disciplinary sanction.

It should be specified that the errors regarding the correct interpretation and application of legal norms is not only due to the large amount of existing normative acts in force at a particular time, but also to their faulty typing which generates multiple interpretations and creates the impression among parties that justice is not impartial.

Also worth mentioning is that such normative acts bear frequent changes, the norms on their application being issued late, moreover, they complicate rather than explain law enforcement and often add what is unconstitutional to it. The large number of normative acts and legislative instability generate stress for those who must apply them, so that a simplification of legislation is imperative<sup>1</sup>. These issues have been raised promptly and in an argued manner by several experienced doctrine makers, but apparently they have not yet been considered by those competent. In order to be applied properly, the law must be accessible and predictable because otherwise even the fairest citizen may violate it, and this is not beneficial for the society or for the citizens.

## **7. Waiver of Appeal in the Interests of the Law**

Lawmakers make no reference to the possibility of a waiver of an appeal application, but legal practice has ruled favorably on this issue, as a resolution criticized by the doctrine.

It is considered that the author of a notification cannot waive an appeal application as the role of this legal institution would be removed, which has not been the intention of the lawmaker.

Even if an appeal in the interests of the law would be clearly inadmissible or devoid of purpose as a result of the fact that the law text generating controversy was repealed after notifying the supreme court, withdrawing the appeal has no influence on the settlement procedure, because the supreme court must rule on the waiver by decision, too, something that is clear from the provisions of law texts regulating this legal institution.

## **Conclusions**

Non-uniform judicial practice creates a state of anxiety and mistrust in the justice among individuals/parties.

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<sup>1</sup> For further details on law simplification, see Mircea Duțu- , *Simplificarea- imperativ al modificării și ameliorării calității dreptului în Dreptul nr.3/2015 (Simplification - Imperative of Changing and Improving the Quality of Law in Law No.3/2015)*, pp. 74-89;

An appeal in the interests of the law is a procedural means by which judicial practice can be unified, thereby ensuring both equality before the law and the certainty and stability of legal reports. Ensuring a uniform practice can be done under the legislation in force only by the High Court of Cassation and Justice in accordance with statutory and constitutional powers, its decisions are binding on courts and they are designed to guide the courts in issuing legal uniform solutions.

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**RATIONAL USAGE OF NATURAL RESOURCES – A PRIORITY  
STRATEGY OF THE ROMANIAN ECONOMY**

**Alexandru, Puiu<sup>1</sup>**

Natural resources represent one of the fundamental conditions for economic development and even for existence and perpetuation of life on our planet. Moreover, the uneven distribution of these resources on the territory of our planet has led, over the long history of humankind, on the one hand, to the development of international trade and, in connection therewith, to the development and modernization of transport, first maritime and subsequently land and air transport, as well as to a remarkable flowering of civilizations. It is precisely because of these factors that the first ancient civilizations emerged and developed, around the Mediterranean Sea, at peoples such as the Phoenicians, the Egyptians, the Greeks, the Carthaginians, the Romans, etc. On the other hand, the uneven distribution of natural resources has been and unfortunately remains a source of international events of domination by brutal means, such as wars, by provoking phenomena of political instability in the countries rich in resources, but at the stage of political and economic underdevelopment or by means of the finest neo-colonial domination, such as the situation of our country today.

Considering natural resources, Romania is unique in the world. In making this appreciation, I observe that, on a relatively reduced area of 238,391 square kilometers, there is a diverse and harmoniously proportionate relief, and the soil and subsoil have a tremendous variety of natural resources. The main feature of the landscape is the proportionality (31% mountains, 36% hills and plateaus, 33% plains and meadows) and the concentric arrangement of the major levels of relief.

The subsoil of our country contained and, to some extent continues to have today, a variety of natural resources unparalleled in Europe, on a limited area: oil, natural gas, coal, iron ore, numerous non-ferrous ores, including some high-value minerals such as gold, silver, platinum, uranium, and other relatively rare and valuable as copper, wolfram etc.

Romania is the richest country in Europe with the water resources of all kinds: mineral, thermal, curative, drinking waters etc.

In what the soil is regarded, our country holds one of the first places in Europe in terms of extent and fertility of agricultural and arable lands, and the existence of land suitable for development of fruit growing, viticulture, and not least the existence of relatively stretched surfaces of forests with valuable species suitable to industrial processing.

The exploitation of resources in our country dates back to ancient times. For example, almost 2,000 years ago, the Roman Empire conquered Dacia for its rich resources; the famous gold reserves in Roşia Montană represent an eloquent evidence of the exploitation of those remote times.

It should be noted that geological surveys made to discover the structure of the subsoil have existed in Romania for nearly a century and a half. They were started in the Universities of Bucharest and Iaşi and developed, especially after the set up of the *Geological Bureau* (1882) and then the *Geological Institute of Romania* (1906).

Institutional development and the technique of research and exploration took place throughout the XXth century. Unfortunately, as it happened in other areas, for complex

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reasons that it is not appropriate to analyze here, the Romanian technique has backlogs, especially regarding deep soil research and marine subsoil research.

I would like to emphasize that, as early as the nineteenth century, a series of progressive economists campaigned for the identification and exploitation of natural resources of our country. For example, *P.S. Aurelian* paid great attention to the recovery of both agricultural and non-agricultural raw materials. Since 1860, only one year after the creation of the Romanian Unitary State, he raised the question of making a careful inventory of mineral wealth, proposing to draw up a “geological charter”.

These concerns for the inventory of natural resources had a sustained development in the ‘30s of the twentieth century and resulted in a work of immense proportions elaborated by large multidisciplinary collectives coordinated by the National Bank Governor, economist *Mitiță Constantinescu*, who devoted a significant part of his life to research and suggest the industrialization of the country’s natural resources. The paper printed in five volumes was called "*Contributions to the issue of raw materials in Romania*" and was one of the rare works of that time at global level. In the same period they established a more accentuated industrialization of Romania, a process which was unfortunately interrupted by the Second World War.

During the communist regime after a certain liberation against the Soviet domination and the shift to national politics, since the 60s have increased the concerns for research, exploration, exploitation and processing the country’s natural resources.

These investigations were undertaken, especially in the institutes of technical and economic research as well as in the Economic Research Institute of the Romanian Academy. In this latter institute, I personally dealt over three or four years to research the issue of natural resources in our country as well as some global trends. The research included the following levels:

- Putting in value the objectivity of the Romanian economic thinking with the formation of the Romanian state until the time of this research;
- Analysis of the evolution of research, exploration, exploitation and processing of natural resources in the same period;
- The need for superior capitalization of natural resources by processing raw materials to obtain values and use some competitive values nationally and internationally;
- Highlighting the danger of depletion of natural resources both nationally and in some cases worldwide, a fact noted a few years before strong signals that were given, in this respect, by the Club of Rome.

The synthesis of this research was recovered by publishing various articles in the periodicals of the time and of the work "*Superior capitalization of natural resources*", which appeared in 1969, published by the Romanian Academy and by the contribution brought to the elaboration of the 1966-1970 five-year plan which, despite the amendments to the SPC leadership, remains the most liberal five-year plan in the history of the Romanian socialist economy. Unfortunately, the effects of major efforts made in the respective period for better use of natural resources were not as effective as anticipated due to the following aspects:

- The forced industrialization of the country, with too much emphasis on the industry of metalworking and chemical industries, given that, in the first, there were obtained only partial quality products, and the two stopped working at semi-finished stages;
- Insufficient development of national scientific research, which hindered the promotion of scientific and technical progress of the Romanian economy;
- Passing to the 80s of the last century to a tough austerity which weakened the overall interest of the people to increase the quality and productivity of work, austerity promoted to abolish in a short period of foreign debt.



The fall of socialism in December 1989 brought the much-needed democratic freedoms for the Romanian people, and at least for some of us hope and rational capitalization of the potential of natural and human resources of our country. As known, the results are far from those expected, and the causes are many and complex. Since the early weeks of 1990 the new leadership of the state has shown disregard for the modernization of Romanian economy, the Prime Minister of the time, Petre Roman saying that Romania's industry is "*a pile of scrap metal*." Things were probably partly like this, but in the end the respective appreciation proved to be prophetic, most of the Romanian industry being liquidated after some dubious privatizations in the form of scrap metal. Obscure forces frontally attacked large Romanian enterprises, which were considered to be "*Ceausescu's pyramids*", although most of them were under the optimum size in the existing field worldwide. For example, the car factory Dacia Pitești, whose yearly production was under 50% compared to the needed minimum in that field of activity to be competitive and efficient, was divided into seven factories, which certainly led to bankruptcy, but the factory was saved by attracting French capital that achieved modernization and development. More than 1,500 large manufacturing factories were liquidated although there were capitalized natural resources and imported raw materials at medium or higher level.

The National Bank and the entire banking system existing in our country has strongly hit the exploitation of natural resources and all human and material resources of the country by holding for approximately a decade the highest interests, not only in Europe but also in the world, interests which, in a paper drafted and published in the early 2000s, were regarded as "*usurious*" and therefore specific to other historical eras. It was natural that Romanian businesses in these circumstances would be taken to the brink of bankruptcy. This banking strategy is all the more reprehensible, since it has not been encountered in any of the former communist countries, except Bulgaria, but the high interest rates charged were practiced for only two years, not nearly a decade. Subsequently, the level of interest was reduced, but the damage was done as it substantially contributed to the liquidation of most large and medium Romanian enterprises.

They destroyed or looted other businesses or levers meant to exploit certain resources of the country. Thus, confusing economy with ideology, agricultural cooperatives were liquidated; they destroyed nearly every installation of irrigation and reclamation of soil, posing a severe blow to agriculture, which is a main branch of the Romanian economy.

Romania's economy in terms of the degree to which their products meet the country's household consumption was partly dated back almost 150 years ago. In this regard, allow me to come back to a quote that the economist P.S. Aurelian introduced it in 1885: "*... Our craftsmen have become laborers; factories were closed and any attempt to establish any industry falls under the impact of competition from outside. Today we dress from head to toe from our neighbors, we procure even the most trivial objects and to complete derision they send us flour, wine, butter, potatoes, different fruits. Little do we need to see that our country has been taken on economic lease*".

A brief analysis shows that the consumption of food and non-food products in most of them is imported. Foreign trade balance, overall, has a large deficit, especially with regard to processed products where added value is concentrated and hence contributes to increase the national wealth, as well as some semi-finished products or of primary processing. Thus, industries with long and valuable traditions in our industry such as spinning, fabrics, tannery, processing industries respectively the garment and the footwear industry disappeared or modified their size and were exaggeratedly concentrated on processing in lohn using imported raw materials and auxiliary materials.

Therefore, today we unfortunately find ourselves for the umpteenth time in our history, in a position to always get a new start.

It examines the possibility of increasing investments to create new, modern equipment for the irrigation of the soil, which is absolutely necessary for the development of agricultural production, so that it ensures the smooth internal consumption and some significant availability for export, being similar terms in the fertilizer industry. Yet timid voices are felt in the literature about the need of reindustrializing the country.

The Romanian state must have a more firm and clear attitude on the country's natural resources by intensifying the financial and human efforts in order to maintain ownership of these resources and to capitalize them for the national interest by attracting foreign capital in exploiting these resources when we cannot achieve this goal by our own forces in the conditions of negotiation to obtain appropriate royalties situated at the level of those practiced worldwide.

There are continuous concerns that remain necessary to improve legislation and, especially, to strengthen the control on resource exploitation to stop the process of forest exploitation etc.

The problems of exploitation of natural resources in our country undoubtedly involves complex issues of scientific political, economic research, as well as technical and technological development, management training that cannot be briefly analyzed even in a statement. I think it would be necessary to have again some national multidisciplinary teams so that engineers, economists, lawyers, sociologists could elaborate in a reasonable time some extensive studies that represent the basis of the state policy and strategies as well as strategies for the state and private capital regarding the development of our national economy. In developing such strategies, we should keep in mind the way in which the country's natural resources are exploited, aiming for quality of life, both for the present and for the future generations.

# AGRICULTURE DEVELOPMENT STRATEGY IN ROMANIA; CASE STUDY: HORTICULTURE

Ion, Scurtu<sup>1</sup>

## Abstract

*In 2014, the Ministry of Agriculture and Rural Development has published its strategy for developing agri-food sector in the medium and long Horizon 2020-2030. The document presented the current state of development of agriculture and agricultural products processing industry compared with the agricultural situation in other European countries. The document insists on the challenges that face them food sector, namely climate change, population growth, rural population decline, aging European population and that of our country. In the present study we analyzed the document and bring new data and our vision of the current situation and development prospects of two important sectors to ensure a healthy diet, fruit growing and vegetables respectively.*

**Keywords:** *agriculture strategy, fruit, vegetable, total production, average yields, climate change.*

**JEL Classification:** *E 23, A 13; Q18*

## Introduction

The strategy for developing agri-food sector in the medium and long Horizon 2020-2030 - prepared by the Ministry of Agriculture and Rural Development aimed at unlocking the potential of smart and sustainable agri-food and rural development, being a visionary support document that sustain progress in agriculture and rural development in Romania. The strategy underlying the new financial programming for period 2014-2020 as Romania's commitment to the EU to achieve the common agricultural policy.

**In view of this document, the three most important strategic objectives outlined in the responses of a large number of participants are:**

- (i) strengthening farms and removing constraints on market land (34.4% of participants);
- (ii) increasing the country's agricultural potential (22.1%), and
- (iii) reducing rural poverty (16.5%).

**Improve the institutional and policy framework must pursue:**

- (i) support cooperation between farmers (30.8%);
- (ii) improving the efficiency of agricultural administration (26.2%), and
- (iii) modernization of education research and consultancy services in rural areas (23.4%).

Worldwide identifying a moment of transformation, we come out strong long-term challenges which require a vision and decisive action. World population growing, increasing pressure on natural resources and global warming causes a new framework. In Europe, aging is also an additional challenge. This will have profound implications on agriculture and rural areas. While global demand for food is rising, increased urbanization, the increasing prices on inputs, pressure on water resources and increased vulnerability of crops and livestock in food production to climate change will be limited agricultural production. It is forecasted that global demand for food will increase by 70 % by 2050 due to population increasing and increasing revenue. Developing countries will contribute most to this trend, their food demand will double in the next years. It is estimated that global population will increase from 7 billion, as it is today, to 9 billion by mid-century, and 95 % of this growth will occur in countries least developed.

World agricultural systems will face increasingly more negative effects of climate change (changing rainfall patterns, extreme weather events, water shortages) and the price

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volatility. On the other hand, increased agricultural productivity can be achieved through investment, research and innovation, good agricultural practices and appropriate public policies.

In contrast to the global trend, it is expected that the European population will age and will stagnate. Romania will be one of the countries most affected by this trend. By 2050, the total Romanian population is expected to decline to less than 18 million, which represents a decrease of 10% compared to 2011. In the medium and long term, it is estimated that climate change will increasingly affect Romania more and its agricultural sector. Romania will have to expect a steady increase in mean annual temperature, similar to projections for Europe, which may vary between 0.5°C and 1.5°C by 2029 and between 2.0°C and 5.0°C to 2099, depending on the global scenario. It is expected that rainfall patterns change significantly and produce a differentiated territorial impact in Romania. The northern part of the country will likely achieve productivity gains in the medium term crops, but will be subject to higher winter flooding and problems due to lack of water in summer. South and southeast of Romania will be worst affected, while heat waves and droughts will lead to an overall decrease in productivity of plant production sector.

### **1. National context and the main strategic directions of development of agriculture**

Agriculture plays an important role in Romania, based on population size and employment of rural labor. Approximately 45.7 % of the population lives in rural areas in Romania, compared to approximately 23.6 % in the EU27. About 30 % of the population is engaged in agriculture, compared to approximately 2 % in the old member states ( EU-15) and 3-14 % in the new Member States (EU -8). There are major differences between rural and urban areas, the first being marked by significantly higher levels of poverty and a lower standard of living adequate. Agricultural development and provision of public goods in rural areas is therefore essential for Romania's European integration and social cohesion objectives.

Compared to other EU countries, the agricultural sector in Romania has a relatively high value added (GVA) but lags behind in terms of productivity. At 6%, the share of agriculture in total GVA is significantly higher than in other European Union member states (EU -27 = 1.8% in 2012). However, between 2000-2012, the share of agriculture in total gross value added decreased from a range of 12-14% to 6%, while the share in total employment fell from 40% to 30.6%. Labor productivity remained so behind in comparison to other sectors of the Romanian economy is also far behind the EU average. Romanian productivity is only 4719 euros per FTE compared to an average of EUR 18 925 in the EU27 (2010 to 2012). Romania suffers from one of the most pronounced structural division of land between all EU Member States and is the only new Member State where half of the total standard production is carried out by farms which realizes less than 8,000 euros a year.

Romania has certain structural features similar to those of the agricultural sectors in other EU countries, but is unique in its size category gap between large farms and small farms and by the prevalence of subsistence agriculture. Average yields for the major agricultural products are only a third or half of those registered in the EU15.

The strategy for developing agri-food sector in the medium and long term vision Horizon 2020-2030 suggests that *Romania is to have a sustainable and competitive agri-food sector, centered on the export of products with high added value, which provides welfare and good living conditions in the countryside close to those of urban areas.* In this respect, Romania should capitalise favorable global and European trends and its own competitive advantages. Also, Romania must maximize the opportunities and benefits that can achieve through the implementation of CAP and participation in the EU market and on the third countries. At the same time, Romania will manage both the main internal constraints and identify the external factors such as climate change.

Agriculture and rural development in Romania in 2030 targets a consistency between agriculture, environment and rural development through smart and sustainable exploitation of agricultural land, labor and capital.

**Directions and strategic objectives mentioned in Strategy:**

**A. Increase of competitiveness of agri-food sector**

Romania is one of the European countries with the most favorable pedo-climatic conditions for the production of quality agricultural production and in significant quantities, which may cover a significant share of the domestic demand for food. Despite the considerable natural potential, yields in Romanian agriculture are modest, indicating a use of factors of production is below the optimum. Exploited properly, existing potential agricultural allow employment in a more productive manner, thus contributing to reducing rural poverty and the elimination of income disparities compared to those in urban areas. As a result, it creates conditions for economic growth, effective management of financial resources and establishing a positive trade balance. The competitiveness of food products have to be associated with sustainability. Losses caused for agriculture and national economy in general by dangerous meteorological phenomena have been the main argument for the approach, especially in recent years, for active interventions in the atmosphere.

More than half of Romania's agri-food imports consist of finished products, of which 60 % came from EU countries. Meat, sugar and dairy products together accounted for 25 % of Romania's total imports in 2012, and its exports of agricultural products was dominated by cereals (33%), cigarettes (12%) and oilseeds (11%). Although it is a net importer of agricultural products from 1990, Romania has managed to significantly reduce the trade deficit specific to this sector in recent years (2009+).

**A.1. Strategic Objective (1): Accelerating structural transition towards economically viable agriculture in parallel with environmentally friendly agricultural practices and the progressive reduction of the workforce in agriculture.**

**Impact indicators**

Indicator	Setpoint		
	2010	Target 2020	Target 2030
The share of utilized agricultural area under cultivation of economically viable farms ( whose production standard is higher or equal to 2.000 euro ) (%) )	77,4	83	Min. 90
Labour productivity in agriculture (lei/person)	13343,7	14270	16200

**A.2. Strategic Objective (2): Increase coverage of food consumption from domestic production and regaining status of net agri-food exporter**

**Impact indicators**

Indicator	Setpoint		
	2010	Target 2020	Target 2030
Agri-food trade balance for both agricultural commodities and processed agricultural products , for 3-4 years in a row ( million euro)	-746	+	+
The value weight of products processed / finished in agri-food exports (%)	30	54	60
Ratio between food industry GVA / GVA agriculture	0,907	1,15	1,25

In 2013, agri-food commercial balance was positive, with a surplus of about 331 million euros, mainly due to plant products. The trade deficit in agricultural products dropped by nearly 19 percent in the first five months of 2015 (34.4 million), compared to the similar

period last year, due to higher exports by 16 %, according to the Ministry of Agriculture and Rural Development. Romania's exports of food products were registered in the first five months of this year a level of 2,05 billion, while imports exceeded with 12.8% recorded in the same period last year, totaling 2.198 billion euros. Romania recorded in 2014 the second year with positive balance in trade of agricultural products. The surplus was 514.3 million euros, up by almost 60% compared to the positive balance of 324.9 million euros achieved at the end of 2013. Throughout 2014, Romania exported agro-goods totaling 5.409 billion euros, 311.5 million euros more than the previous year (+ 6.1%), while imports amounted to 4.895 billion euro, have increased more slowly, exceeding by 2.6% the value of 2013.

#### **Problems/development needs and measures in the horticulture and vegetable growing**

The strategy identifies like a significant problem- *cultivation decline in the fruit growing and increasing too slowly surfaces with greenhouses and plastic tunnels*. Currently, most orchards are aging, older than 25 years with low productive potential, declining or abandoned. More than half of them are exploited extensively (classic). Production technologies are uncompetitive, outdated, resulting in insignificant quantity of fruit production and lower quality. Areas of orchards have had a downward trend, the main limiting factors being particularly costly investment for establishing a plantation, along with high maintenance costs of the fruit plantation.

Existing surfaces of greenhouses and plastic tunnels providing only a small part of the necessary vegetables for domestic consumption during the winter season. Climate change due to global warming, especially at regional level, requires a rethinking of the concept of consolidation and development of vegetable growing in protected areas in Romania. *To resolve the issue it is proposed the investment support for protected areas (greenhouses, solariums) for vegetable producers.*

Stimulating the niche market sector - production of vegetables in the cold season by increasing area with greenhouses and plastic tunnels, with the adoption of new constructive types and upgrading technology will enable the culture more productive and and getting top quality productions. The measure continues the medium term by investing in such areas, with the EAFRD support through the RDP 2014-2020. Researchers plan to increase areas under polytunnels from about 7,500 ha currently, at 20,000 hectares by 2020, with a growth rate of 1500-1700 ha/year.

**Another problem identified** *is that agricultural research system is not working effectively.*

In the past 20 years, Romanian agricultural research lost much of the agricultural land needed both experiments and production of biological material and received less funds so as decreased investment by making it uncompetitive in Europe. Although the network is relatively extensive research (60 institutes and research centers, using 30,000 hectares in which 530 researchers work, agricultural research system in Romania does not solve entirely the needs of farmers. Farmers benefit only a part of research results due to insufficient dissemination efforts and channels. Agricultural Research Network should be modernized and aligned with future development trends.

The current problems of the research are:

(i) chronic underfunding (only 11.7 million euro of the state budget, complete with research units own revenues and research grants) ;

(ii) restructuring, that very much time consuming and inadequate transition process (lack of a framework law in 1990-2002, followed by subsequent amendments to the law on research) and then a gradual reduction of the land areas administered by the Research Units – indispensable for development research, innovation and multiplication of biological material ,

(iii) the low attractiveness of the research profession, contributing to a steady decline in the number of researchers.

Developing research in horticulture requires:

- to develop a realistic program to strengthen the research profile ;
- to be granted the necessary funds so that this sector contributes significantly to the progress of Romanian horticulture .

**The envisaged measure** is *to support investment in research, development and innovation*

The strategic priorities for 2020-2030 aimed at reorganizing agricultural research system to a more sustainable in terms of financial and pursuing closer integration in European research networks. These means to provides funding for 2% of GDP (1% public +1% private) for research.

MARD manages sectoral research and development plan and is considering creating its own agricultural economic research body applied. Integration of component research, development and innovation is based on a functional link between advisory services and research institutions and research carried out in universities. This approach is mutually beneficial to the parties involved as it allows promoting and supporting applied research by farmers, while research structures can be used for technology transfer partnerships. This will be correlated with agricultural extension system.

National Strategy for RDI 2014-2020, based on a broad public consultation identified the *following priority intervention areas for research: horticulture; animal husbandry, veterinary, fisheries and aquaculture; sustainable production of field crops; meteorology*. Remember that in the agriculture research, the first area is horticulture. Romania must become an important pole of innovation in the European Innovation Partnership in agriculture (PEI) by using genetic resources and sustainable technologies throughout horticultural production chain.

## **2. The strategy for the development of orchards**

**The small volume of investment** in fruit growing sector is the result of low incomes per household in rural areas (euro 503 -2011), caused by the reduced number of jobs available in rural areas (in 2012 to 57.9% of total employment in rural areas were own-account workers and unpaid family workers, something that is associated rather with subsistence farming and lack of alternatives than entrepreneurship. Other factors that determined the small volume of investment have limited access to financial resources. **Poor association and cooperation** for the production and especially for the selling products in the common is another important factor that negatively affected the recovery of production, product quality, supply inputs and thus revenue growers. In 2013 there was only 14 associative, 3 producer organizations and 11 producer groups granted preliminary recognition of which only 8 cover only products of the fruit tree. In 2011 was recognized under the legislation, the National Interbranch Organization "Prodcom – Vegetables and fruits". It brings together associations from the vegetables, fruits, mushrooms and processing industries.

**Production and consumption** In the last period, total fruit production has progressed relatively steadily, with a maximum in 2011 of 1479.9 thousand tons and the minimum in 2007 and 2012, with 1085.8 thousand tons, and 1128.6 thousand tons, respectively, due to severe weather conditions such as drought, hail or frost in late spring. Although the climatic conditions allow the growth of a significant number of species, according to statistics, the main species grown are apple and plum orchards which in 2013 amounted to about 83% of the area planted with trees and 77 % of fruit production (Table 1). Poor diversification of product mix leading to a shortage of fruits produced locally for both fresh consumption and processing and export. In the case of most tree species, yield per hectare in Romania is much lower than in the EU27 (ex.:2011, when average production in Romania for the apple crop was only 54 % of EU average 27 (without Ireland) , and in 2012 approximately 46% (EU 27 without Italy and Ireland). Fruit consumption in Romania is on average about 70 kg per year per capita.

### **Trade with fruits and fruit products**

Due to the specific climatic, areas reduced occupied by new orchards and storage facilities with inadequate conditioning (in terms of quantity and quality), domestic production of fruit can cover the demand only third and fourth quarters, the first two quarters it was covered largely from import. For peaches and nectarines, in 2012, imports were more than three times higher than domestic production and export quantity was less than 4% of the amount imported.

In international trade in apples and apple products recorded a significant trade deficit, in 2012 imports exceeded exports by over 31 thousand tons. The domestic production of apples in 2012 was 462 900 tons and Romania also imported 103 200 tons, while exports (mainly for industrial processing for juice) reached 71 900 tons. It should be noted that some types of fruit, such as cherries, sour cherries, nuts, etc. are required to export more, but current production capacity in Romania is still below demand .

**Table 1. Cultivated area and fruit production in Romania**

<b>Year</b>	<b>2007</b>	<b>2010</b>	<b>2012</b>	<b>2014</b>
Total area- thousand ha	206,0	198,6	142,2	145,4
Total Production - thousand tons	1085,8	1419,6	1128,5	1115,2
Average yield- kg/ha	5270	7148	7936	7670
The area cultivated with apple trees -thousand ha	61,3	56,0	55,4	57,5
Total production of apple - thousand tons	475,4	552,9	462,9	535,1
The average production of apple- kg /ha	7755	9873	8355	9306
The area cultivated with plum trees- thousand ha	83,8	69,0	68,5	70,7
Total production of plums - thousand tons	372,6	624,9	424,1	404,3
The average production of plums- kg /ha	4446	9056	5607	5718
Area planted with other species -thousand hectares	60,9	73,6	18,3	17,2
Total production of fruit from other species - thousand tons	237,8	241,8	241,5	175,8
Average yield fruit of other species - kg /ha	3905	3285	13196	10220

### **Needs addressed by sub-sector thematic program for fruit growing**

1. Increase the area occupied by orchards and nurseries, rejuvenate existing plantations and diversification of product range;
2. competitive fruit farms;
3. products with high added value and jobs in fruit growing areas;
4. producer groups and functional cooperation of farmers and fruit-growing sector actors;
5. research, development and innovation adapted to the needs of fruit growing sector and a sector adapted to climate change;
6. Easy access to appropriate financial instruments for farmers, micro and small enterprises in the areas of fruit;
7. Attention to the next generation of fruit growers;
8. appropriate knowledge in the fruit growing sector;
9. advice and consultancy services tailored to actual market requirements;
10. restructuring of small fruit farm, farm market oriented;
11. risk management in agriculture;
12. Basic infrastructure and adequate services in rural areas of tree areas.

**The main fruit growing sector needs concerns restructuring and increasing competitiveness.**

This restructuring and conversion of tree species plantation must be done in order to have a larger area with new and modern orchards. Increase competitiveness will have to



consider the modernization of farms which can not perform activities necessary to obtain a fruit production to market requirements, and integrating production, storage and/or processing and sale at the farm level and modernization of other units processing.

As shown in the SWOT analysis, there are the same features of the fruit growing sector and the agricultural sector as a whole, particularly as regards the high degree of fragmentation of areas, reduced average size and insufficient technical equipment. In particular, elements of this sector lies in the significant areas of orchards aging and declining (Table2), slow rejuvenation of plantations, low capacity of the existing systems of storage to cover the needs, difficulties in the development of products due to a lack of cooperation between producers and the low level of their association.

Also, the sector is characterized by the reduced number of integrated recovery, low level of innovation generated by poor adaptation of research to the real needs of the sector, the aging of the population in areas of fruit growing, systems consulting and transfer undersized.

**Table 2. Indicators of fruit production in our country (2013)**

The age structure of orchards (years)		The degree of intensity of plantations		Number of fruit trees farms with surface	
1-10 years	7,5%	superintensive	1,9%	between 5 and 10 ha	50.281 farms
10-25 years	18,7%	intensive	29,7%	More than 50 ha	2.895 farms
More than 25 years	73,8%	extensive	68,4%	Nr . farms which holdings orchards	379.550, with average area 0,38 ha.

**Priority 3: organization food chain, including processing and marketing of agricultural products; Area of Intervention 3: Improving the competitiveness of primary producers through better integration in the agri-food chain through quality schemes , increasing added value of agricultural products , promoting local markets.**

#### **Selected measures**

- *Investment in fruit farms.* Aimed at increasing the investment potential of these holdings as well as equipment, machinery, irrigation systems on farm and processing at farm level and through investments that lead to increased area occupied by orchards and/or conversion of existing plantations in the municipalities eligible under Sub-Thematic Programme orchards and within short supply circuits , groups and producer organizations and interbranch organizations.

- *Support for producer groups in the fruit growing sector*

- *support investments in fruit processing sector,* for the establishment of processing units at local level which will help increase the number of jobs available in the areas of orchards.

- *Investments in physical assets in the fruit growing sector.* This measure is supported modernization of the agricultural machinery, processing units, increasing energy efficiency in buildings of fruit growers, stimulating the production of energy from renewable sources by fruit growers and processing plants and the use of irrigation systems with consumption low water, which will help reduce energy and water consumption and thus reduce GHG emissions or to reduce pressure on the water sources.

- *Support the establishment of orchards has an important contribution to the protection of soil desertification, landslide prevention, but also in carbon storage* in both the ground and in the trees;

- *Cooperation* in the fruit growing sector;

- *Innovation in orchards* could provide effective solutions, innovative varieties resistant to drought, techniques and cultivation systems that limits the number of interventions on the ground or reducing water loss from the soil, preserving and promoting genetic potential domestic, lowering energy consumption and the amount of chemicals used, decrease the risk of erosion and biodiversity.

### 3. Strategy for the development of vegetable growing

Vegetables are a basic component in the diet of the population and in this regard vegetables farming as a branch of horticulture, is of strategic interest. In support of this rule is that Romania consumes annually 50% more vegetables than fruits and grapes together. Every day in our menu are always present several species of vegetables: tomatoes, onions, carrots, various greens, etc. National Strategic Framework for sustainable development of the agri-food sector and rural areas in the period 2014 -2020 -2030, launched on July 2013 for public debate at State Presidency mentions first main objective - ensuring food security and safety by ensuring full domestic demand, improved food quality and obtain a surplus to domestic food consumption , available for export.

Vegetable products as a result of activity in vegetable growing, is a necessary component of the strategy. Vegetable food are appreciated primarily by acid-base balance, the contribution predominantly carbohydrates, presence of vitamins in almost all classes known, which requires the maintenance of vegetable on forefront the national objectives. Romania has fertile lands, water sources -and not least- sunlight, our country being in the European B sunshine. It is estimated that in our climatic conditions can grow 74 vegetable species. And the truth is that until 1990 Romania was a country with a strong vegetable growing sector, and exported hundreds of thousands of tons of vegetables. Only in 1986 were exported 600,000 t! Among the countries the so-called "socialist camp", Romania exported the largest quantities of processed tomatoes.

**Table 3. Areas planted with vegetables in Romania (2007-2014 , thousand ha)**

Year	2007	2010	2012	2014
Total vegetables	253,4	252,2	258,9	239,0
Tomatoes	46,0	49,8	49,7	44,0
Dried onion	34,1	33,8	33,1	30,0
Dried garlic	11,5	12,8	11,4	
White cabbage	46,1	47,0	49,1	48,0
Peppers	18,6	21,0	19,9	18,0
Watermelons and melons	31,0	31,5	31,4	
Other species	66,1	56,3	64,3	99,0

The way things evolved, in terms of organization and change of climate and have led to significant reduction in area under vegetables. Tables 3 and 4 present the current situation of cultivated areas and yields obtained, according to the Statistical Yearbook for 2007-2012, and according to MADR, data for 2014. By the same sources, in table 5 are presented average yields for the main vegetable species.

**Table 4. Total production of vegetables in Romania (2007-2014 , kt)**

Year	2007	2010	2012	2014
Total vegetables	3116,8	3863,6	3535,3	3807,0
Tomatoes	640,8	768,5	683,3	711,0
Dried onion	325,0	369,1	345,3	387,0
Dried garlic	49,9	67,2	59,4	
White cabbage	893,2	961,2	987,9	1123,0
Peppers	184,9	243,5	207,1	229,0
Watermelons and melons	408,0	662,9	554,6	
Other species	615,0	791,2	697,7	1357,0

**Table 5. The average yields of vegetables in Romania (2007-2014 kg / ha**

Year	2007	2010	2012	2014
Tomatoes	13.916	15443	13761	16159
Dried onion	9526	10908	10454	12900
Dried garlic	4359	5250	5223	
White cabbage	19364	20858	20135	23486
Peppers	9931	11592	10381	12722
Watermelons and melons	13161	21055	17659	
Other species				13707

Researchers in vegetable growing believe that a forecast vegetable and vegetable production areas is somewhat different than that officially reported, proposing to table 6. From this table it can be seen that although the surface of vegetables in Romania has decreased considerably, though total output is enough good.

**Table 6. The situation "probable" of vegetable production in Romania at the 2012**

Species	„Probable” area ha	Average yield t/ ha	Total production, t
Cabbage	23.000	37	851.000
Tomatoes	12.250	45	551.250
Root vegetables	10.000	27	270.000
Pepper	9.500	30	285.000
Dried onion	8.000	33	264.000
Aubergines	5.000	36	180.000
Cucumbers	4.500	50	225.000
Green bean	3.000	5	15.000
Green peas	1.000	3	3.000
Dried garlic	500	10	5.000

This is due to the protected vegetable sector nearly doubled in the last 15 years, reaching about 7,000 ha. This explains the high average yields on tomatoes, cucumbers, peppers and eggplant, eventually leading to an overall average of 32.5 t / ha, which would put us on a 4th place, more honorable and real hierarchy in European countries producing vegetables.

Note that according to the data released by the NIS, the average vegetable Romania ranges from 12 to 16 t/ha, production which is far from reality, even if we take into account the means of production available to small farms, applied old technologies, their precarious financial strength and not least the lack of an organized national market for vegetables. But even with average yields shown in Table 6, they are significantly lower than those achieved in countries with advanced vegetable growing.

The causes of backwardness of Romanian vegetable growing are multiple. One is that farmers benefit only marginally research results due to insufficient dissemination efforts and channels. The Agricultural Ministry believes that the network of agricultural research needs to be modernized and brought in line with European development trends. Currently, MARD manage R & D Sectoral Plan and envisages integration of the research component, development and innovation with consulting services as well as promoting and supporting research required by farmers.

We believe that the production of *vegetables to Romania in 2020 should submit the following parameters:*

- Average consumption of vegetables: about 190 kg /capita /year;
- Population: about 19.1 million inhabitants;
- Need fresh vegetables: 3.629 million t / year;
- Import of vegetables from necessary consumption: about 200,000 t / year;
- Total domestic production: 4,400,000 t / year, of which:
- a vegetable field 100,000 ha x 24 t / ha = 2,400,000 t / year;
- a protected vegetables (greenhouses, solariums)20,000 ha x 100 t/ha = 2,000,000 t/year;

- Surplus for export: 971,000 t / year.

For vegetables sector *to reach mentioned parameters need to be developed a set policies* that take into account:

- Change global and regional climate;
- The actual situation of irrigation systems and methods;
- The current endowment with machines and equipment;
- The average - poor information and providing advice to growers.

With an average production of vegetables 32.5 t / ha at this time, we can not ensure a minimum consumption of 150 kg vegetables /capita, without importing 233,000 t /year. And if it were to increase consumption at 170 kg, when imports should more increase.

What should be done? We believe that sustainable development of protected vegetable crops (crops mulched with plastic, covered temporary, high and low tunnels and, why not, heated greenhouses) is as a real alternative to farming and to obtain necessary vegetables in Romania. A tripling of solariums cold surfaces may be one objective, knowing that vegetables are the best insurance protection against weather damage. It is necessary to increase this area to about 20,000 ha by 2020 (the year that will not be subsidies), with an annual rate of 1,500-2,000 ha. Actually, in the world there are 16 million ha protected crops, of which China holds more than 10 million ha, increasing surface 7 times in the last 20 years .

Construction and modern technologies in protected culture of vegetables can provide:

- fresh vegetables throughout the year ;
- increase earliness ( 100-300 %) and total production (100 % ) ;
- obtaining top quality products ;
- optimum temperature and water regime ;
- reduce water loss and soil nutrients ;
- reduce pressure attack of pathogens and pests;
- increasing diversification opportunities ;
- reducing specific energy consumption ( 30-50 % ) ;

Obtaining vegetables with adequate nutritional and taste qualities for Romanian consumers will be achieved by tripling the share of domestic biological material. Starting from the genetic heritage we have, funds are needed for the modernization and improvement work in genetics and breeding vegetables. For ensuring production of quality vegetables need a significant increase in the consumption of mineral and organic fertilizers.

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# PERFORMANCE AND UNDER PERFORMANCE OF ROMANIAN COMPANIES. PUBLIC ENTERPRISES

Marius, Gust<sup>1</sup>

**Abstract:**

*For several quarters Romanian economy recorded significant increases in gross domestic product, some of these values are among the highest in the European Union. However, at the level of ordinary citizens, these increases are not observable. One of the reasons why this discrepancy occurs between statistics and everyday reality is the disappointing performance of companies. Unfortunately this performance affects a significant part of companies, whether small, medium or large, whether private or public. Financial discipline reduced and indebtedness relative to their ability, or low liquidity, and personnel costs correlated with low productivity are all factors that affect the performance, erodes their competitiveness and absorbs some of the added value in the viable economy.*

**Keywords:** *companies, performance, private companies, public companies*

**J.E.L. Classification:** *L26*

In the last two years Romania recorded significant GDP growth rates, some values being among the highest in the European Union, and at the end of 2014 quarterly GDP (measured in 2008 prices) almost reached the level of before the crisis. Nevertheless it seems that these values recorded by official statistics seem not to be visible in the daily life of citizens. My opinion is that this phenomena is explained by modest performance of enterprises in Romania, which are found in waiting regarding investments. Thus, the gross forming of fixed capital had negative contribution to GDP forming in 16 quarters out of the total of 24 quarters that have passed since the crisis began.

Table no. 1. Dynamics of Romanian GDP (%)

Date	GDP			Contribution at the forming of GDP, (by request) - %			
	Annual variation (gross series) - %	Quarterly variation (seasonally adjusted series) - %	Average prices year 2008 - bln.lei	Total final consumption	forming of gross fixed capital	Changes in inventories	Net export
2008Q1	9,1	3,9	164,7	12,93	4,43	-	-9,13
2008Q2	10,7	2,5	168,8	9,18	4,08	-	-3,92
2008Q3	10,6	0,5	169,7	10,47	0,98	-	-2,20
2008Q4	4,6	-2,4	165,6	-2,25	0,81	-	4,35
2009Q1	-6,3	-6,2	155,3	-8,1	0,6	-8,2	9,5
2009Q2	-8,3	-0,3	154,9	-8,9	-9,2	0,0	9,4
2009Q3	-7,9	0,7	155,9	-6,6	-11,1	3,1	7,5
2009Q4	-5,9	-0,3	155,5	-3,2	-9,6	1,8	4,6
2010Q1	-1,7	-1,1	153,7	-3,9	-6,9	9,0	-0,3
2010Q2	-0,2	0,5	154,5	-1,2	-1,9	4,7	-2,1
2010Q3	-1,4	-0,7	153,5	-0,7	-5,0	3,0	0,6
2010Q4	-0,1	1,0	155,0	-1,6	-1,1	1,4	0,6
2011Q1	0,5	0,1	155,1	-0,7	0,4	0,1	1,7
2011Q2	0,3	0,1	155,2	-0,8	1,3	1,4	-0,7
2011Q3	2,7	1,4	157,4	2,4	3,1	0,1	-1,5
2011Q4	0,5	-1,1	155,6	1,5	1,9	-1,0	-0,8
2012Q1	0,2	0,1	155,7	1,1	0,8	-2,3	0,8
2012Q2	2,1	1,9	158,6	1,6	-0,1	-1,1	1,7
2012Q3	-0,5	-1,3	156,5	0,9	1,2	-3,4	0,8
2012Q4	0,8	0,1	156,7	0	-1,5	1	1,3

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Date	GDP			Contribution at the forming of GDP, (by request) - %			
	Annual variation (gross series) - %	Quarterly variation (seasonally adjusted series) - %	Average prices year 2008 - bln.lei	Total final consumption	forming of gross fixed capital	Changes in inventories	Net export
2013Q1	2,1	1,3	158,7	-0,3	-2,5	0,4	4,5
2013Q2	1,4	1,6	161,3	0,4	-1,8	-1,9	4,6
2013Q3	4,2	1,0	162,9	-0,3	-2,8	3	4,3
2013Q4	5,2	1,1	164,6	0,3	-1,7	2,6	3,9
2014Q1	4,1	0,3	165,2	3,9	-1,4	0,8	0,8
2014Q2	1,5	-0,6	164,1	3,4	-2	-0,4	0,5
2014Q3	3,0	2,1	167,6	3,2	-0,8	0,3	0,3
2014Q4	2,7	0,7	168,9	3,7	0,3	-0,5	-0,9
2015Q1	4,3	-	-	3,7	1,3	0,7	-1,4

Source: NBR – Reports on inflation may, august 2015

Also, exports, which although were behaved very well during the crisis alleviating the decline of GDP, in recent quarters seem to have slowed their potential to sustain, because in the last six quarters for which statistic data exists increases decrease from some few percent values below one percent, or even negative in the last two quarters. So lately sustaining of GDP growth was made by consumption, as before the crisis, but with significantly smaller contributions.

Table no. 2. The composition of the labor force by training level

Date	total	Reduced level	Medium level	high level	productivity/employee
	difference from Q4 2010; thousands persons (s.a.)				Contribution to real GDP dynamics-%
2011Q1	29,5	-26,4	40,9	14,9	-1,5
2011Q2	-138,6	-170,3	-1,3	33,0	-0,2
2011Q3	-169,8	-177,8	-48,4	56,4	1,7
2011Q4	-84,9	-118,7	-44,9	78,7	1,9
2012Q1	-43,6	-140,8	13,9	83,3	4,0
2012Q2	-22,0	-157,1	46,0	89,1	4,9
2012Q3	-21,3	-177,8	46,9	109,7	4,2
2012Q4	13,1	-118,7	18,8	113,0	5,6
2013Q1	-62,8	-154,5	-26,0	117,7	4,3
2013Q2	-68,6	-195,1	-13,1	139,6	3,2
2013Q3	-94,0	-191,9	-48,0	145,9	3,8
2013Q4	-63,7	-169,7	-42,9	148,9	3,9
2014Q1	15,9	0,1	-149,6	165,4	4,1
2014Q2	-29,8	35,4	-231,0	165,8	3,9
2014Q3	-1,7	19,1	-186,2	165,4	3,0
2014Q4	-22,2	39,7	-238,1	176,2	2,0
2015Q1	-134,5	-259,2	-105,1	229,7	1,9
Total	-899,0	-1.963,7	-968,1	2.032,7	-

Source: NBR – Financial stability reports 2015, Eurostat, author's calculations

Investment processes have consequences also in terms of employment; most businesses seem to be uncertain and try to strengthen their productivity gains than to resort to new employment. Thus we see that only in the past four years Romania, in fact businesses in Romania have lost about a million jobs, and this has affected more positions that were occupied by staff with low and medium qualification positions replaced by posts occupied by staff with high qualifications, but unfortunately only a percentage of two-thirds.

So the first conclusion relates to a flawed way of forming GDP, where consumption dominates, a bleak prospect because investments do not support economic development in the medium and long term and, not least, a reduced demand for low and medium skilled labor,

who does not find employment in the country, emigrates, contributing to the development of other countries.

But the value and GDP is realized in enterprises. So it is good to analyze the evolution of the number of enterprises in the economy. Statistical data shows that in 15 years, between the years 2000 and 2014 it increased by 50%, from approximately 400 to over 600 000 businesses in 2014. Of these, 1% are public and 99% are private.

Table no. 3. Number of companies – classified by ownership

Year	majority state-owned companies	companies with majority private capital	Total companies
2000	2.114	406.244	410.358
2001	1.900	400.948	410.358
2002	1.681	408.149	411.832
2003	1.459	449.766	453.228
2004	1.266	495.944	499.214
2005	979	521.456	524.440
2006	835	554.102	556.943
2007	747	605.209	607.963
2008	661	649.465	652.134
2009	685	596.171	598.865
2010	721	595.715	598.446
2011	886	600.659	603.556
2012	893	603.567	606.472
2013	1.008	602.728	605.749
2014	1.045	599.661	602.720

Source: NBR – Financial stability reports 2015, Eurostat, author's calculations

Although at first glance it would seem that Romania has a business environment favorable for entrepreneurship in reality things are opposite. First it should be noted that of the 600 thousand private enterprises, according to an KeysFin analysis, at the Ministry of Finance , in 2014 , last year 115 965 companies were registered that conducted business without any employees or who hadn't declared their employees, beside 116,620 in the previous year (KeysFin, Romania, country of phantom firms! How to make business of millions with companies with no employees, 15 October 2015). Interestingly, according to the same sources, their share is negligible in the total turnover realized by Romanian companies. Thus, the 116 thousand enterprises, so about 20 % of total produced about 3-4 % of the total turnover obtained by the Romanian enterprises.

Less favorable business environment, commercial or financial difficulties makes an increasingly large number of enterprises to exit the market, being radiated. Thus, the number of companies radiated doubled in years of crisis from about 40,000 in the first year of crisis to almost double in 2014. Also, the same financial difficulties made it that yearly, at the same period of time, between 20 000 and 20 thousand enterprises to seek entry into insolvency.

Regarding the founding of new businesses in Romania more than 100 thousand companies are established annually. In the early years of crisis, the number of newly established enterprises increased from about 111 000 annually in 2009 to about 132,000 in 2011, after which the number of start-ups to reduced steeply, reaching around 100 000 in 2014.

Comparing entries on the market, or start-ups, with outputs, or companies radiated and those insolvent, it would seem that a positive balance results, as also confirmed by the dynamics of the total number of enterprises. In reality, about a third of newly established firms carry out activity (at least in the year of setting up), submitting to the financial administration a tax balance sheet.



Grafic no. 1



Source: <http://www.keysfin.com>

Table no. 4. Evolution of number of start-ups and of insolvency cases

Year	Number of companies newly entered in insolvency	Number of radiated companies	Number of start-ups	Number of start-ups with activity submitting balance sheets
2009	17.776	43.713	111.832	35.289
2010	23.961	43.852	119.048	35.332
2011	22.964	73.244	132.069	46.582
2012	26.759	71.746	125.603	45.208
2013	29.317	80.786	124.816	45.649
2014	20.608	76.483	101.627	42.013

Source: NBR – Financial stability reports 2015, author's calculations

Thus, from the data so far, I think we can say that Romania has a very unfavorable environment for entrepreneurship.

I would also note that if we compare the average data across Romanian financial companies with all data calculated only for insolvent firms we can observe that there isn't a very big difference between them. Also, we can see a deterioration of indicators analyzed.

Table no. 5. The financial health of companies that newly became insolvent in the year prior to the onset of insolvency procedure

Indicator		2008	2009	2010	2011	2012	2013	2014
Recovery term of claims, companies newly entered in insolvency	Number of days	101,42	161,80	191,42	159,50	149,42	153,67	179,23
Recovery term of claims, total economy		82,22	96,46	102,97	100,46	103,24	102,56	100,41
Economic profitability, companies newly entered in insolvency	%	(3,44)	(8,14)	(7,52)	(5,84)	(8,14)	(7,36)	(11,93)
Economic profitability, total economy		3,50	1,69	2,02	2,43	2,44	3,24	3,49

Source: NBR – Financial stability reports 2015

In principle a company asks for insolvency when cashings no longer allow payments and generate losses. On average firms that become insolvent recover claims within 180 days (indicatory was of 100 days at the beginning of the crisis). But the average at the level of economy is not very good, average recovery period is 100 days, the registered value of companies that became insolvent at the beginning of the crisis. Or, the rate of losses increases for enterprises that go insolvent from 3% in 2008 to 12% in 2014. But the average of return on economy is not too gratifying, being around 2-3%.

Table no. 6. Recovery period of claims (number of days)

	2007	2008	2009	2010	2011	2012	2013	2014
micro enterprises	108	112	140	160	169	179	178	184
small enterprises	74	73	87	96	97	97	97	96
Medium enterprises	75	72	84	91	91	95	96	96
SME total	90	89	108	117	119	122	124	125
corporations	78	73	81	86	79	82	78	73

Source: NBR – Financial stability reports 2015

From previous data we find very little of Romanian companies. For example, the number of days of recovery of debts is very high, on average SME recovers its debts at 125 days, more than three months from issue. Maximum is registered by micro enterprises, which recover their debts at 184 days, more than 6 months from issue. Having probably a greater ability to negotiate and customer tracking departments, corporations, or large enterprises record smaller recovery terms (and in decrease), but here also values of 70-80 days, over two months, which is not a gratifying value.

Table no. 7. The aggregate loss of companies with negative net result depending on the type of ownership (nominal value - billion lei)

Year	majority state-owned companies	companies with majority private capital	Total loss
2000	-3,69	-4,70	-8,39
2001	-2,94	-7,02	-9,96
2002	-5,06	-9,02	-14,08
2003	-3,81	-10,91	-14,72
2004	-2,51	-8,86	-11,37
2005	-1,76	-10,17	-11,93
2006	-1,92	-10,49	-12,41
2007	-2,09	-18,89	-20,98
2008	-5,20	-37,01	-42,21
2009	-5,24	-42,81	-48,05
2010	-5,50	-38,03	-43,53
2011	-4,21	-41,09	-45,30
2012	-4,58	-41,22	-45,80
2013	-3,22	-38,80	-42,02
2014	-2,96	-39,12	-42,08

Source: NBR – Financial stability reports 2015

An important issue of Romanian companies is the loss. They have increased continuously, reaching a value of about 45 billion lei. Interestingly, over 90 % of it is generated by private companies.

Table no. 8. Public enterprises in Romania

Owner:	No. of public enterprises (06.2014)	Of which		Incomes (2013, bn. lei)
		Active	Inactive	
Local Authorities	1221	1051	170	10,1
Government, of which: (the most important)	304	247	65	61,8
Managing Authority for State Assets		10		0,16
Energy Department		25		27,6
Ministry of Economy		42		1,28
Ministry of Education		60		0,96
Ministry of Public Finances		8		1,46
Ministry of Communications and Information Society		4		1,60
Ministry of Transport		27		10,51
General Secretariat of Government		9		4,70
Department of Water, Forests and Fisheries		26		1,66

Source: Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita, Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report

In the following I would like to refer to public enterprises, state-owned or state majority, excluding financial companies (CEC and Eximbank), many called by some crown jewels and by others black holes of the economy.

In scripts, Romania has about 1,500 public enterprises, unfortunately about 230 of them are inactive, being either suspended or in insolvency or bankruptcy procedures. From the point of view of the legal organization, most are organized as companies and a minority are autonomous (cf. 115 Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita, Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report).

Public enterprises exist in most European Union states, only that from statistical data analysis it seems that Romanian public sector is one of the largest.

80% are of local interest, subordinated to local authorities: county councils, city councils or municipal councils. The same source (Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report) states that local public enterprises are usually very small, there are hundreds of local public enterprises with less than 100 or even less than 10 employees. Exceptions are those in Bucharest and in several other large cities, where some have more than 1000 employees (the largest being 11,000 employees, Bucharest Autonomous Transportation Direction). Even some public enterprises subordinate to the central government organisms are small (for example the 60 research institutes or training centers and Didactic and Pedagogical Publishing, all under the Ministry of Education and Research). The largest public companies are some businesses of central subordination from the field of energy and natural resources.

Table no. 9. Public enterprises (PE) in European countries OCDE (Year 2009)

Country	No. of PE	Country	No. of PE	Country	No. of PE
Austria	11	Germany	62	Portugal	93
Belgium	8	Greece	82	Slovenia	37
Czech Republic	124	Hungary	359	Spain	152
Denmark	15	Italy	28	Sweden	50
Estonia	54	Netherlands	28	Switzerland	4
Finland	45	Norway	51	United Kingdom	22
France	60	Poland	590	Romania, (2014)	1528

Source: Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita, Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report

Unfortunately, public companies have a low financial performance. The source mentioned above states that public enterprises subordinated to local authorities "have ended 2013 with a consolidated gross loss of 0.47 bn. lei; if we add the operational subsidies from state budgets, loss of public enterprises subordinated to local authorities reached 2.18 billion lei. This loss is not fully compensated by profits from public enterprises subordinated to the central government: excluding current transfers and subsidies from state budgets, state enterprises (local and central) ended 2013 with a consolidated loss of about 2 bn. lei. Public enterprises receive 4.5 bn. lei from the state budget as transfers for investments ". To be noted that the Financial Stability Report 2015 indicates a significantly higher loss for public companies.

Table no.10. Aggregate indicators of central subordination of public enterprises (PE)

Indicator – million lei	Active PE			Inactive PE		
	2012	2013	2014	2012	2013	2014
Number of PE	231	228	232	13	19	67
Turnover	42.754	42.920	33.783	894	981	4.566
Net profit	2.980	4.147	4.518	0	234	943
Net loss	2.883	1.727	1.542	591	1.017	788
Net Result	97	2.420	2.976	-591	-783	156
Net rate of return	0,23	5,64	8,81	-66,15	-79,79	3,41

Indicator – million lei	Active PE			Inactive PE		
	2012	2013	2014	2012	2013	2014
Equity	71.175	75.910	56.447	-1.157	-6.462	9.201
Total assets	154.374	146.563	120.475	2.877	4.536	24.498
Rotation assets	0,28	0,29	0,28	0,31	0,22	0,19
Total debts	45.423	32.913	24.469	3.989	1.064	14.518
Indebtedness	29,42	22,46	20,31	138,66	23,47	59,26
Overdue payments to the budget	8.333	2.838	1.595	170	5.849	6.377
Overdue payments to other creditors	5.365	3.973	1.918	2.699	4.099	5.353
Total overdue payments	13.699	6.811	3.513	2.869	9.949	11.730
The degree of non-payment of debt	30,16	20,69	14,36	71,93	934,77	80,79

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

In the 2014 Annual Report on the activities of public companies of central subordination in which the state owns a majority or full participation, developed by the Ministry of Public Finance is stated that in that year a total of 300 public companies of central subordination were functioning in our country, but of those 67 were inactive. The overall analysis of only active central public enterprises do not indicate major performance problems. We can actually appreciate significant increases in terms of profitability, a reduction of indebtedness or a decline in the level of non-payment of debts.

Many non-performance issues arise regarding the 67 central inactive public enterprises: loss, equity, asset efficiency decreasing, increasing indebtedness, non-payment of debt of almost 100% etc.

A lot of underperformances of many public enterprises of central subordination are explained by significant wage costs. To be noted that the highest salaries are paid within the inactive public enterprises.

Table no. 11. Wage costs in public enterprises

Year	PE status	PE number	Employees	Wage costs – thousand lei	Average gross salary - lei	Average net salary - lei
2011	Active and inactive	241	245.253	8.980.581	3.060	2.147
2012	Active	231	237.470	8.393.738	2.946	2.066
	Inactive	13	4.247	166.702	3.271	2.294
2013	Active	228	225.046	8.523.652	3.156	2.214
	Inactive	19	5.874	268.095	3.803	2.668
2014	Active	232	199.576	7.914.381	3.305	2.318
	Inactive	67	11.219	554.472	4.119	2.889

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

Analysis of financial flows of public enterprises to the state budget indicates that they are large consumers of budgetary funds, in the last year the ratio being of a leu transferred to the budget to five lei receive from the budget.

Table no. 12. Financial relations of PE with the state budget

Year	Total subsidies and transfers from the state budget – million lei	Dividends and payments actually delivered by PE to the state budget - million lei
2012	8.833,2	1.785,7
2013	6.944,8	1.481,9
2014	7.972,6	1.676,5

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

It should be noted that in 2014 the top ten loss-making enterprises had accumulated this amount of 1.400 billion lei, the largest central public enterprises with losses were the two energy complexes, respectively, Oltenia and Hunedoara, followed by Tarom and the Uranium company, those four cumulated losses of 1,200 billion lei.

Table no. 13. Top PE of central subordination with losses

Public enterprise	Loss size in 2014 – thousand lei
Oltenia Energetic Complex S.A.	-693.636
Hunedoara Energetic Complex S.A.	-352.309
National Company of Romanian Air Transport Tarom SA	-110.161
Natinal Company of Uranium SA	-103.435
Romaero SA	-45.030
National Society of Railway Transport SA	-27.161
Romanian Counter-Guarantee Fund SA	-19.496
Hydroenergetic Services Company - Hidroserv S.A	-17.608
Relatex Assets S.A.	-15.783
Administration of State Protocol Patrimony SA	-13.509
Total	-1.398.128

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

### Conclusions

In conclusion, due galling of investment and hiring processes in most enterprises seem to be uncertainty, are attempting to strengthen their productivity gains than to resort to new employment.

Another conclusion refers to a flawed way of GDP forming, in which consumption dominates, a bleak perspective because investments do not support economic development in the medium and long term and, not least, a reduced demand for medium and poorly qualified labor, that finds no jobs in the country, emigrates, contributing to the development of other countries.

Less favorable business environment to entrepreneurship, commercial or financial difficulties makes a increasingly number of enterprises to be radiated from the market, from the data so far I think we can say that Romania has a very least favorable environment for entrepreneurship.

Unfortunately, a great part of non-performance comes from public enterprises. Thus, these local public enterprises concluded the year 2013 with a consolidated gross loss of 0.47 billion. lei, plus operating subsidies from state budgets, loss of public enterprises subordinated to local authorities reached 2.18 billion lei. This loss is not fully offset by profits from public enterprises subordinated to the central government: excluding current transfers and subsidies from state budgets, state enterprises (local and central) ended 2013 with a consolidated loss of about 2 billion lei. Public enterprises receive 4.5 billion lei from the state budget by transfers for investments.

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# STUDY ON THE PSYCHOLOGICAL IMPLICATIONS IN DECISION-MAKING

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## Abstract

*We can't just talk about decisions at management level, they appear in every step in the life of everyday individual. In an organization decision making is reserved to the management (top managers, middle managers and lower level managers), but also to their subordinates, resources with which they come into contact with the purpose of good collaboration. With the theme of psychological implications of the decision, this article is structured in two parts. In the first part it is presented the concept of decision, and during the part number two a research based on a survey among human resources of the Centre for Resources and Educational Assistance Maramures is carried out.*

*The working hypothesis of this article assumes that the decisions inside an organization have implications not only on economic-organizational level, but also reflects at the psychological level. The most important lessons learned as a result of the research carried out show that the decision maker must possess handling and management skills in order to reach consensus, and finally to make the best decisions.*

**Key words:** *decision; decision process; decision-making system; human resources; organization*

**JEL Classification:** *D20, D21*

## I. Introduction

Many specialists, academics and practitioners were interested in studying the concept of decision, and in this respect there are a variety of books and articles which talk about it. The manager or the person who is put in a position to make decisions should not look only at the economic implications of the decision, but must also anticipate the psychological implications. Not all managers see decision making's real meaning, but most associate the power of decision making with authority. The authoritarian style of the manager lead to manifestation of pathological phenomena, and in order to be the right environment for physical and mental development in the workplace, the managers have to adopt a strategy more focused on democracy. Democracy must be seen as the ability of every employee within the organization to voice their views and participate in finding the best solutions to eliminate deficiencies.

## II. Knowledge Concept of Decision

A decision is a conscious choice to behave or think in a particular way in a particular set of circumstances (Husein A, 2012). Decision-making is often referred to as the heart of the management process (Mann, 1976). Most of the definitions of decision-making are very similar to each other. The decision maker has several alternatives for evaluation and selection. Thus, if there is only one choice, the manager is not actually involved in the decision-making process ([Www.macrothink.org/jmr](http://www.macrothink.org/jmr)).

As a complex psychological phenomenon, the decision on the one hand has to do with the individual, on the other hand is a social phenomenon. In the first case, the individual is at the center of decision making along with his psychological needs, the decision is the result of the individual cognitive activity, and in the second situation in the center of the decision making stands the group's manifested or latent needs (Stanciu M, 2005).

To be a manager means to make decisions. All activities and functions of the manager generates decision making. The main tools with which managers are operating are decisions and their role in leadership is fundamental: with the lack of decisions, no resource can be valued. The

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performances on an organization are determined by its activities. According to Forester J. quoted by Bertrand T Broussard D, Furet P, R Piquet in his work "organization and business management," and Broussard's "To decide" - to transform information into action. Decision-making involves considering some elements of uncertainty because money is limited, but the judgment can be supported by reasonable deduction. Five conditions must be met (K Ohmae, 1998):

1. The business field must be clear,
2. Forces acting within the business should be explained,
3. The selecting should be done from the variety Strategic Options,
4. The company must operate its strategy in accordance with the resources,
5. The management must agree on the assumptions underlying strategic choice.

The decision maker is the person or group of persons which according to their duties, competencies and responsibilities have a managerial decision-making role. Mintzberg has established a manager roles within the organization, and the decision making occupies a leading position (Nicolescu O, 2001).

Types of decision makers:

1. Naive or reckless;
2. Speculative;
3. Willing to take risks;
4. Balanced, sparingly;
5. Less sparingly;
6. Undecided.

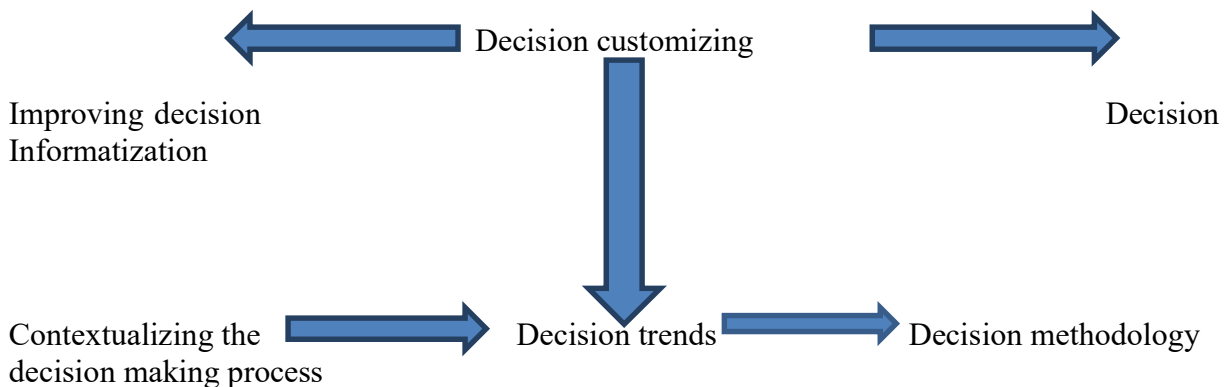
Requirements that the decision maker must meet (Olaru S, 2005):

- Have a lot of knowledge,
- Have the ability to identify and use key trends,
- Foresee the undesirable reactions of the persons involved.

There are various classifications of decision according to the specific literature. Classifying decision making as done by F. Hetman (<http://www.creeaza.com/referate/management/DESCRIPTORII-PROCESULUI-DECIZII424.php>). According to him, there are three main categories of decisions:

- Operational decisions - operational structural subdivisions characteristics, lines of command
- of management and control - the current execution functions;
- Concept decisions (or guidance) - include analysis, evaluation and resource allocation, they are characteristic to the functions for ensuring activity efficiency;
- Prospective decisions - used in the formulation of objectives, in planning, in research.

Figure 1 shows global trends in decision-making.



**Figure 1. Global decision trends**

Source: Nicolescu O, Sistemul decizional al organizației, Ed. Economica, București, 1998, p 38

Charles Kepner and Benjamin Tregoe define the concept of problem as a situation where "something went wrong". Gerald Lopez thinks that a "problem" is a situation in which "what the world wants varies judging by the fact that what it wants varies from case to case" (MacCrata R, 1998). In the decision making process the following principles should be respected (Gavrila T, 2002): The principle of definition - presumed problem, the argument principle - the analysis and choosing phase, the principle of delegation of the right to make decisions, the principle of participation-integration assistance. The decision process = identifying and addressing the variables to act accordingly to requirements of a context (I Stanciu, 1998).

In the company, the decisional subsystem meets the following functions ([http://www.universitateacantemir.ro/CursuriRei/documente/7\\_SISTEMUL%20DE%20MANAGEMENT%20AL%20FIRMEI.pdf](http://www.universitateacantemir.ro/CursuriRei/documente/7_SISTEMUL%20DE%20MANAGEMENT%20AL%20FIRMEI.pdf)): directs the overall development of the company and its components, trigger staff's and departments actions within the company, harmonize and motivate the activities of the company staff. Inside the organization the decisional subsystem holds a prioritized position and its main functions are as follows (O Nicolescu, 1998): directs the overall development of the organization and its behavior. Small and medium companies anticipate and prepare their development using short-term strategic prospective, harmonizing the organization's staff activity. Organizational decisions which outlines the organizational system provides basic correlations, triggering actions of the staff and their behavior. Decision models (Markas G, 2003):

- a. Stochastic- regression, mathematical analysis, time series;
- b. Simulation - production models;
- c. Specific field - Mathematical models;
- d. Determinist- optimization, linear schedule, financial plan, production plan.

The normative model (H Vroom, 1974) should provide a basis for solving problems effectively, and also for decision-making by choosing the desired process. Maier (1963) believes that the effectiveness of a decision is considered to be a function of three classes of results, each of which can be expected to be affected by the type of decisional process.

### **III. Study of the Perception of CJRAE Human Resources on the Psychological Implications of Decision Making**

#### **Methodological framework**

This article is intended to solve a current problem, namely the lack of data on how an organization's staff perceives decisions at psychological level.

#### **Stages of research**

**The goal** - Identifying the extent to which decision making process leaves its mark on the psychological level.

#### **Research Objectives**

- Identifying the aspects that define the stages before making a decision;
- Knowing how sharing the tasks are made while making a decision.

#### **Research hypotheses**

- The decision-makers trying to convince their partners turn to cognitive, emotional and rational aspects.
- The ability of handling and managing the staff in the decision making process is essential in order to have success.
- The selection of the individuals for problem solving and decision making is based on rational issues.

#### **Organizing the research**

*Sample size.* The sample consists of 100 individuals from the human resources of the Centre for Resources and Educational Assistance Maramures (CJRAE). 4 men and 96 women.



*Sampling method* - for this research was used the non-randomized sampling by quotas using 3 criteria (age, place of origin and gender). The research was conducted by **surveys** and is a quantitative one, it's been done as a face to face interview using a questionnaire.

**The questionnaire** contains 11 questions, out of which 3 are identifying the respondent's profile.

**Types of scales used:** Likert

The questionnaire's data was processed using EXCEL software. There were pre-testing to validate the questionnaire. Thus, the open questions were dropped in favor of the closed questions and the irrelevant questions were removed.

**Data collection.** The period this questionnaire was applied: 9 to 13 April, 2015.

#### IV. Research Results

Interpretation of the results was performed on each question in the survey.

Analysis of the overall results (Table 1)

**Table 1. Sample results**

Statement	Stron- gly agree	Agree	Indi- fferent	Dis- agree	Stron- gly disagree	Score
1. While deciding it should be clearly and succinctly explained to the collaborators, and when resisting you should reach their sensitive side.	20	30	30	15	5	0.45
2. Listen to the views of the parties involved, but when making a decision you prefer to use the knowledge gained, the techniques that in the past had resulted and thus you try to convince partners.	41	34	16	7	2	1.05
3. When identifying a problem in terms of teamwork, the participants are chosen on rational considerations.	5	10	18	27	40	-0.87
4 .When deciding you must precisely define: the context, risks and costs.	24	19	30	14	13	0.27
5. Participants in the decision making fulfill the Manager requests and do not deviate.	10	10	40	20	20	-0.5
6. Agreement on the decision appears when the majority agrees on the fact that the cognitive aspects must be a priority.	41	34	16	7	2	1.05
7. Being born a decision maker means having a good knowledge of the art of managing.	30	40	10	20	-	0.8
8. Once the decision is made the procedure are written in order to put it in practice.	24	19	30	14	13	0.27

#### Score interpretation

The scores obtained from the sample consisting of 100 individuals shows:

S1 = 0.45, respondents show a favorable attitude about the fact that they are clearly and succinctly explained the reasons for the decision, even though they reach to the emotional side, and they rely on individual's sensitivity.

S2 = 1.05, when they make decisions in the organization all opinions are taken into account, together with the cognitive side, ie knowledge gained, and finally convincing the partners.

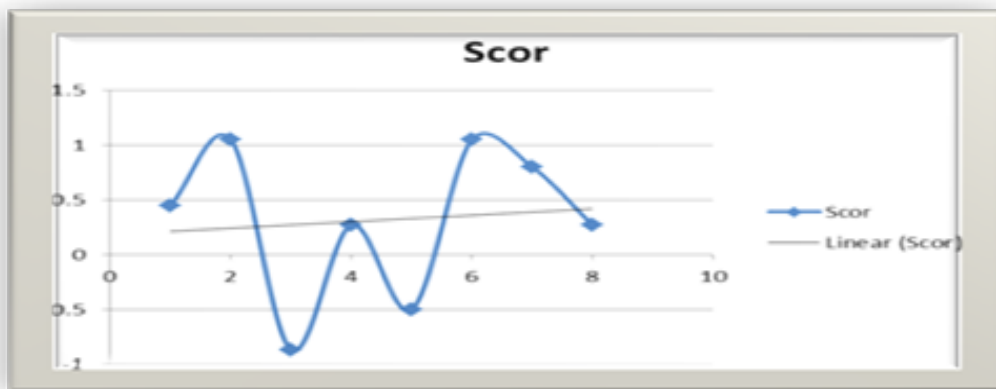
S3 = -0.87, the attitude of those interviewed is disagreement on the selection of people based on reasoning.

S4 = 0.27, on the statement that the context, risks have defined precisely, individuals show an attitude of indifference.

S5 = -0.5, regarding the allegation stating that decisions are followed accordingly, respondents show an attitude of disagreement. This suggests that when they observe deficiencies they can take action by exposing their own point of view.

S6 = 1.05, respondents' attitudes regarding the appropriate decision being taken when all parties involved find a consensus which reflects both the efficiency and effectiveness is one of agreement, meaning that the affective and emotional aspects have to be eliminated. S7 = 0.8, in this case the respondents attitude is one of agreement with the statement that says you were born a good decision maker when you possess great managerial skills in order to achieve goals.

S8 = 0.27, according to the result of the score number eight the respondents show indifference, when it comes to writing a procedure after making a decision. In order to obtain meaningful results we made a diagram for the scores of each criteria.



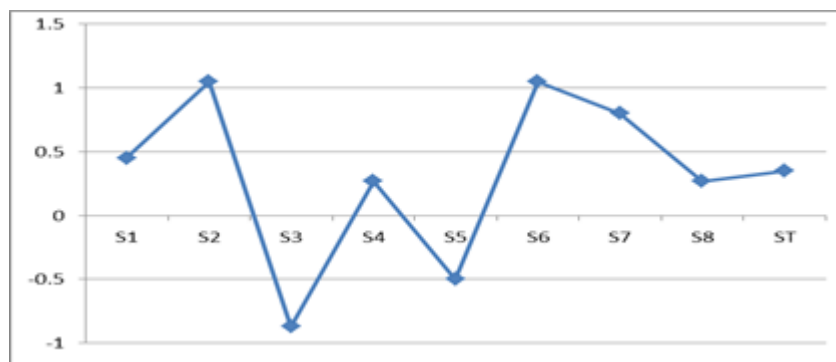
**Figure 1. Graphical representation of scores**

Out of the 100 people who participated in the research 4 persons are males and 96 females. 78 of the respondents lived in urban areas and 22 people in the rural areas. Regarding distribution by income they rank between 1500-3000Ron.

In order to obtain scientifically substantiated results we calculate the overall score. Overall Score = 0.35. According to the result of respondents the overall attitude oscillates between indifference and agreement.

**Table 2. Average scores and overall score**

DENUM IRE	SCOR
S1	0.45
S2	1.05
S3	-0.87
S4	0.27
S5	-0.5
S6	1.05
S7	0.8
S8	0.27
ST	0.35



**Figure 2. Representation of average scores and overall score**

### **Conclusions:**

We cannot speak of managerial efficiency when it comes to decision making if his style is not effective and one of the reasons being that he does not focus on the „4 C's”: clarity, courage, consideration and coherence. Therefore, efficacy results from the joining of the 4 C's. Manager as the integral part of the decision-making process must show courage when it comes to implementing a strategy, clearly formulating targets and timeframes, providing consistency in action and thought and to show appreciation to employees.

Out of all three research hypotheses the first one does not check, the other two do. The first hypothesis is not verified because when seeking to persuade their partners to making a decision, they turn to the affective aspects. The second hypothesis is verified as the respondents think that the decision-maker should have managerial skills which are essential for success. The last hypothesis is also checked, most respondents showing agreement regarding the fact that the selection of people who will be part of the selection process is done taking reasoning into account.

Respondents are willing to listen to others' opinions and involve them in decision-making, but they tend to use methods that have shown potential in the past, and in this sense they resume to convincing others. This shows the fact that decision-makers trust in themselves. Most respondents think that an appropriate decision is taken when cognitive aspects are taken into account. The central idea of the research reveals that the respondents think that during the decision making process affective, cognitive and emotional aspects are taken into account. There are a variety of specialists addressing decision-making, but this article is studying the human resources of an organization attitude on the decision-making process seen through the psychological perspective (subjectivity, emotion and mood). In conclusion, the decision triggers a series of psychological factors.

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# THE ROLE OF COMMUNICATION IN IMPROVING THE PERFORMANCE OF THE SERVICES PROVIDED BY THE WORKFORCE RECRUITMENT AGENCIES

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## Abstract

*The performance is not only multidimensional, but also contingent. It is multidimensional because it involves different action variables and numerous criteria that assess their relevance. Certain performance indicators focus on the customer satisfaction and on the impact created by the organization's products/services, while others assess the performance of the organization with reference to the competing organizations (market shares).*

*Having as theme the performance management, the article aims to identify the impact of external communication in order to achieve performance. The working hypothesis of this article has assumed that the efficiency of the information flow regarded in two ways (agency-beneficiary and beneficiary-agency) generates the performance of the agency. It is essential to talk about the communication, not only between the staff from AJOFM Dâmbovița and its beneficiaries (informing about the services, resolving the claims), but also from beneficiary to the agency (presenting the demands in order to be satisfied).*

*In the first part we have analyzed the concepts from the perspective of national and international literature, focusing on the specialists' opinion in this field. In order to support the argument during the scientific approach, we have used as tool a Benchmarking on external communication. The conclusion of the article is that the role of communication is essential in achieving performance.*

**Keywords:** communication, performance, organization, performance management

**JEL Classification:** J21, L25

## 1. Introduction

In a society based on information, the performance of the organizations is analyzed and commented, situation which forces the managers to assess each information and to develop some important communicational devices. In the economic sphere, the performance is in the center of the expectations, but along with the management theories, the notion of "performance" has evolved.

Etymologically speaking, the performance comes from "parformer" [fr.] which in the 13<sup>th</sup> century meant "to perform, to execute". The verbal form "to perform" [en.] appeared in the 15<sup>th</sup> century with a broader meaning: fulfillment of a process, of a task and of an obtained result that can be used as success.

## 2. Defining aspects of the performance

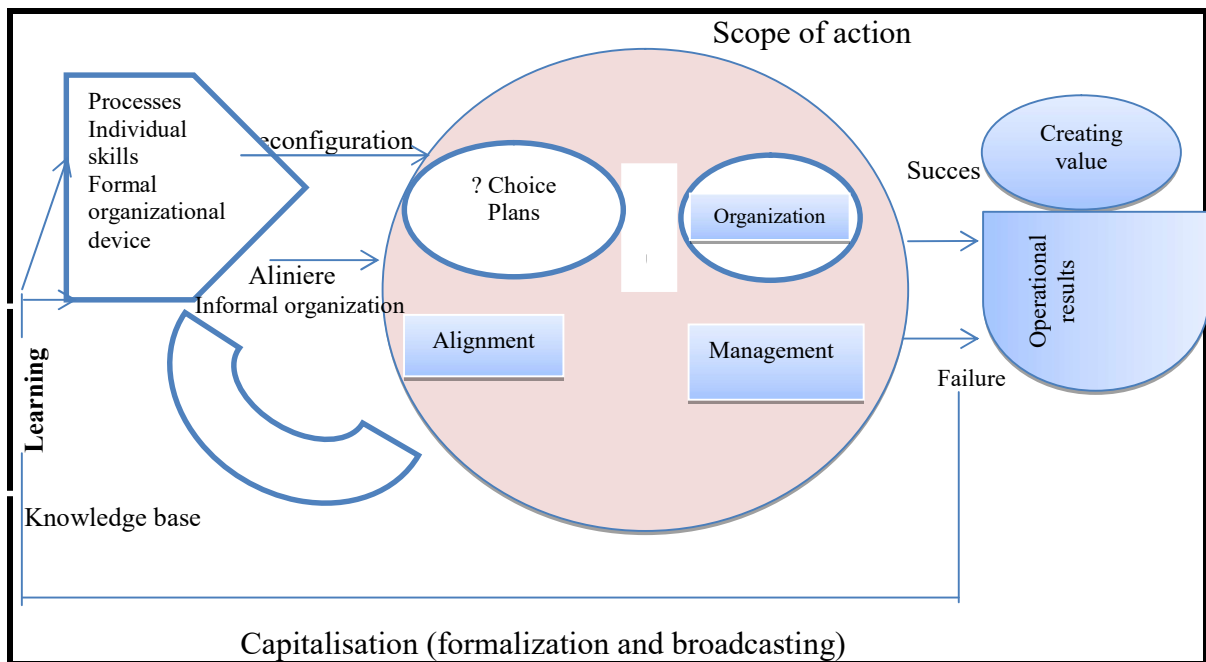
The performance is built by exploiting all components of the organization through the sequence of values developed in a transversal logic opposite to the classical approach which used to manage the organization depending on the profit. It is the case of the global performance in which, during its analysis, the focus is on the identification of the "weak link" in the value chain. The approach is a collaborative one and the performance is being built on cooperation. Illustrative in this way is the management of the conflicts with customers which, instead of being attributed to a particular case, are solved in a global and transversal manner (the partnership with suppliers, for example).

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**Figure no.1. The performance mechanisms**

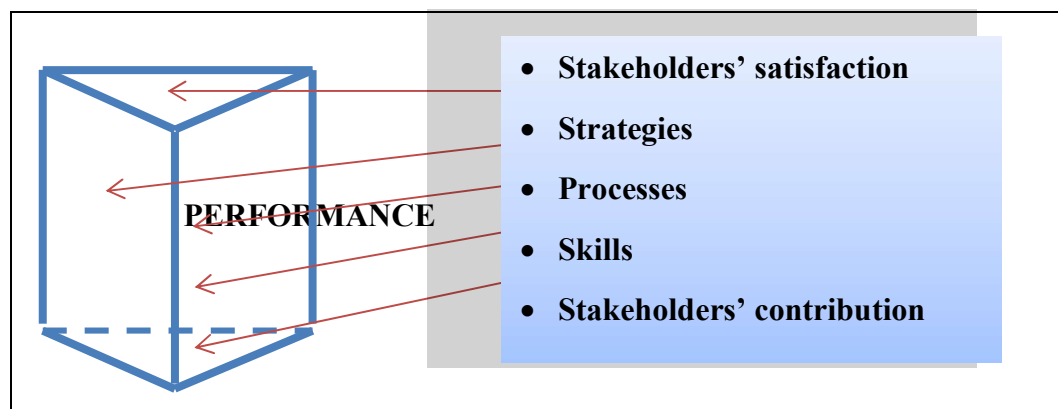
Source: Leban, 2005

The notion of performance depends on the objectives. The organization must make a rational coordination of the activities in order to pursue the goals and the default objectives. Chester Barnard believes that the pursuit of a goal is “the condition of the existence of an organization”. (Barnard C, 1938)

Lorino (2003) states that “for an enterprise, performance is that element which contributes to improve the value-cost pair” (Lorino P, 2003). In this way, the performance produces at minimum cost useful value for customers. “If you can’t measure performance, then it does not exist” (Lebas M, 1995). Without reducing it to the measures taken in order to describe it, there must still be developed a set of reliable indicators in extensive areas (not just financial).

Performance is relative because it acquires interest only in relation to competing organizations, through a comparison logic. Numerous benchmarking systems and their usage confirm this aspect. The scoring method (by notation) proves the relative aspect of the performance.

The performance prism (Neely A et all, 2000) represents a pattern which shows the five facets of the performance and insists on the size of the stakeholders.



**Figure no. 2. The performance prism**

Source: adapted after Neely, quoted by Drillon and Poissonnier, 2008

Ernult (2005) draws attention to the frequent confusion between the performance and its measurement. We should avoid the confusion of some close, but restrictive concepts, such as efficacy or efficiency. Ernult proposes to represent the performance using the value/cost pair. It is interesting to establish what value is created, which is its cost, what need of the customer is satisfied (Ernult C, 2005).

### 3. The role of communication in achieving performance of AJOFM Dâmbovița

#### 3.1. Activity report AJOFM

Services offered to people looking for a job (<http://www.dambovita.anofm.ro/servicii%20oferite.html>):

- a) Information and professional counseling,
- b) Labor mediation,
- c) Training,
- d) Consultancy and support for starting an independent activity or for starting a business,
- e) Completion of the employees incomes,
- f) Stimulation of the workforce mobility.

SERVICES OFFERED TO EMPLOYERS:

- a) Job subsidies,
- b) Grant facilities.

The structure of the target group who aimed active employment measures is presented in table 1.

**Table 1. Target group of active measures in 2014**

Target Group	Number
Women	2774
Long-term unemployed young people	80
Long-term unemployed adults	111
People with disabilities	26
Gypsies	109
People over 45 years	2164
People over 50 years	1020

Source:[http://www.dambovita.anofm.ro/files/Raport%20activitate%20AJOFM\\_DB%202014.pdf](http://www.dambovita.anofm.ro/files/Raport%20activitate%20AJOFM_DB%202014.pdf)

According to the data in the table it can be seen that the active employment measures were addressed to all people seeking for work and who were registered in the database of AJOFM Dâmbovița.

The evolution of the number of registered unemployed, paid each month in 2014 is presented in the table below.

**Table 2. Evolution of registered and paid unemployed in 2014**

Year 2014 / Month	1	2	3	4	5	6	7	8	9	10	11	12
Registered unemployed	16614	17081	16328	14785	14134	14506	15300	15487	15704	16027	16381	16228
Paid unemployed	4661	4586	3960	3033	2607	2388	2416	3263	3411	3411	3398	3474

Source:[http://www.dambovita.anofm.ro/files/Raport%20activitate%20AJOFM\\_DB%202014.pdf](http://www.dambovita.anofm.ro/files/Raport%20activitate%20AJOFM_DB%202014.pdf)

These statistics show that there are changes from a numeric point of view, both for the paid and registered unemployed. If the number of registered unemployed in January started from 16614, in December their value decreased to 16228.

The tables 3 and 4 present the number of registered and paid unemployed

**Table 3. The number of unemployed women in 2013**

Macro region Region of development County	Num ber of register ed unempl oyed	of which:			Unpaid unem- ployed	Unem- ployment rate (%)	
		Recipients of unemployment benefit <sup>1)</sup> (unemployed with work experience)	Beneficiaries from				O.U.G. no. 98/1999
			Unemployment indemnity <sup>2)</sup>	Beneficiaries of payments			
			(unemployed without work experience)	compensatory according to			
			<i>Recipients</i>	<i>Beneficiaries of compensatory</i>			
			<i>unemployment benefit<sup>2)</sup></i>	<i>payments according</i>			
			<i>(unemployed without work</i>	<i>to G.P.O. no. 98/1999</i>			
Dâmbovița	1715 7	3445	1742	-	11970	8.1	
Women	7041	1376	777	-	4888	7.7	

Source: Romanian Statistical Yearbook

According to the data found in the tables, from 17157 registered unemployed 7041 were women, a 7.7% unemployment rate among this category.

**Table 4. The number of unemployed by level of education in 2013**

Macro region Region of developme nt County	Recipients of unemployment benefit <sup>1)</sup>				Recipients of unemployment benefit <sup>2)</sup>				Unpaid unemployed			
	(unemployed with work experience)				(unemployed without work experience)							
	Total	of which: by educational level			Total	of which: by educational level			Total	of which: by educational level		
		Primary, secondary, vocational	High school and post high school	University		Primary, secondary, vocational	High school and post high school	University		Primary, secondary, vocational	High school and post high school	University
Dâmbovița		3445	1947	1145		353	1742	85		1432	225	11970

Source: Romanian Statistical Yearbook

The data in the table above shows that in Dâmbovița County, from a number of 3445 unemployed who benefit from indemnity in 2013, there are 249 university graduates and the rest of 1847 are graduates from primary, secondary or professional education. The structure of the number of job vacancies divided by activities of national economy in South Muntenia can be observed below, in Table 5.

**Table 5. Employment structure in South Muntenia**

Activity (sections CAEN Rev.2)	MACROREGION THREE
	South - Muntenia
<b>Total</b>	<b>3221</b>
Agriculture, forestry and fishing	36
Industry - overall	1652
Extractive industry	1



Activity (sections CAEN Rev.2)	MACROREGION THREE
	South - Muntenia
Manufacturing industry	1529
Production and supply of electric energy, gas, hot water and air conditioning	18
Water supply, sewerage, waste management	
Decontamination activities	104
Constructions	154
Wholesale and retail; repair of	
Motor vehicles and motorcycles	138
Transport and storage	110
Hotels and restaurants	36
Information and communication	12
Financial intermediations and insurance	53
Real estate transactions	3
Professional, scientific and technical activities	63
Activities of administrative services and	
Support services	65
Public administration and defense;	
Social insurance from public system <sup>1)</sup>	456
Education	183
Health and social care	196
Artistic, cultural and recreational activities	45
Other service activities	19

Source: Romanian Statistical Yearbook

### 3.2. Research methodology

Purpose- lacunar information concerning the extent to which the communication between the placement agency's staff and the beneficiaries of the services provided helps to increase its performance led to carry out a research having as main tool a Benchmarking.

Research objectives:

1. Knowledge of the percentage of informing the beneficiaries regarding the range of services in order to achieve performance,
2. The extent to which the communication solve the claims ,
3. Observation of the degree to which the database leads to better communication

Research hypotheses:

- a) Information about the range of services is in line with the beneficiaries expectations,
- b) Periodical surveys lead on the one hand to an increased performance and on the other hand to an improving level of satisfaction,
- c) Beneficiaries' claims are not fulfilled by consumers because of a lacunar communication.

The results obtained

In order to identify the communication effectiveness when ensuring a high level of AJOFM performance, a Benchmarking is used on external communication service. The value received is compared to the one expected and the difference obtained is meant to identify the AJOFM weaknesses as a result of the diagnosis carried out.

**Table 6. Benchmarking on communication between the agency and its beneficiaries**

Activities	The importance level of the activity within the processes category	Hierarchy	Process	The importance level of the activity in the processes group	Hierarchy	Maturity level					Value received	Value expected
						0%	25%	50%	75%	100%		
											<u>812.5</u>	<u>1000</u>
				1000	500						<u>350</u>	<u>500</u>
Provided services	500	500	Call Centers	200	100					B	100	100
			Information campaigns carried out	400	200					B	150	200
			Internet communication services(site)	400	200			B			100	200
Beneficiaries relationship management	500	500	Creating the database of beneficiaries	400	200					B	200	200
			Creating and implementing the satisfaction questionnaires	100	50					B	50	50
			Resolving the claims	300	150				B		112.5	150
			Managing external communication and allocating the budget	200	100					B	100	100
				1000	500							<u>462.5</u>

After applying this tool, we see that, from 1000 points, AJOFM obtained 812.5. This reflects the fact that it has a satisfaction capacity when speaking about communication for over 81%. By analyzing each activity we can see that the first one aiming the provided services scored 350 of 500 points. The second one obtained a score of 462.5 out of 500 points. Here we see that there is not a difference as big as can be observed in the first activity.

Analyzing each sub-activity from the first activity “provided services”, we can see that there is no difference between the value received and the expected one when talking about call centers, and this shows that the staff who communicates using the telephones, the one who provides information is characterized by competence. However, in the other two sub-activities of the first activity there can be noticed a difference. The second sub-activity of the first activity “information campaigns carried out and their implementation” obtains 150 points of 200. Regarding the last sub-activity “Internet Information Services (site)”, it obtains only half of those 200 points.

Of the four sub-activities in the second activity, there can be seen that only when solving the beneficiaries’ claims we can find a difference between the value received and the expected one; in this case, 112.5 points are obtained out of 150. For the other activities: creating the database, creating and implementing questionnaires, managing external communication and allocating the budget, there is no difference.

The implementation of this tool in order to identify the impact of communication on the performance of AJOFM Dâmbovița points out that when speaking about the external communication process, we can identify not only strengths, but also issues that should be corrected.

### **Conclusions**

Performance is reflected not only by the results of the organizations from an economic point of view. Thus, when we think of performance, we should not only look at the financial indicators: turnover, profit and profitability. An important role in achieving it is represented by the human capital, particularly its competences. Among the broad area of competences of the human resources within an organization, those related to communication, particularly with the target audience, play an important role.

In order to enter the logic of performance management, the organization must generate value creating activities in the future and be receptive to trends and market needs.

The activities must, in this way, be combined in processes and analyzed in isolation. The organization can be perceived as a network of activities oriented towards an overall performance target.

All three hypotheses in the research methodology are verified. The first hypothesis can be verified because the information about the range of services comes up to the beneficiaries' expectations, the second one is verified because the periodical application of the questionnaires results on the one hand in increasing the performance and on the other hand in improving the level of satisfaction and the last one which state that the claims of beneficiaries are not fulfilled by the consumers because of a lacunar communication is verified because there is obtained 112.5 points out of 150.

In conclusion, the performance of AJOFM Dâmbovița is obtained as a result of the communication capability of the staff with the beneficiaries of the services targeted to them.

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# ROMANIANS PERCEPTION ANALYSIS REGARDING UNETHICAL BEHAVIOR MANAGEMENT

Constanța, Popescu<sup>1</sup>  
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## Abstract:

*To hold an ethical conduct means to always act with a high moral character. Moral issues are those that target individual about what is good to do and what not. Ethical issues are diverse: employee conflicts of interest, corruption, bribing and taking bribes, sexual harassment, unauthorized payments, employees' private space, environmental issues, occupational safety, pricing policy, discrimination of any kind. The article title „Romanians perception analysis on unethical behavior management” aims to showcase how individuals perceive contemporary society unethical behavior and the extent to which they adhere to such behavior. The starting point of the article is represented by the fact that corruption affects people’s lives.*

*Ethics are being presented in the theoretical part, and the practice is done by a research focused on the analysis of secondary sources, and the instrument used for this part is the questionnaire. The database was taken from an European site and from an International one, both sites specializing in surveys. Research findings highlighted the fact that corruption is widespread and exerts influence on the individual.*

**Keywords:** *ethics, ethical behavior, moral, bribery*

**JEL Classification:** C83

## 1. Theoretical aspects

The etymology of the word "ethics" comes from the Greek word "Ethik" (Aristotle) which means knowledge and "ethicos" meaning "morality" or "morals". The latter is a derivative of the word "ETHOS" (Homer) which means homeland, primordial, birthplace, character, habits, meeting place, house. Ethics appeared as a result of all the factors that were related to human cultural development. Before the emergence of writing, ethical attitudes showed man how to manage conflicting elements, such as "good" and "evil". In the Romanian Dictionary, the edition published in 1975, ethics is defined as "the science dealing with the study of moral principles, with their laws of historical development, the contents of their class and their role in society; all rules of good conduct of a particular class or society.

Ethical behavior must start at the top. To improve the ethical climate and reduce conflicts between personal ethics and organizational requirements, some changes are necessary in two main areas: managerial concept and managerial actions (Duțescu B, 1980). Among the many ways the unethical behavior is manifesting, the analysis of corruption was chosen, and this approach is not random but is based on the fact that among the recommendations from the EU through the 2020 European Strategy stood the diminishing of corruption.

The starting point on defining ethics is to indicate what 'wrong' means and to enumerate the means by which the consequences of this evil can be avoided. Ethics is not only a way of analysis. Society in general is subjected to the operation of any ethical system. In this way, all social relations include ethics. "It is human nature to be well behaved" (Flonta M, 2005) The causes of unethical behavior:

1. Gain (desire of obtaining maximum profit) leads to many temptations, especially when a substantial gain is anticipated;
2. Conflict of roles - many ethical dilemmas that arise in organizations are actually forms of conflict of roles that get to be resolved unethically (D Christmas, 2005);

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3. Strong competition for scarce resources may stimulate unethical behavior, both by stimulating game business and illegal acts of trade (Flonta M, 1995);

4. Personality. People strongly oriented towards economic values are more prone to unethical behavior than others (Donaldson, 1989).

## **2. Research Methodology**

Goal- Little information on Romanians view of ethical behavior required the making of this research based on the analysis of secondary sources. Data was collected from two sites: the World Values Survey and ec.europa.eu. The instrument used was the questionnaire and the interview method used (face to face and by telephone). The sample is representative in both cases. The questionnaires were applied to Romanian citizens of different ages, different professions and different sex. The database of the two sites was used, and the information was processed in Excel.

### **Objectives**

1. Finding out how Romanians relate to the world and also how they perceive the expression “doing good for society”.

2. Observing the degree of which the corruption is spread.

3. Identify the most common forms of corruption.

4. Finding out their perception of how those guilty of corruption, abuse of power, giving and taking bribes are treated.

### **Assumptions**

H1. Most Romanians see themselves as belonging to the world;

H2. A small number of respondents perceive corruption as highly spreading;

H3. The most widespread form of corruption is to benefit family or acquaintances in public institutions.

## **3. Results**

The data is structured on two levels:

1. The individual’s sense of belonging to the world and ethical behavior way of life.

2. The spread and the forms of corruption.

I. Individual affiliation and the degree of similarity in terms of ethical behavior

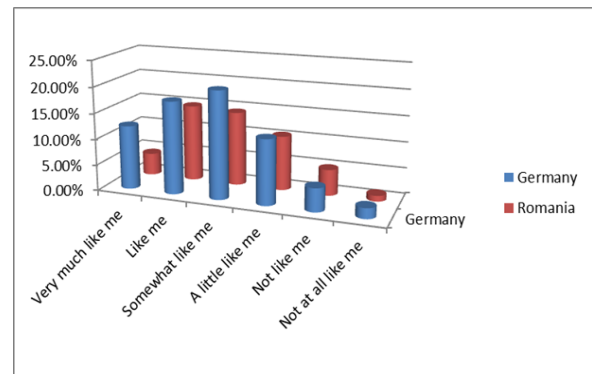
For this level a comparison was made between Romanians and Germans. The choice is not random, its foundation was the gap in living standards.

Please think of a person representative of your life, a model.

1. To what extent do you resemble your model regarding the expression “doing good for society”.

**Table 1. The similarity between respondents and model regarding “doing good for society”**

TOTAL		
	Germany	Romania
Very much like me	12.3%	4.3%
Like me	17.8%	14.8%
Somewhat like me	20.6%	14.3%
A little like me	12.5%	10.5%
Not like me	4.5%	5.0%
Not at all like me	2.0%	1.1%
<i>Missing; RU,DE: Inappropriate response</i>	*	*
No answer	28.9%	49.8%
Don't know	1.3%	0.2%
(N)	(3,549)	(2,046)
Mean	2.79	3.01
Standard Deviation	1.27	1.20
Base mean	(2,476)	(1,024)



**Figure 1. The similarity between respondents and model regarding “doing good for society”**

Source: <http://www.worldvaluessurvey.org/wvs.jsp>

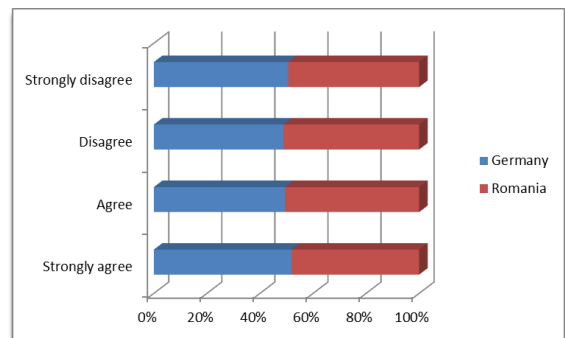
Both in the case of the Romanian respondents and of the Germans ones we found that the majority thinks that they have a similar ethical behavior to their model.

Present your opinion about the following statement:

2. I see myself as a citizen of the world

**Table 2. The individual- on being a citizen of the world.**

TOTAL		
	Germany	Romania
Strongly agree	22.0%	20.4%
Agree	38.6%	39.6%
Disagree	26.7%	28.0%
Strongly disagree	8.6%	8.4%
<i>DE:Inapplicable; Missing; RU: Inappropriate respons</i>	*	*
No answer	0.5%	0.3%
Don't know	3.7%	3.2%
(N)	(3,549)	(2,046)



**Figure 2. The individual - on being a citizen of the world**

Source: <http://www.worldvaluessurvey.org/wvs.jsp>

Over 50% of Romanians and Germans perceive themselves as belonging to the world.

## II. The spread of corruption and its manifestations

### 3. How common is corruption in our country?

**Table 3. Spreading corruption**

Answer	Percent
Verry common	57
Widespread	34
Quite rare	-
Very rare	-
I don't know	9

Source: [http://ec.europa.eu/public\\_opinion/flash/fl\\_374\\_fact\\_ro\\_ro.pdf](http://ec.europa.eu/public_opinion/flash/fl_374_fact_ro_ro.pdf)

Over 90% of Romanians see the corruption as being very common.

### 4. Which form of corruption is most common?

**Table 4. Forms of corruption**

Answer	Percent
Advantaging acquaintances in business	36
Advantaging acquaintances in public institutions	42
Fraud	14
Bribe	5
Illicit fees	4

Source: [http://ec.europa.eu/public\\_opinion/flash/fl\\_374\\_fact\\_ro\\_ro.pdf](http://ec.europa.eu/public_opinion/flash/fl_374_fact_ro_ro.pdf)

Among the manifestations of corruption in Romania respondents consider that the most common one is advantaging family or acquaintances in public institutions.

### 5. In the last 12 months have you witnessed any corruption case.

**Table 5. Witnessing corruption cases**

Answer	Percent
Yes	14
No	79
I don't know	7

Source: [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_397\\_fact\\_ro\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_397_fact_ro_en.pdf)

14% of respondents said that they witnessed a corruption case in the last 12 months.

### 6. Show your agreement/ disagreement regarding the following statement

**Table 6. Opinion on the punishment of those guilty**

Answer	Percent „ Agree,,	Percent „ Disagree,,	I don't know
The guilty are punished in minor corruption cases	66	24	10
The guilty in bribery cases are punished	47	43	10

Source: [http://ec.europa.eu/public\\_opinion/flash/fl\\_374\\_fact\\_ro\\_ro.pdf](http://ec.europa.eu/public_opinion/flash/fl_374_fact_ro_ro.pdf)

7. Is your daily life affected by corruption?

**Table 7. The extent to which corruption affects the lives of individuals**

Answer	Percent
Totally agree	57
Totally disagree	33
I don't know	10

57% of the respondents said that they feel affected by corruption.

8. Do you know where to report corruption?

**Table 8. Knowing the place for reporting corruption**

Answer	Percent
Yes	46
No	43
I don't know	11

Source: [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_397\\_fact\\_ro\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_397_fact_ro_en.pdf)

In terms of reporting abuse situations regarding ethical behavior Romanians are divided between those who know and those who do not know where to report, and the spread between the two is small.

9. Have you given extra money to doctors or donations to hospitals?

**Table 9. Giving undue benefits**

Answer	Percent
Yes	28
No	67
I'm not answering	5

Source: [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_397\\_fact\\_ro\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_397_fact_ro_en.pdf)

The majority of the respondents say that they never gave undue benefits to doctors

10. Older people have more political influence?

**Table 10. The political influence of older people**

	Number of cases	%
Strongly agree	253	16.8%
Agree	513	34.1%
Disagree	424	28.2%
Strongly disagree	156	10.4%
No answer	15	1.0%
Don't know	142	9.5%
(N)	(1,503)	100%

50% of the respondents say that they agree with the statement saying that older people have more political influence.



## Conclusions

Reasoning and ethical judgments are not often easy to achieve, and this is amplified by the fact that the situations are not always clear and, in this context, the principles or the ethical criteria do not always meet the agreement or consensus, even the ones of the specialists. Ethics appears to most people as something subjective, amorphous, ill-defined and therefore useless. This lack of confidence in ethics is not just an unfortunate fact but a real danger, because without common agreement on ethical principles, ethics is subjected to every individual's interpretation and the trust therefore is undermined. An ethical dilemma is a situation where it is necessary to choose a point of view or another. In some cases choosing one of the options favorable to one side or the other may be considered unethical.

The Romanian when referencing himself to the model of ethical behavior of the most representative personality, declares himself similar. Of the three hypotheses at the beginning of this research, the first hypothesis and last hypothesis do verify, while the hypothesis number two does not verify. The first hypothesis is verified because the individual identifies himself as a citizen of the world. The second hypothesis does not verify because a high percentage of Romanians who participated in the research believe that the corruption is at a high level. The last hypothesis does verify because most respondents think that the most common form of corruption is to benefit family members or friends in public institutions.

Most respondents find that the elderly have more political influence. A big percent of Romanians claim that they have never given undue benefits to doctors. Only 28% of Romanians according to the survey claim to have been present in a situation when a form of corruption was taking place. In conclusion the unethical behavior such as corruption is affecting the lives of individuals.

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# MANAGEMENT METHODS USED IN ROMANIAN EDUCATIONAL SYSTEM ANALYSIS

Constanța, Popescu<sup>1</sup>  
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## **Abstract:**

*Education is the most important step that people take to adapt to changes in the environment. Among the strengths of the individual receiving education are: the ability to discern right from wrong, through education he learns skills to fend for himself, he becomes independent and doesn't allow those around him to manipulate him because he benefits from varied information. With the theme of education methods of analysis this aims on the one hand to present education system diagnosis, and secondly to highlight the Romanians' perception on equality and trusting the university education.*

*The article is structured in two parts. The first part is the theoretical one and during the second part (the research) are used the SWOT analysis and the analysis of secondary sources (data taken and processed after applying a survey among Romanians by a website specialized in the analysis of the values of the world). The central conclusion of this paper highlights the fact that the Romanian educational system presents both strengths and weaknesses.*

**Keywords:** school, education, educational system, education beneficiary

**JEL Classification:** I10, I21

## **1. Introduction**

Education is not clearly defined by time and space, it starts when we are born and ends following the death, and this should not take place only at schools, colleges and faculties. Inefficient management of time, and the indifference in general are factors that make the parents not get involved in their children's education but assigns this task exclusively to school.

For the young people of today to become an important person in society over the years, it is fundamental that among the values inspired to him there's also the ongoing knowledge thirst gained from the education received in the family, schools, educational institutions, and also the one acquired on the street.

Lately there's been a worsening phenomenon of inclination that has begun to intensify regarding the labor employers who are looking less for employees who benefited from formal education, obtained as a result of studies in universities. If by the intensification of the financial crisis were employed university graduates, now are sought less educated people. This makes young people skeptical about further education after high school, and thus will pose a threat to society, they not wanting to surpass themselves and not focusing on lifelong learning, education that does not end once the individual no longer has the status of pupil or student.

The lack of interest shown lately to education is the result of gaps in the educational system: small budget allocated to investment in education, lack of interest from teachers and inadequate facilities.

## **2. Theoretical Approach**

School represents a major role in training young people for life. To consider a school as being responsible, it must meet a set of criteria and conditions. Mainly, it should be responsible for education and for what it produces for society.

„The school is supposed to be an open system that need to balance their inputs and outputs permanently” ( Trip D, 1993).

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The information age involves innovation, creativity, experimentation, learning potential for the organization being the main source of its competitiveness. Regarded as an institution, „the school is a set of relatively stable structures of statuses and roles that are meant to lead to satisfaction of certain needs of individuals or to fulfill certain social functions”. Mark K. Smith presents in his article the concept of learning society by presenting the works of renowned specialists such as Donald Schon, Robert M. Hutchins, Torsten Husen, Roger Boshier, Richard Edwards. The author's conclusion is clear: „All societies must be characterized by learning, otherwise they will perish!” (Smith K, 2000)

In Europe, C. Freinet had a significant contribution to educational practice. “He proposes and practices the centers of interest method, proposed by O. Decroly which he calls "complex method of interest (Stănciulescu E, 1998).

„If learning involves a journey that includes the whole life of an individual, meaning life in terms of time and diversity, it will include all social, economic and educational resources that the society has, which means that you have to look beyond the revision of educational systems necessary for carrying on the educational process, until we reach the stage of a society that teaches” (Fagure E, 1974). By importing information, the educational system has the ability to analyze signals related to the evolution of the environment it’s part of and to analyze its own behavior in relation to the environment. " The barriers of achieving a European, democratic, free and effective education are found in behavior patterns, in values and in the educators training. The most common things that block the natural behaviors of students are (Joița E, 2000):

- Excessive severity, the formal character of teachers activity;
- Inappropriate language (abstract language);
- Fear of risk, prejudices, authoritarianism;
- Stereotype, ignorance, inflexibility, selective retention, precedence, accepting criticism.”

### 3. Study of the current situation of the education system

#### 3.1. Methodological aspects

The goal of the research - diagnostic analysis of the Romanian educational system, and also showing the user satisfaction perception about the education received at the university level.

Objectives of the study:

1. Knowledge of the current situation of the educational system
2. Observing student satisfaction regarding the education at university level
3. Identifying the perception of academic education equality between women and men.

#### 3.2. The study results

In order to achieve a pertinent diagnosis we use the SWOT analysis. SWOT analysis points out that the organization strategy must best combine its internal possibilities (strengths and weaknesses) with the external situation (opportunities and threats). The table below shows the MEFE matrix.

**Table 1. Matrix MEFE**

<b>INTERNAL FACTORS</b>	<b>KI</b>	<b>NI</b>	<b>KI*NI</b>
<b>STRENGTHS</b>	<b>0.50</b>		<b>1.9</b>
Promoting inclusive education	<b>0.16</b>	<b>4</b>	<b>0.64</b>
Opening teachers to change	<b>0.14</b>	<b>4</b>	<b>0.56</b>
The large number of Olympic students in various subjects	<b>0.10</b>	<b>3</b>	<b>0.30</b>
Promoting mobility of pupils/students	<b>0.05</b>	<b>4</b>	<b>0.20</b>
Offering financial and non-financial incentives to pupils with good results:	<b>0.05</b>	<b>4</b>	<b>0.20</b>

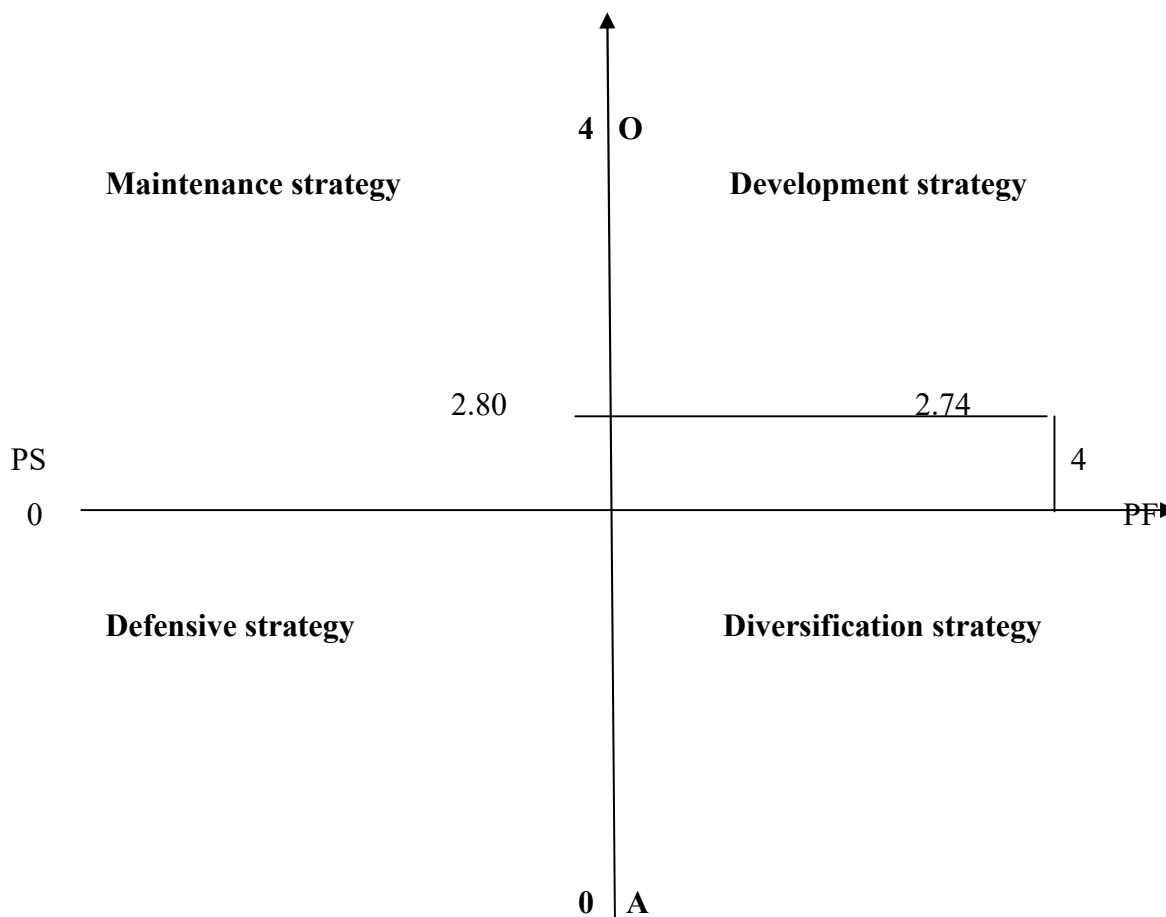
<b>INTERNAL FACTORS</b>	<b>KI</b>	<b>NI</b>	<b>KI*NI</b>
camps and scholarships.			
<b>WEAKNESSES</b>	<b>0.50</b>		<b>0.84</b>
The lack of psychological counseling in schools	<b>0.10</b>	<b>1</b>	<b>0.10</b>
Inadequate security systems	<b>0.08</b>	<b>2</b>	<b>0.16</b>
Lack of facilities and modern equipment	<b>0.09</b>	<b>2</b>	<b>0.18</b>
Weak connections of the training system with the labor market	<b>0.03</b>	<b>2</b>	<b>0.06</b>
The perception of non-values as normal, the tolerance of negative phenomena in education such as corruption, copying, promoting unprofessionalism	<b>0.06</b>	<b>2</b>	<b>0.12</b>
The aging of the teaching staff in general education	<b>0.06</b>	<b>1</b>	<b>0.06</b>
Diminishing the role of teachers in decision-making in education	<b>0.08</b>	<b>2</b>	<b>0.16</b>
<b>TOTAL</b>			<b>2.74</b>

Analysis of the external environment of the educational system involves establishing the external key factors of the assessment matrix shown in the table below. Factors assessment matrix is shown in the table below.

**Table 2. Matrix MEFE**

<b>EXTERNAL FACTORS</b>	<b>KI</b>	<b>NI</b>	<b>KI*NI</b>
<b>Opportunities</b>	<b>0.50</b>		<b>1.55</b>
<b>1. Economic growth</b>	<b>0.10</b>	<b>2</b>	<b>0.20</b>
<b>2. European funds directed towards improving the didactic act and the rehabilitation and equipping of buildings of educational institutions</b>	<b>0.10</b>	<b>3</b>	<b>0.30</b>
<b>3. Existence of partnerships with foreign educational institutions</b>	<b>0.15</b>	<b>4</b>	<b>0.60</b>
<b>4. Current technical means can be used to improve teaching and self-learning process, by improving the presentation method, reduced time of transmission / assimilation of information, improving communication between teacher / school and students, increasing the number of information sources and documentation</b>	<b>0.07</b>	<b>3</b>	<b>0.21</b>
<b>5. The active involvement of the local community</b>	<b>0.08</b>	<b>3</b>	<b>0.24</b>
<b>THREATS</b>	<b>0.50</b>		<b>1.25</b>
<b>1. Financial and material instability of the family</b>	<b>0.10</b>	<b>2</b>	<b>0.20</b>
<b>2. The extent of the population migration phenomenon</b>	<b>0.8</b>	<b>3</b>	<b>0.24</b>
<b>3. The negative natural growth of population</b>	<b>0.05</b>	<b>4</b>	<b>0.2</b>
<b>4. Lack of employment opportunities</b>	<b>0.10</b>	<b>2</b>	<b>0.2</b>
<b>5. Decline in GDP</b>	<b>0.10</b>	<b>2</b>	<b>0.2</b>
<b>6. Intensifying of poverty rate</b>	<b>0.7</b>	<b>3</b>	<b>0.21</b>
<b>Total</b>			<b>2.80</b>
<b>Threats + Opportunities</b>			

The analysis of the organization's external potential, shows that potential threats have an average influence on the organization's activities, but also that the opportunities have an average influence. The chart below the graphic representation of the scores obtained.



**Figure 1. Representation of the scores obtained**

Analyzing the chart above we see that the Organization must opt for development strategy. To improve research, but also for clearer results we use the database of a site specializing in analysis of world values, **World Values Survey**, where we extract two relevant questions on education. It is based on survey research and the sample consists of 1503 Romanians.

**Is the university education more important for men than for women?**

**Table 3. Equality when it comes to university education environment between women and men**

Base=1503; Weighted results	Number of cases	%
Agree strongly	106	7
Agree	205	13.6
Disagree	462	30.8
Strongly disagree	647	43
No answer	12	0.8
Don't know	71	4.7
<b>(N)</b>	<b>1.503</b>	<b>100</b>

Source: <http://www.worldvaluessurvey.org/wvs.jsp>

43% of respondents show a strong disagreement about the inequality in terms of education in the university environment.

## 2.You confidence in education?

**Table 4. Confidence in universities**

World Values Survey Wave 6: 2010-2014		
Confidence: Universities		
Base=1503; Weighted results	Number of cases	%
A great deal	264	17.6
Quite a lot	660	43.9
Not very much	348	23.2
None at all	104	6.9
No answer	11	0.8
Don't know	115	7.6
(N)	<b>1.503</b>	<b>100</b>

Source: <http://www.worldvaluessurvey.org/wvs.jsp>

43.9% of the Romanians who participated in the survey show great confidence in education at university level.

### Conclusions

A society without education is subjected to extinction. Even if educational institutions serve as a means to form the individual, also the family must be taken into account as better results are obtained in an organized environment. To meet the challenges the leaders of the education system must give rise to new ideas, build new relationships, by making conflict a constructive action, and to be the initiator of change. The need for change in this century is fundamental to school, as the main features of the competitive environment are unpredictability and instability.

The contents of modern educational systems are facing major changes in their attempts to place education before instruction. The options that the educational systems have to make are between traditionalism and prospective guidance, between program suffocation and synthesis. It is becoming increasingly necessary to build the integrity and unity of a human being. Given the increase in content sources, we ask a serious question: in what manner will the school be able to avoid overload and imbalance.

To achieve visible results from the beneficiaries of the Romanian educational system, it is necessary to make an analysis-diagnosis before the development and implementation of remedial strategies.

In Romania people have great confidence in the university education and they reject the idea of inequality. In conclusion, the Romanian educational system presents both strengths and weaknesses, but the ones responsible must seek a way to turn weakness into strength.

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# STUDY ON RESISTANCE TO ORGANIZATIONAL CHANGES IN S.M.E.S IN DÂMBOVIȚA COUNTY

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## **Abstract:**

*For the individual, but also for the organization it is essential to adapt to changes imposed by the competitive environment and the economic and political context. Resistance to change makes the one that's prepared and informed to gain ground. There are a variety of reasons that make people be reluctant about accepting the change. On the one hand people are scared by what's new and on the other hand they have strong personalities and hardly accept something that comes from outside. Among the factors that generate resistance to change are the psychological ones, but also the material ones.*

*In the first part of this study we approached the concept of resistance, and in the second part we conducted a research based on a questionnaire survey. The goal of the research is to observe the extent to which the human resources within an SME in Dambovita county shows resistance to change.*

**Keywords:** *change, resistance, resistance to change, change management.*

**JEL Classification:** *O15*

## **1. Introduction**

Change, especially the change management is a topic widely debated by academics and practitioners. Experts argue that change should come from the top to the bottom, meaning they rely on the existence of an information flow in both directions, which starts from the top. If the manager is not an example for their employees, then he fails to co-opt them his side.

In all sectors, organizational change was made mainly under the constraints of political change, but also under the economic environment which was rapidly changing, especially in the last period of economic crisis. The political environment was to Romania in recent decades, a volatile area.

## **2. Theoretical Approach**

Change means modifying, replacing something deficient with something with a higher degree of efficiency. Human resources must be aware of the importance of adapting to change. Specialists in the field talk about four levels of change: those related to knowledge, attitude, individual behavior, organizational or group behavior changes.

Change is perceived as a real difference between two situations that succeed to a person, a team, an organization or in a relationship (Kubrat M, 1992). From the perspective of the authors Nicolae Popescu and Costel Florescu change is a broader category that includes applied novelty. They believe that "change is any replacement, modification, transformation in form and / or content of an object, product, work, business or organization" (Florescu C., Smith N, 1998).

John Kotter and L. Schlesinger believe that "in general, change management focuses on identifying sources of resistance to change and providing ways to overcome them" (<http://www.oppapers.com/subjects/kotter-and-schlesinger-theory-page1.html>, Harvard Business Review, 1979)

Eugen Burduș, Armenia Androniceanu, George Căprescu believe that "change management is the whole process of planning, organization, coordination, training and control of replacement, modification, alteration or improvement measures in form and content of the organization, with the purpose of increasing efficiency and competitiveness." (Burduș E et

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all, 2000). Professor Aurelian Leca revealed a more succinct definition, but sufficiently broad "change management" is the process that helps organizations successfully introducing change "(A Leca, 1997).

### 3. Analysis of resistance to change in human resources within an SME

#### 3.1. Methodological framework

Goal: Identifying female employees attitude about change in an SME.

Objectives:

- a. Observing the relationship with the staff
- b. Identifying the involvement of staff when it comes to change
- c. The extent to which the change occurs as a result of its imposing
- d. Knowledge of the extent to which change is accepted without displayed reticence

Assumptions

1. In order to successfully impose the change the involvement of the whole staff is necessary
2. The correlation of the work environment with the adapting one has to be positive when it comes to change
3. The first step in changing is being aware that the change is needed

#### Organizing the research

Sample size: 20 people, the organization's human resources

Sampling Method: face to face

The application of the questionnaire. Questionnaires were filled by me with answers from the people taking part in the research.

Preparing the questionnaire

Editing. The questionnaire contains eight questions regarding attitudes to change.

For this research we used non-random sampling. The research was conducted through surveys and it's a quantitative one. Face to face interview.

#### 3.2. Interpretation of results per sample

1. When you have to make a change in the organization, do you consult with the employees after a long reflection. ?

**Table 1. Reflection before taking the decision to cooperate**

Answer	Number of people	Percent
Strongly agree	6	0
Agree	5	25
Neither /Nor	4	20
Disagree	4	20
Strongly disagree	1	5
Total	20	100

Criteria Score = 3.55. The attitude of the respondents is one of agreeing. They turn to partners (co-worker) only after analyzing the situation well. This reflects that they are confident in themselves, but are willing to accept other opinions.



2. If there is confidence, implementing the changes should be smooth

**Table 2. Organization's confidence impact on change**

Answer	Number of people	Percent
Strongly agree	12	60
Agree	6	30
Neither /Nor	2	10
Disagree	-	
Strongly disagree	-	
Total	20	100

Criteria Score = 4.50. Respondents show almost complete agreement. The organization's human resource thinks change gives a greater efficiency if there is the right environment, an environment that does not generate tensions.

3. Every time you make a change, inform your staff so they become engaged in the change and possibly come up with solutions.

**Table 3. Employee involvement in actions designed to produce change**

Answer	Number of people	Percent
Strongly agree	9	45
Agree	7	35
Neither /Nor	4	20
Disagree	-	
Strongly disagree	-	
Total	20	100

Criteria Score = 4.25. Interviewees agree on the fact that employees must be part of the change, get involved and come up with suggestions.

4. Does it seem essential that change be accompanied by the establishment of clear procedures.

**Table 4. Attitude towards clear procedures accompanying change.**

Answer	Number of people	Percent
Strongly agree	17	85
Agree	3	15
Neither /nor	-	-
Disagree	-	-
Strongly disagree	-	-
Total	20	100

Criteria Score = 4.85. According to the results that respondents strongly agree with the fact that changes must be followed by the establishment of clear procedures.

5. You must know how to impose change. If staff is expected to change by itself, then no change is possible.

**Table 5. Imposing the change**

Answer	Number of people	Percent
Strongly agree	4	20
Agree	6	30
Neither /Nor	6	30
Disagree	4	20
Strongly disagree	-	
Total	20	100

Criteria Score = 3.5. Respondents agree. They believe that by imposing the change, it will be accepted by all those working in the organization.

6. You don't accept change easily because you found that people are against it

**Table 6. Attitude towards acceptance of change**

Answer	Number of people	Percent
Strongly agree	4	20
Agree	3	15
Neither /Nor	10	50
Disagree	3	15
Totally disagree		-
Total	20	100

Criteria Score = 3.4. Respondents attitude is one of indifference. Human Resources that were part of the research show neither agreement nor disagreement when it comes to not accepting change because people are against it.

7. Changes! Do you believe that there is a lot of talking about them and you're waiting to see what will happen.

**Table 7. Attitude regarding the things generated by changes**

Answer	Number of people	Percent
Strongly agree	1	5
Agree	1	5
Neither /Nor	5	25
Disagree	13	65
Strongly disagree	-	
Total	20	100

Criteria Score = 2. The attitude of the respondents is one of disagreement. Thus they consider that they don't expect to see changes as a result of implementing change, but rather by people acting for change.

8. Do you agree with the saying „it's better stay in one place in order, than to advance in disarray”.

**Table 8. Attitude regarding**

Answer	Number of people	Percent
Strongly agree	4	20
Agree	6	30
Neither /Nor	5	25
Disagree	5	25
Strongly disagree	-	
Total	20	100

Criteria Score = 3.45. Respondents show an attitude of agreement. In the opinion of respondents you must first see what happens, do the necessary investigations and act after, because a wrong decision can generate strong negative effects.

### Conclusions

In an organization, it is very important to adapt to change. Both the organization and the individual meet changing situations, lacking the power to control them. The organization

will evolve more quickly when staff is more open to change. Adapting is supposed to establish structured methodologies that need to respond to changes in business or making adaptive mechanisms in order to meet the changes made in the workplace (new technologies, new policies).

In order to make a change it is required that the parties involved understand its necessity. In most cases because of their employees (who do not accept the change) the organization will not align with market demands, cannot cope with the movements of the competitive environment, but also cannot anticipate competitor actions.

A relevant study regarding change was made in 2011 by Daniela Oros in her doctoral dissertation on the topic of adapting to change. The author had an approach more focused on the psychological side. In her work she sought to observe the implications of adapting to change on the quality of work.

Another significant study was presented by Tripon Ciprian in the Transylvanian Magazine of Administrative Sciences. The research aimed to study the resistance to change within the institutions of public administration in Romania. Results of this study showed that the factors that most influence resistance to change are: goal, organizational culture, organizational structure, communication and leadership. Factors with the least influence on the resistance to change are exogenous (both categories) and the size of the organization.

The added value of the present article is that resistance to change is seen in organizational terms. If in the first case the focus is on the psychological side, and in the second on the causative factors of resistance to change, this article is an approach that has not been treated by specialists in the field, the attitude of the employees of an SME to change. The tables shown in the research, and also the data collected stressed that all assumptions made in this research check. In conclusion I can say that resistance to change brings financial and image loss to the organization.

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# ANALYSIS OF SUSTAINABLE DEVELOPMENT USING FUZZY LOGIC PREDICTION MODELS AND ARTIFICIAL NEURAL NETWORKS

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Miron, Zapciu<sup>3</sup>

## Abstract:

*Sustainable development is a priority of policies in countries all over the world, regardless of their level of development; this is a dynamic and complex concept based on indicators with vague and difficult to measure characteristics such as resources, labor, education, infrastructure, the existence of modern equipment to ensure manufacturing performance and flexibility. A model of approach and analysis of sustainable development using these indicators with vague characteristics can be achieved by combining prediction models: artificial neural networks and fuzzy logic. Artificial neural networks are used in the study, as they have the advantage of working with hidden layers, and recursive backpropagation algorithms to predict the size of indicators for a certain period, while fuzzy logic is used for three-dimensional interpretation of interdependencies and trends of indicators. The model provides long-term, flexible management decisions by eliminating bottlenecks and assessing deviations from a target defined so that the final result ensures a fast and flexible solution through fast and durable reconfiguring.*

**Keywords:** neural networks, fuzzy logic, sustainable development, management, decision-making, sustainability

**JEL Classification:** A12, C63, D89

## 1. Introduction

Rapid economic development and improved quality of life are achieved in close relation to sustainable development, but require an efficient management of natural and technological resources at all levels: global, regional, national or local. The constant emergence of new challenges and sustainable development indicators requires deciding on the priority of each problem. Because these indicators are characterized by uncertainty, a vague vision on new issues that arise, and mutual influences between indicators, it is preferable that they be analyzed using prediction models that bring forth hidden information that cannot be perceived through a classical analysis. The advantage of digital-linguistic dual analysis is the extensive area of research due to the linguistic variable. The paper addresses such a dual analysis using artificial neural networks (ANN) employed for forecasting and fuzzy logic employed for the three-dimensional interpretation of interdependencies between prediction data.

Different authors analyzed the use of artificial neural networks and fuzzy logic to evaluate sustainable development indicators, but the dualism of these analyses has not been addressed. Specific indicators, such as population density, GDP per capita, water, soil and air quality were analyzed to evaluate urban development (Daniela Hîncu, 2011; Marius Pislaru et al, 2011; Lucas Andrianos, 2015).

Energy resources, the risk of using pesticides and nitrates, air pollution, income and employment rate were used as indicators to analyze sustainable agriculture in Iran (Moslem Sami et al, 2013). Nenad Stojanović (2011) analyzed the tourism sector in natural reserves (protected areas) in terms of sustainable development by minimizing the impact of tourism on components such as economy, society, culture, and tourist satisfaction. For a qualitative

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analysis of sustainable development, Sung Hsueh-Lin (2013) used a combination of Delphi and fuzzy logic.

Sustainable development is also characterized by the use of flexible manufacturing systems and predictions can be achieved in interdependence with the professional development of the human factor by using artificial neural networks. A model of analysis of flexible manufacturing systems (FMS) was developed using Queueing networks (M. Jain et al, 2008). Petri type networks ensure appropriate modeling and analysis of complex FMS (Abdulziz M. El-Tamimi et al. 2011). An advanced research using a hybrid neuro-fuzzy system was carried out to analyze the sequence of operations performed by an operator in a FMS (Rajkiran Bramhane et al, 2014).

This research addresses the key objective of the National Sustainable Development Strategy - Romania 2013-2020-2030 (2008): "*Economic prosperity through the promotion of knowledge, innovation and competitiveness with an aim to ensure high living standards and full and high-quality employment*".

## **2. Indicators used in research analysis**

The general structure of an FMS includes: machine tools, workstations, a transmission subsystem (automated guided vehicles - AGV), handling / processing systems (industrial robots), and a control system (a computer controlling the FMS). A FMS is operated by employees who are open to continuing education and training in order to manage resources at maximum capacity with minimized waste, and fewer system blockages so that resource productivity and the rate of growth of labor productivity ensure sustainable development.

Resource productivity, training, research and development spending, the growth rate of labor productivity per employee, the types of robots in use are representative indicators of sustainable development. There are other important indicators that contribute to the sustainable development of a nation, but our research aims to present a methodology of analysis and is based on the interpretation of a reduced set of data to highlight the practice of manipulating data to obtain valuable results; a very large number of indicators would have lead to confusion and an unclear methodology for readers that are less familiar with these concepts.

In this study we considered the following Indicators of Sustainable Development of Romania 2013, 2020, 2030 ([http://www.inse.ro/cms/files/Web\\_IDD\\_BD\\_ro/index.htm](http://www.inse.ro/cms/files/Web_IDD_BD_ro/index.htm)):

### **1. Objective 4. Sustainable consumption and manufacturing**

- a) O4\_1. Resource productivity;
- b) O4\_5. Waste generated by the main economic activities:
  - ↳ Mining industry;
  - ↳ Manufacturing industry;
  - ↳ Energy industry.

### **2. Objective 9. Education and Training**

- a) O9\_5. The share of people based on their level of computer skills;
- b) O9\_6. The share of people based on their level of Internet skills;

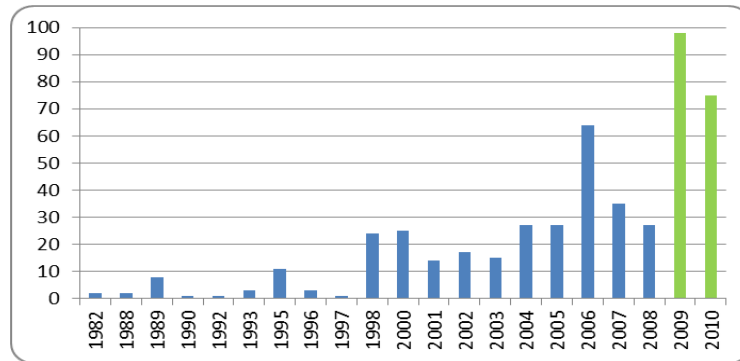
### **3. Objective 10. Scientific research and technological development, innovation**

- a) O10\_1. Total expenditure on research and development as a % of GDP

### **4. Objective 11. Increase labor productivity and employment rate**

- a) O11\_1. The growth rate of labor productivity / employee;

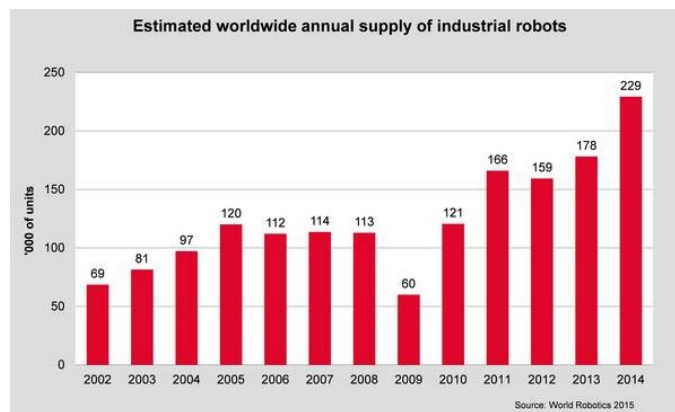
The degree of industrial robotization of Romanian industry is added to the above-mentioned indicators, as presented in Figure 1.



**Figure 1 Industrial robots installed yearly in Romania between 1982-2010**

Source: <http://www.robotics-society.ro/noutati/2010%20IFR%20SRR.pdf>

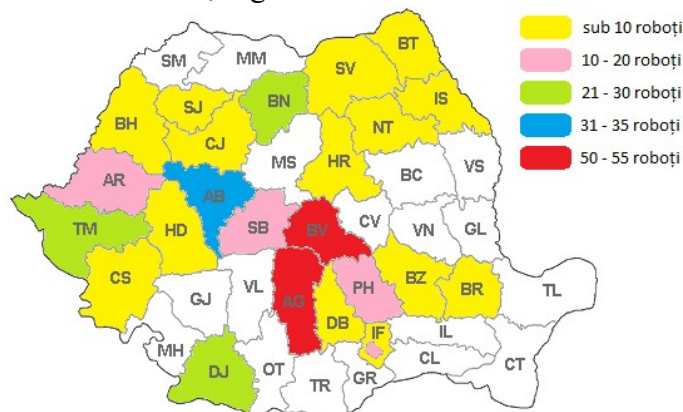
After the global economic crisis, Romanian companies focused on reducing the cost of goods, a target that could be achieved by increasing the number of machine tools with computer numerical control (CNC), which were developed based on NC machine tools (numerical control - NC), and the number of industrial robots (Industrial robots - IR) that evolved from those with fixed control algorithms to those with flexible control algorithms (including optical control). After 2008 there was a significant increase in the number of industrial robots in Romania, in line with the global upward trend (Figure 3).



*Figure 2 The dynamics of sales of industrial robots worldwide during 2002-2014*

Source: <http://www.ifr.org/industrial-robots/statistics/>

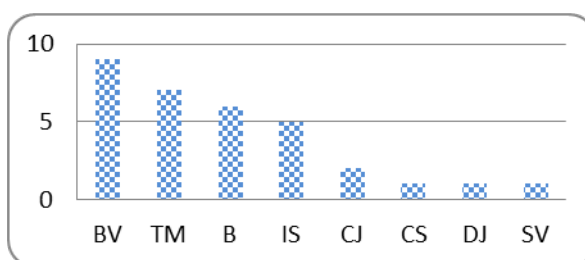
Because the National Institute of Statistics does not publish current information about the industrial robots market in Romania, Figure 3 shows their distribution as of 31.12.2008.



*Figure 3 The territorial distribution of robots in Romania as of 31.12.2008*

Source: processed by author based on data available at <http://www.robotics-society.ro/noutati/SitRobotiRO2008.pdf>

A mention-worthy aspect is the distribution of industrial robots for training in technical universities (students, graduates, doctoral students, teachers).



**Figure 4. Distribution of industrial robots in technical universities in Romania as of 31.12.2008**

Source: processed by author based on data available at <http://www.robotics-society.ro/noutati/SitRobotiRO2008.pdf>

### 3. Research methodology

#### 3.1. Forecasting data with artificial neural networks – ANN

For the study, we used Visual Gene Developer<sup>1</sup> 1.7 - VGD (Build 762 - November 28, 2014, freeware), which was developed by the *Department of Chemical Engineering and Materials Science - University of California-Davis* and was based on a standard, backpropagation, learning algorithm.

Table 1 presents the input data<sup>2</sup>.

**Table 1 Input data**

An	MP	Mining industry	Manufacturing industry	Energy Industry	PC skills	I skills	R&D %	Wp %	Robots
2006	0.87	199126793	9391852	102616494	2.43	1.96	0.45	7.3	64
2007	0.78	215065670	19397664	36478883	2.38	2.00	0.52	6.5	35
2008	0.66	140677024	11064033	7058116	2.43	1.96	0.57	8.4	27
2009	0.78	160193783	8089348	85751263	2.56	2.43	0.46	-5.2	98
2010	0.84	177441159	7320934	5887051	2.49	1.86	0.45	-0.5	75
2011	0.75	155694817	7497154	48866958	2.74	2.41	0.49	1.9	
2012	0.78				2.66	2.34	0.48	5.7	
2013					2.77	2.16	0.39	4.0	
2014					2.42	2.19		1.8	

Visual Gene Developer works with series of numbers in the [-1, 1] closed interval, which must therefore be demultiplied in order to obtain sub-unit series (eg.: 93,911,852 must be demultiplied by 100,000,000 to obtain 0.093911852).

**Table 2 Demultiplied input data**

Zile	An	MP	Mining industry	Manufacturing industry	Energy Industry	PC skills	I skills	R&D %	Wp %	Robots
0.0365	2006	0.87	0.199126793	0.0939185	0.1026165	0.010	0.024	0.45	0.73	0.64
0.0730	2007	0.78	0.215065670	0.1939766	0.0364789	0.004	0.024	0.52	0.65	0.35
0.1096	2008	0.66	0.140677024	0.1106403	0.0070581	0.001	0.024	0.57	0.84	0.27
0.1461	2009	0.78	0.160193783	0.0808935	0.0857513	0.009	0.026	0.46	-0.52	0.98
0.1826	2010	0.84	0.177441159	0.0732093	0.0058871	0.001	0.025	0.45	-0.05	0.75
0.2191	2011	0.75	0.155694817	0.7497154	0.0488670	0.005	0.027	0.49	0.19	
0.2557	2012	0.78				0.005	0.027	0.48	0.57	
0.2922	2013					0.005	0.028	0.39	0.40	
0.3287	2014					0.005	0.024		0.18	
0.5479	2020									
0.9131	2030									

<sup>1</sup> <http://visualgenedeveloper.net/index.html>

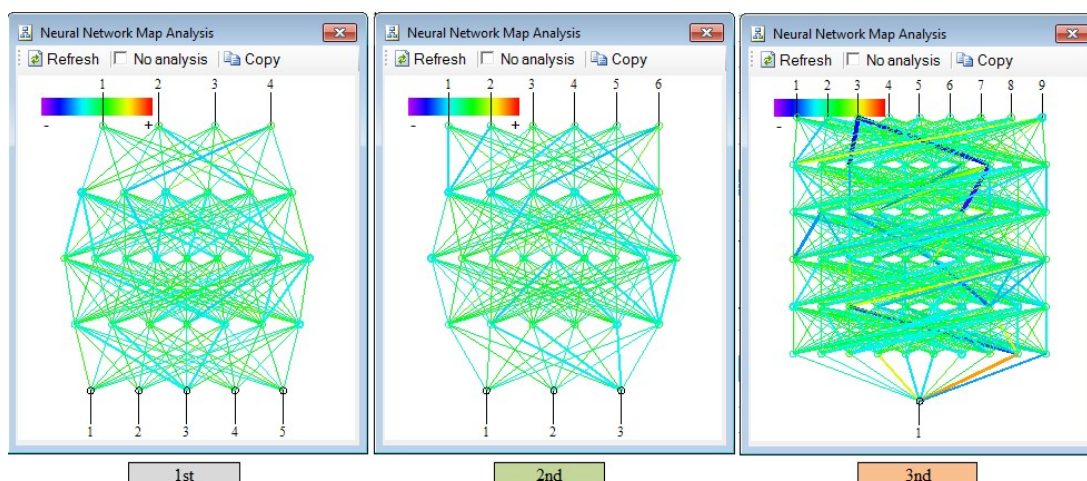
<sup>2</sup> [http://www.insse.ro/cms/files/Web\\_IDD\\_BD\\_ro/index.htm](http://www.insse.ro/cms/files/Web_IDD_BD_ro/index.htm)

Predictions for missing values and for 2020 and 2030 were made for the following configurations of neural networks:

**Table 3 ANN configuration for predicting values**

Parameter	Value		
	1st	2nd	3rd
Number of input variables	5	3	1
Number of output variables	4	6	9
Number of hidden layer	3	3	5
Node# of 1st hidden layer	7	6	10
Node# of 2nd hidden layer	9	9	10
Node# of 3rd hidden layer	6	6	10
Node# of 4th hidden layer	---	---	10
Node# of 5th t hidden layer	---	---	10
Learning rate	0,001	0,001	0,002
Momentan coefficient	0,1	0,1	0,1
Transfer function	Hyperbolic tangent		
Maximum # of training cycle	20000	20000	100000
Target Error	0,00001		
Initialization method of threshold	Random		
Initialization method of weight factor	No change		
Analysis update interval (cycles)	500		
Sum of error	0.0885759205	0.1302965581	0.0433704108
Avg error per output per dataset	0.0044287979	0.0031022990	0.0005354372
Processing time (sec)	23 sec	23 sec	2 min 24 sec

In Figure 5, the red line corresponds to big *positive* numbers (which tend to +1) and the purple line to big *negative* numbers (which tend to -1). Most of the flow of information is centered on green and blue, around  $\pm 0$ . The width of the line is proportional to the weight factor in absolute value or the threshold value.



**Figure 5 Information flow through ANN for the three prediction cases**

**Table 4 Prediction values**

Zile	An	MP	Mining industry	Manufacturing industry	Energy Industry	PC skills	I skills	R&D %	Wp %	Robots
0.0365	2006	0.87	199126793	9391852	102616494	2.43	1.96	0.45	7.3	64
0.0730	2007	0.78	215065670	19397664	36478883	2.38	2.00	0.52	6.5	35
0.1096	2008	0.66	140677024	11064033	7058116	2.43	1.96	0.57	8.4	27
0.1461	2009	0.78	160193783	8089348	85751263	2.56	2.43	0.46	-5.2	98
0.1826	2010	0.84	177441159	7320934	5887051	2.49	1.86	0.45	-0.5	75
0.2191	2011	0.75	155694817	7497154	48866958	2.74	2.41	0.49	1.9	70
0.2557	2012	0.78	169455500	14343620	51826930	2.66	2.34	0.48	5.7	49
0.2922	2013	0.78	173995400	13230110	46433510	2.77	2.16	0.39	4.0	59
0.3287	2014	0.79	167036100	12478700	46339510	2.42	2.19	0.48	1.8	71
0.5479	2020	0.77	138847300	9042317	83401710	2.60	3.70	0.48	-0.58	92
0.9131	2030	0.76	142992100	8833937	122321500	2.50	4.30	0.49	-0.64	93



### 3.2. Analysis of prediction data with fuzzy logic

#### Step 1. Define input variables.

**Table 5. Defining input variables and symbols**

Symbol	Name	UM
MP	Resource productivity	[thousand LEI in prices 2005/ton]
Mi.I	Mining industry	[tons]
Ma.I	Manufacturing industry	[tons]
EI	Energy Industry	[tons]
PCS	Individuals' level of computer skills	[%]
IS	Individuals' level of Internet skills	[%]
R&D	R&D expenditure as GDP percentage	[%]
Wp	Growth rate of labour productivity per employed person	[%]
R	Robots	[pieces]

**Step 2.** Divide each of the 8 input factors (quantitative variable) on **intervals** based on which we will be build each fuzzy number. To ensure a rigorous analysis, PC skills and I skills data sets will be used as a ratio of I/PC skills.

**Table 6. Prediction data**

An	MP	Mining industry	Manufacturing industry	Energy Industry	I/PC skills	R&D %	Wp %	Robots
2006	0.87	0.199126793	0.0939185	0.1026165	0.81	0.45	0.73	0.64
2007	0.78	0.215065670	0.1939766	0.0364789	0.84	0.52	0.65	0.35
2008	0.66	0.140677024	0.1106403	0.0070581	0.81	0.57	0.84	0.27
2009	0.78	0.160193783	0.0808935	0.0857513	0.95	0.46	-0.52	0.98
2010	0.84	0.177441159	0.0732093	0.0058871	0.75	0.45	-0.05	0.75
2011	0.75	0.155694817	0.7497154	0.0488670	0.88	0.49	0.19	0.70
2012	0.78	0.169455500	0.1434362	0.0518269	0.88	0.48	0.57	0.49
2013	0.78	0.173995400	0.1323011	0.0464335	0.78	0.39	0.40	0.59
2014	0.79	0.167036100	0.1247870	0.0463395	0.90	0.48	0.18	0.71
2020	0.77	0.138847300	0.0904232	0.0834017	1.42	0.48	-0.58	0.92
2030	0.76	0.142992100	0.0883394	0.1223215	1.72	0.49	-0.64	0.93

**Table 7. Define interval limits and build fuzzy numbers**

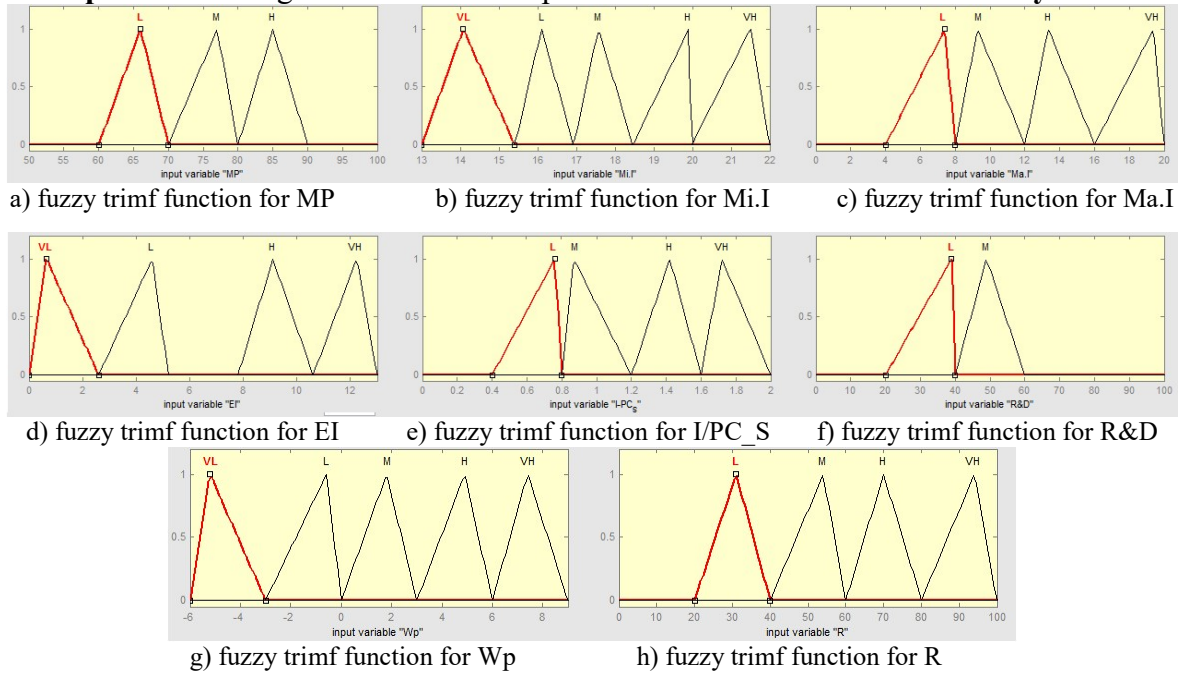
	Set Range	Fuzzy Range	Merbership function	Range 1	Range 2	Range 3	Range 4	Range 5
MP	[0.66 – 0.87]	[50 100]	trimf		[60 66 70]	[70 77 80]	[80 85 90]	
Mi.I	[0,1388 – 0.2150]	[13 22]	trimf	[13 14.08 15.41]	[15.41 16.1 16.93]	[16.93 17.57 18.46]	[18.46 19.91 19.98]	[19.98 21.5 22]
Ma.I	[0.0732 – 0.1939]	[0 20]	trimf		[4 7.41 8]	[8 9.28 12]	[12 13.35 16]	[16 19.39 20]
EI	[0.0058 – 0.1223]	[0 13]	trimf	[0 0.65 2.6]	[2.6 4.6 5.2]		[7.8 9.1 10.6]	[10.6 12.23 13]
I/PC S	[0.74 - 1.72]	[0 2]	trimf		[0.4 0.76 0.8]	[0.8 0.87 1.2]	[1.2 1.42 1.6]	[1.6 1.72 2]
R&D	[0.39 – 0.57]	[0 100]	trimf		[20 39 40]	[40 49 60]		
Wp	[-5.2 – 8.45]	[-6 9]	trimf	[-6 -5.2 -3]	[-3 -0.58 0]	[0 1.8 3]	[3 4.9 6]	[6 7.4 9]
R	[27 – 98]	[0 100]	trimf		[20 31 40]	[40 54 60]	[60 70 80]	[80 94 100]

**Step 3.** Set the size of the linguistic variable for input variables.

**Table 8. Set the size of the linguistic variable for input variables**

	Set Range	Fuzzy Range	Merbership function	VL	L	M	H	VH
MP	[0.66 – 0.87]	[50 100]	trimf		L	M	H	
Mi.I	[0,1388 – 0.2150]	[13 22]	trimf	VL	L	M	H	VH
Ma.I	[0.0732 – 0.1939]	[0 20]	trimf		L	M	H	VH
EI	[0.0058 – 0.1223]	[0 13]	trimf	VL	L		H	VH
I/PC_S	[0.74 - 1.72]	[0 2]	trimf		L	M	H	VH
R&D	[0.39 – 0.57]	[0 100]	trimf		L	M		
Wp	[-5.2 – 8.45]	[-6 9]	trimf	VL	L	M	H	VH
R	[27 – 98]	[0 100]	trimf		L	M	H	VH

**Step 4. Build triangular functions for input variables in Matlab R2011b - fuzzy menu.**

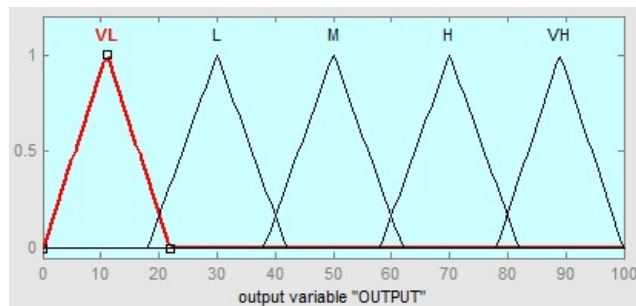


**Figure 6. Built functions for input variables in Matlab R2011b**

**Step 5. Set the prediction interval, the interval limits and the center of the interval for the output variables.**

**Table 9. Define intervals and linguistic output variables**

	Fuzzy Range	Merbership function	Range 1	Range 2	Range 3	Range 4	Range 4
OUTPUT	[0 -100]	trimf	[0 11 22]	[18 30 42]	[38 50 62]	[58 70 82]	[78 89 100]
			VL	L	M	H	VH



**Figure 7. Build functions for the output variable in Matlab R2011b**

**Step 6. Define rule set.** Input variables are placed under the incidence of the IF condition, while output variables are placed under the incidence of the THEN conclusion. Two researchers will set different rules, depending on the practical experience of each of them, the interpretation of linguistic variables, the degree of atomization (grain) of rules, the way that membership functions are set, etc.

```

1. (Mi.l==VL) | (El==VL) | (Wp==VL) => (OUTPUT=VL) (1)
2. (MP==L) | (Mi.l==L) | (Ma.l==L) | (El==L) | (Wp==VL) => (OUTPUT=L) (1)
3. (MP==L) | (Mi.l==L) | (Ma.l==L) | (El==L) | (I-PC_S==L) | (R&D==L) | (Wp==L) | (R==L) => (OUTPUT=L) (1)
4. (MP==M) | (Mi.l==M) | (Ma.l==M) | (I-PC_S==M) | (R&D==L) | (Wp==L) | (R==L) => (OUTPUT=M) (1)
5. (MP==M) | (Mi.l==M) | (Ma.l==M) | (I-PC_S==M) | (R&D==M) | (Wp==M) | (R==M) => (OUTPUT=M) (1)
6. (MP==H) | (Mi.l==H) | (Ma.l==H) | (El==H) | (I-PC_S==M) | (R&D==M) | (Wp==M) | (R==M) => (OUTPUT=H) (1)
7. (MP==H) | (Mi.l==H) | (Ma.l==H) | (El==H) | (I-PC_S==H) | (Wp==H) | (R==H) => (OUTPUT=H) (1)
8. (MP==H) | (Mi.l==VH) | (Ma.l==VH) | (El==VH) | (I-PC_S==H) | (Wp==H) | (R==H) => (OUTPUT=VH) (1)
9. (MP==H) | (Mi.l==VH) | (Ma.l==VH) | (El==VH) | (I-PC_S==VH) | (Wp==VH) | (R==VH) => (OUTPUT=VH) (1)

```

Figure 8. Define rule set

In cases of multiple input/ output variables, the researcher can choose logic combinational connectors like OR (OR) or AND (AND). It's also possible to select the NOT logic connector of negation for input/ output variables.

If a rule has a higher weight than the other rules in the process of inference, the value of the weight will be specified in the **Weight** box. The weight is displayed in brackets to the right of each rule.

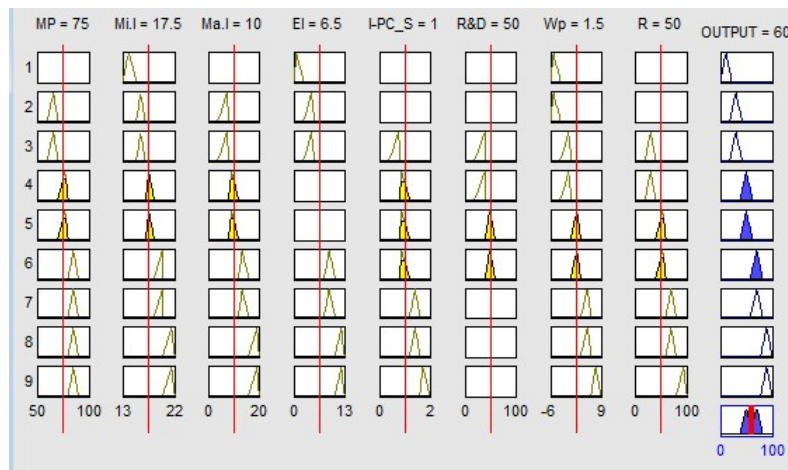


Figure 9. Graphical representation of the result of executing the rules

### Step 7. Run the application and interpret data

#### A. Waveform Analysis

For a correct interpretation of output data we must analyze the waveforms of input variables.

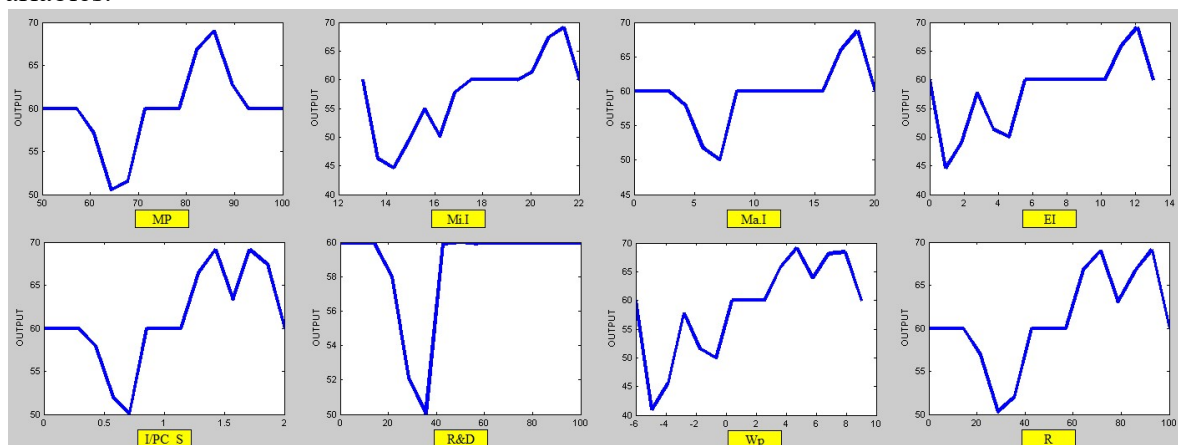


Figure 10. Waveforms of input variables

Figure 10 shows that the input variables have a diversified ripple in terms of waveform.

The following models characterize waveforms:

↳ U – growth–stagnation–decline - shows a lack of force to rejoin the growth trend and lower economic growth – economic depression;

↳ L – decreasing–stagnation – a situation that is not recommended;

↳ V – force during early recovery, with a potential risk to transform into W. The sharper the tip, the faster the recovery. Figure 10 shows that most waveforms are characterized by a broken V - 5 cases;

↳ W and M – mirror models – both are characterized by collapse after a period of increase.

The interpretation of letters is done in *the opposite direction* for the *Mi.I, Ma.I and EI* indicators, as they represent the *levels of waste produced by the respective industry*.

### B. Area analysis and quiver direction

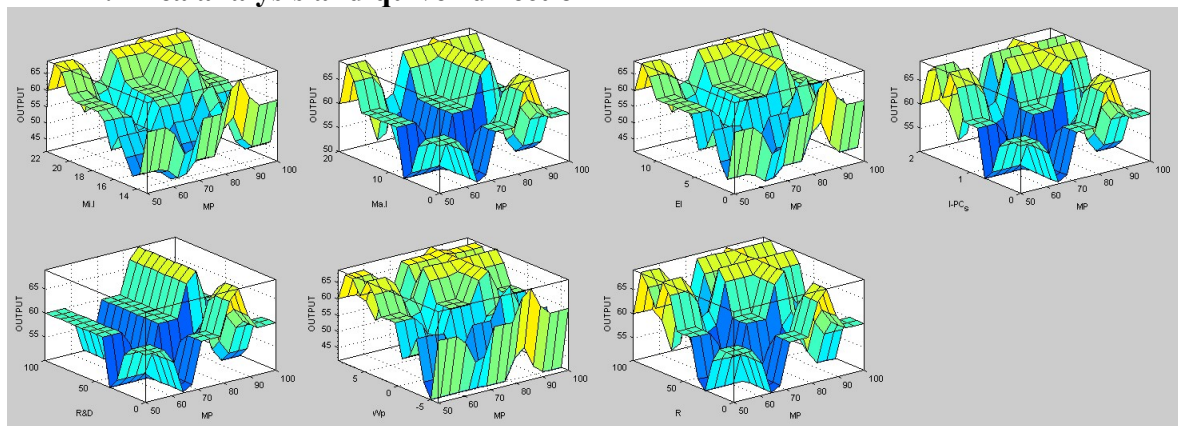


Figure 11. Shape of Mi.I, Ma.I, EI, I/PC\_S, R&D, Wp and R areas in relation to MP

Resource productivity quickly affects mining and energy industry waste through rapid growth in the first part of the interval. Manufacturing industry is difficult to influence, as it needs more time to follow the same trend.

Similar shapes of areas are seen for the I/ PC skills ratio, the growth rate of labor productivity per employee and the number of industrial robots that have the same evolution in relation to resource productivity.

There is a particular area for resource productivity in relation to research and development that shows that research and development activities increase only if resource productivity is high.

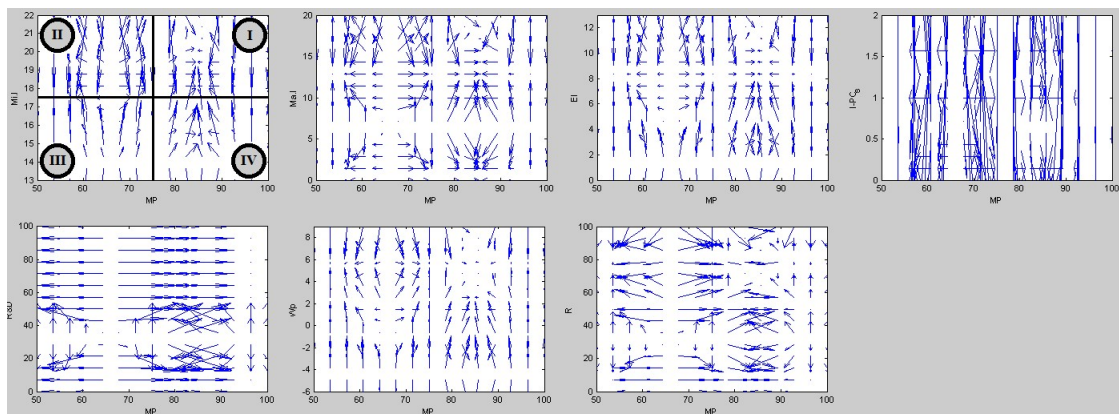


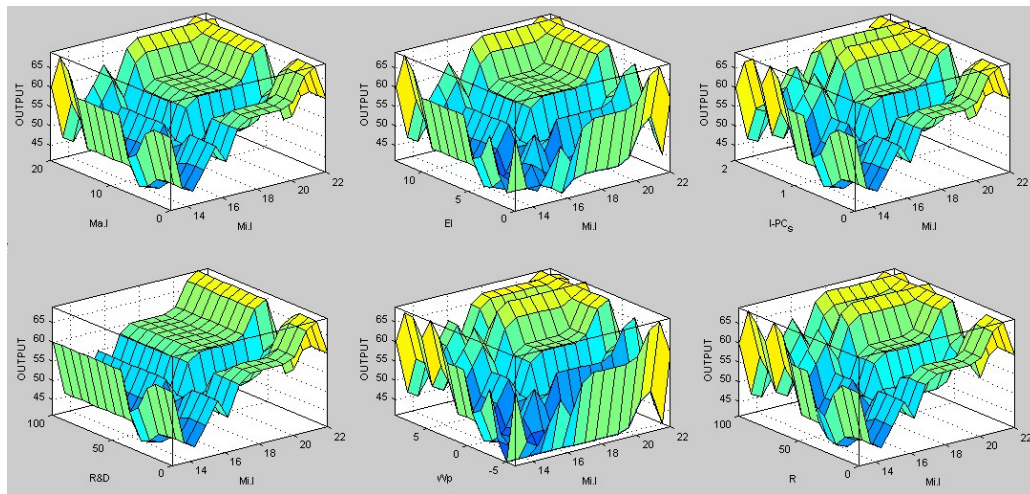
Figure 12 Trends of action of the Mi.I, Ma.I, EI, I/PC\_S, R&D, Wp and R quivers in relation to MP

Trends of action of quivers for industries (mining, manufacturing and energy), the rate of growth of employee productivity and the number of industrial robots are similar in all four quadrants (Figure 12):

- ↪ I<sup>st</sup> quadrant with a trend from the edges to the center – superior results;
- ↪ II<sup>nd</sup> quadrant with a trend from the center to the edges – average results;
- ↪ III<sup>rd</sup> quadrant with a trend from the edges to the center – inferior results;
- ↪ IV<sup>th</sup> quadrant with a trend from the edges to I<sup>st</sup> quadrant – average results.

Depending on the degree of productivity of resources, the I/ PC\_skills ratio aligns vertically with a dominant trend toward the middle of quadrants I and IV and a recessive trend toward the edge of quadrants II and III, regardless of the skill level of the I/ PC\_skills ratio.

Research and development aligns horizontally with a dominant trend toward quadrants I and IV if resource productivity is over 65%.



**Figure 13. The shape of the Ma.I, EI, I/PC\_S, R&D, Wp and R areas in relation to Mi.I**

If Ma.I, EI, I/PC\_S, R&D, Wp and R areas are analyzed in relation to Mi.I (Figure 13) we notice that, except for the R&D indicator, areas have approximately the same shape, although it must be noted that for the first part of the Mi.I interval, [13 16] respectively, where certain mutual influences occur, they have a W shaped evolution. In this case, R&D activity increases only if mining industry productivity is significant and thus maintains resource productivity.

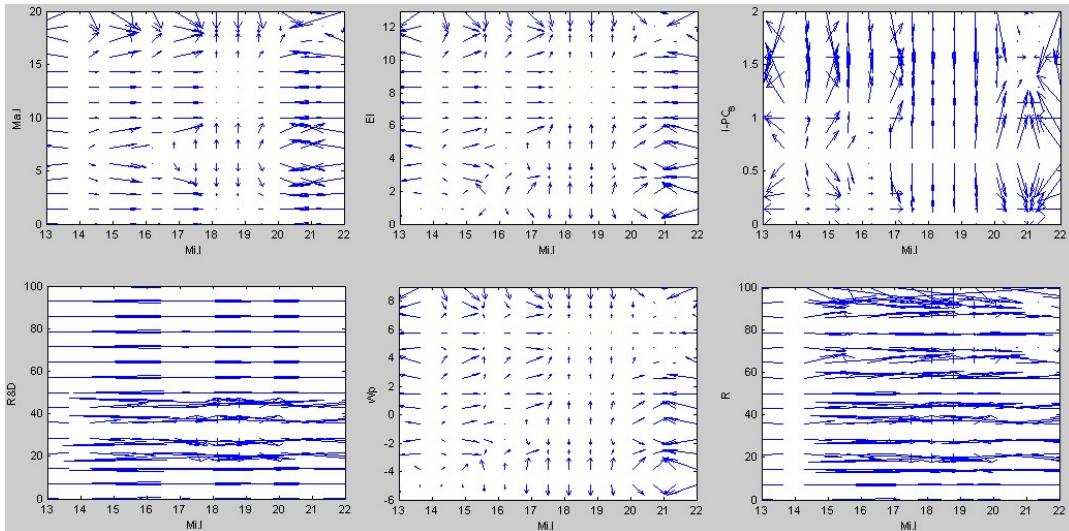
The trend of the Ma.I, EI and Wp quivers (Figure 14) is approximately identical in all 4 quadrants, with a concentration toward the center of the I<sup>st</sup> quadrant corresponding to a high increase development. For R&D and industrial robots there is a horizontal alignment to several levels depending on the funding allocated to these areas. The industrial robots indicator has a clear definition on 4 levels. The R&D indicator is characterized by:

- 2 clear levels for low and medium levels of allocation of financial resources;
- 8 poorly defined levels, out of which 6 are for elevated levels of allocation of financial resources;

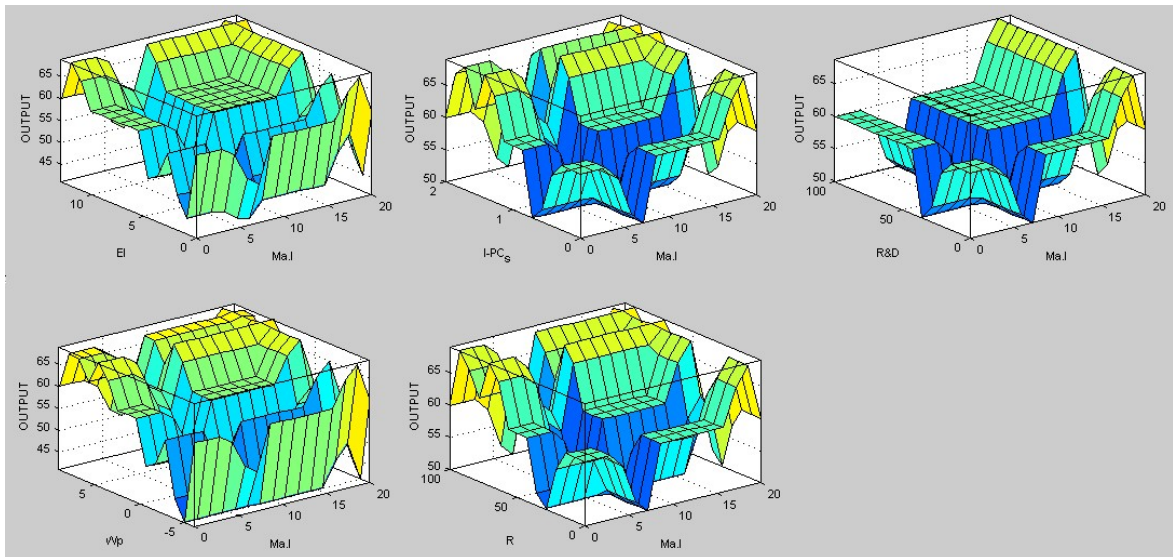
The I/PC\_S indicator has chaotic trends marked by clusters of concentration:

- ✓ from the edges to the middle in quadrants I and IV;
- ✓ from the middle to the edges in quadrants II and III;

which show the disorientation of mining sector employees regarding professional development.



**Figure 14. Trends of action of the MP, Ma.I, EI, I/PC\_S, R&D, Wp and R quivers in relation to Mi.I**

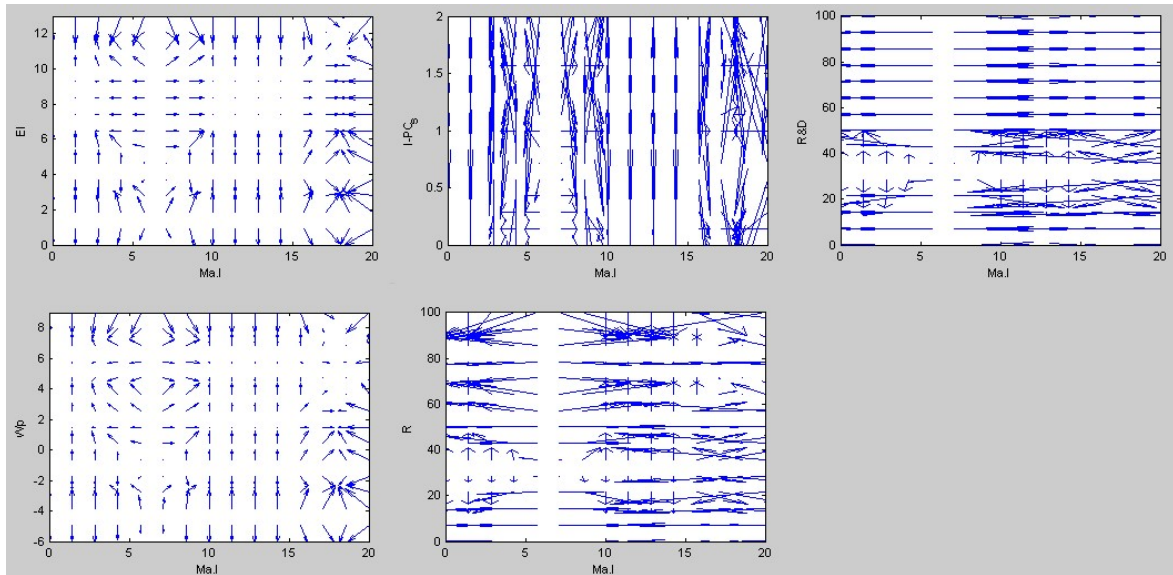


**Figure 15. The shape of the EI, I/PC\_S, R&D, Wp and R areas in relation to Ma.I**

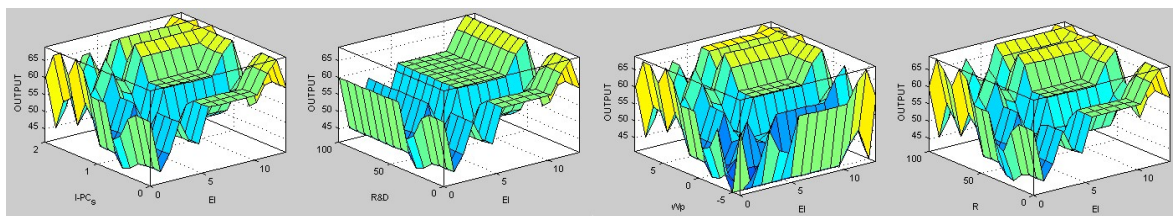
EI, I/PC\_S, R&D, Wp and R areas in relation to Ma.I are nearly identical to areas in relation to MP resource productivity, the difference being the change of level of the Ma.I indicator from 18 to 19 (Figure 15).

Evident changes of the trend of the quiver direction (Figure 16) are noted for waste produced by the energy industry and the growth rate of labor productivity per employee from high to low concentration. The trend of direction of the R&D and industrial robots indicators quivers in relation to Ma.I is identical to that in relation to MP.

For the I/PC\_S indicator we note a movement toward the right edge of quadrants I and IV (significant waste from manufacturing industry) regardless of the skill level of employees.

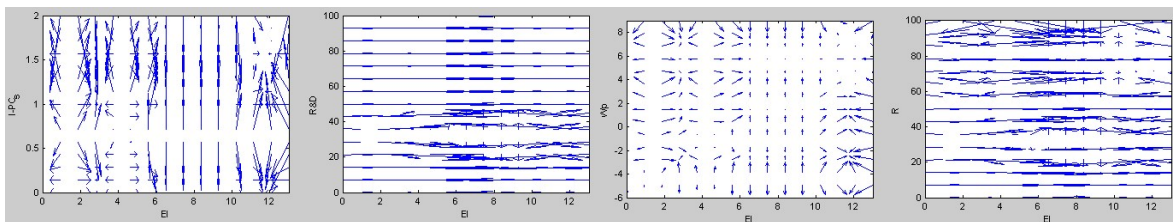


**Figure 16. Trends of action of the EI, I/PC\_S, R&D, Wp and R quivers in relation to Ma.I**



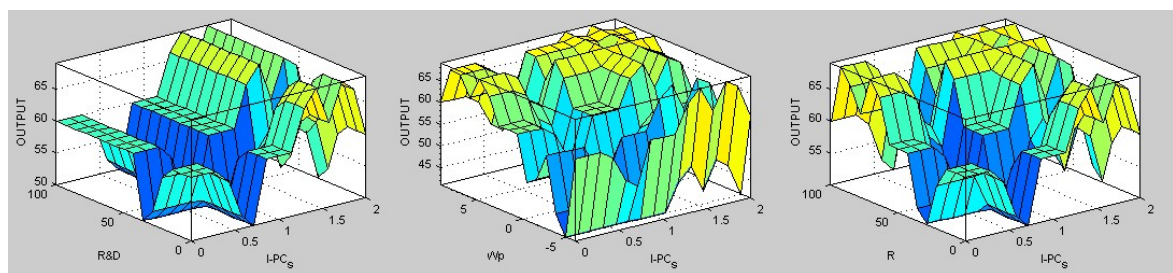
**Figure 17. The shape of the I/PC\_S, R&D, Wp and R areas in relation to EI.**

In this case, the I/PC\_S, R&D, Wp and R areas in relation to EI (Figure 17) are almost identical depending on Mi.I resource productivity, while the difference is explained by the gaps between the coordinates of initialization of the graph, as reinforced by the trends of action of quivers shown in Figure 18.

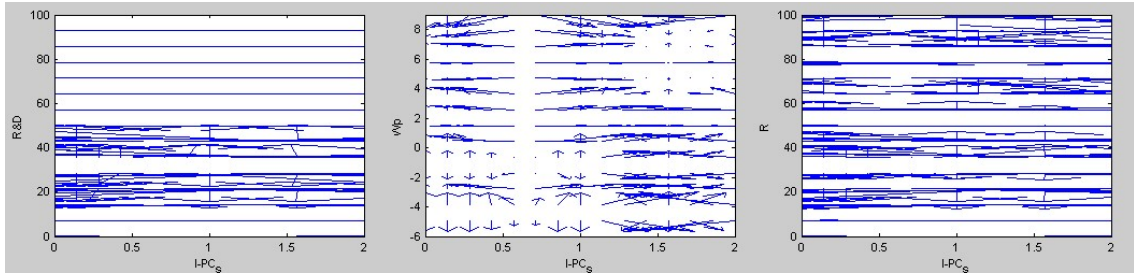


**Figure 18. Trends of action of the I/PC\_S, R&D, Wp and R quivers in relation to EI.**

The I/PC\_S ratio in the [1.5 to 2] interval has an important role in the evolution of R&D, Wp and R in terms of the areas, as it changes their shape throughout the interval they represent.



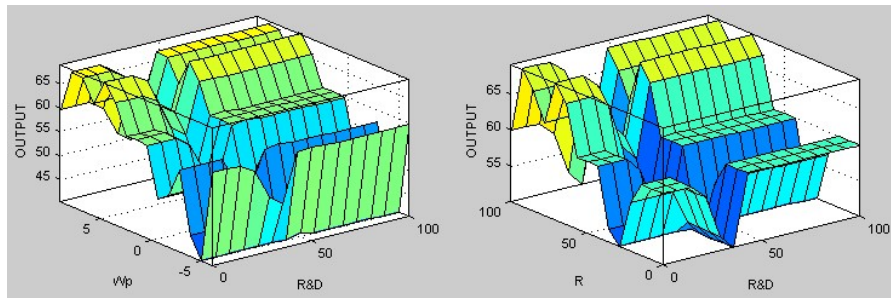
**Figure 19. The shape of the R&D, Wp and R areas in relation to I/PC\_S.**



**Figure 20. Trends of action of the R&D, Wp and R quivers in relation to I/PC\_S.**

Figure 20 shows that analyzing R&D in relation to I/ PC\_S produces a high concentration of the I/ PC\_S ratio in the [0 0.5] interval and an average concentration in the [1.5 2] interval, both having low and medium levels of financial resources for research and development. The rate of growth of labor productivity per employee has different trends in all 4 quadrants. All employees with different levels of the I/ PC\_S ratio approach the use of IT represented by robots, while two diametrically opposed categories emerge:

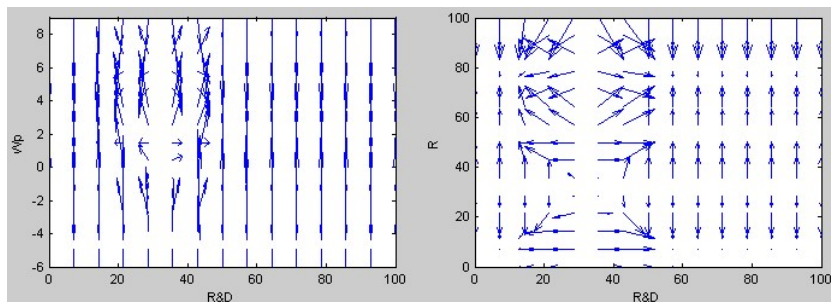
- ❖ I/PC\_S between [0 0.6] for levels of 20 and 40 robots;
  - ❖ I/PC\_S between [1 2] for levels of 70 and 90 robots,
- the interest in professional development increasing along with the number of industrial robots.



**Figure 21. The shape of the Wp and R areas in relation to R&D.**

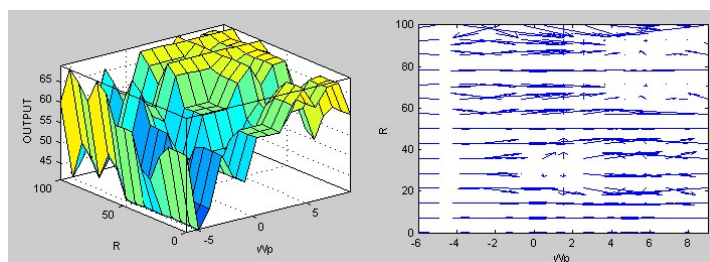
Analyzing Figures 21 and 22, we can observe the targeted growth rate of labor productivity per employee, with an attempt to break this pattern when resources allocated to the R&D indicator lag around 30% for a positive productivity. For higher percentages, opposite trends of Wp begin to appear around the [0 5] interval. Two levels of industrial robots in relation to R&D can be observed:

1. 30-0 industrial robots with a downward trend, regardless of the amount allocated to R&D;
2. 80 industrial robots attracting R&D, regardless of the amount allocated in the [30-80] interval and downward trends for the [100-80] interval regardless of the amount allocated to R&D;



**Figure 22. Trends of action of the Wp and R quivers in relation to R&D**





**Figure 23. The shape of the area and trends of action of the R quiver in relation to Wp**

A key element of this study is the impact of the number of industrial robots (R) and the growth rate of labor productivity per employee (Wp). A number of robots between 20-40 (Figure 23) generate a 4-6% increase of Wp, with a trend towards 8%. An increase in the number of robots to 80-100 leads to a Wp rate of around 2%, explained by the fact that there are no qualified people to handle such equipment since Romania restrains from professional development (see analysis in relation to Mi.I), contrary to the statements made above for Figure 20.

### 3. Conclusions

It can be concluded that entrepreneurs in Romania are reluctant to make new investments in equipment type industrial robots and CNC machines, due to high investment recovery cycle coupled with some uncertainty orders and economic fluctuations. In this context, no framework and conditions for the sustainable development of Romania are created.

Also, only a small number of industrial robots are available to technical universities, which influences the training of specialists who choose to practice their profession only in counties where there are at least 10-20 industrial robots.

**Table 10 Final result using ANN and fuzzy logic**

An	MP	Mining industry	Manufacturing industry	Energy Industry	I/PC skills	R&D %	Wp %	Robots	Result
2006	H	H	M	H	M	M	M	H	M-H
2007	M	VH	VH	L	M	M	M	L	M-H
2008	L	VL	M	VL	M	M	M	L	L
2009	M	L	L	H	M	M	L	VH	M
2010	H	M	L	VL	L	M	L	H	L-M
2011	M	L	L	L	M	M	M	H	L-M
2012	M	M	H	L	M	M	M	M	M
2013	M	M	H	L	L	L	M	M	L-M
2014	M	L	H	L	M	M	M	H	M
2020	M	VL	M	H	H	M	L	VH	M
2030	M	VL	M	VH	VH	M	VL	VH	M-H

Romania will maintain the current trend of economic development with a focus on sustainable development, having small positive or negative deviations from this average trajectory that will reoccur in a short time span of 1-2 years.

The analysis of Multi-Input-Multi type-Output (MIMO) data sets using neural networks and fuzzy logic and comparative analyses using different software for the same data set are the subject of further research.

### Acknowledgements

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# STRATEGIES TO IMPROVE THE QUALITY OF PERSONNEL RECRUITMENT AND SELECTION IN PUBLIC ADMINISTRATION

Mohammad, Jaradat<sup>1</sup>  
Nicoleta Camelia, Cicioc<sup>2</sup>

## **Abstract:**

*Managers over time have become more and more demanding and want people which are more balanced emotionally and a more relaxing environment with a sense of collaboration and respect. They realized that people set on your own thoughts and decisions are more determined and persevering.*

*The working hypothesis of the article assumes that placing the right individual in the right place and at the right time will generate benefits for both the organization / public institution as well as for himself.*

*The theme of this article is looking at the strategies to improve recruitment and selection process and it consists of two parts: the first part-approaching the concepts according to the literature, and the second part-presenting a diagnosis of human resources within a city hall in Dâmbovița, as well as the presentation of measures of how to improve the shortcomings occurred in the selection and recruitment process.*

**Keywords:** *human resources, personnel management, recruitment, selection.*

**JEL:** *J 24, M12, O 15*

## **Introduction**

You cannot associate an individual or compare him to a machine where you can hit the play button when they are useful and you can stop when they're no longer effective, you must take into account that man has feelings, reason and will.

Managerial strategies of an organization regardless of their performance will not generate the desired results if its own employees will not operate in accordance with the tasks specified in the job description. This is not the only relevant issue, also if they will not have a proper attitude regarding the work they perform and if the work carried out by them will not help achieve the organization's objectives.

## **1. Theoretical Approach**

In the human resources management, the recruitment and selection processes play a fundamental role as staff in an organization is not hired randomly, but it is chosen following rigorous criteria applied in the selection and recruitment processes.

Hursman (2010) defined the next five performance criteria of human resources to achieve efficiency (Gabčanová I, 2012)

1. specifically,
2. measurable,
3. accessible
4. relevant,
5. on time.

The influence that these two activities exert on organizations arises from the fact that they may obtain bigger income as a result of performing these two processes with professionalism, and also register losses when the principle – the right man in the right place – is not given enough importance.

Recruitment and selection activities could be regarded as consisting of two separate processes: recruitment process, which should be done only by experts in the human resources

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department and the selection process where others outside of the specialized human resources field can be involved (Frațila C & Duică M, 2014).

Jack Halloran and David Cherington point out in their work that to ensure success, or even to survive, organizations must properly resolve the following issues (Manolescu A, 2001):

1. Identifying the skills and qualifications and election or selection of candidates who best meet the requirements of new or vacant positions,
2. Identifying and attracting competitive candidates using the most appropriate methods, resources or recruitment platforms,
3. Complying with relevant legislation on equal employment opportunities and correcting previous discriminatory practices or existing imbalances.

Basic phases of recruitment and selection are ([http://www.preciousheart.net/chaplaincy/Auditor\\_Manual/4recruit.pdf](http://www.preciousheart.net/chaplaincy/Auditor_Manual/4recruit.pdf)):

1. Personnel needs.
2. Recruiting candidates through job advertisements and other means.
3. Applicants
4. Interviewing candidates.
5. Testing.
6. Verifying the information
7. Expanding job offers.
8. Assessment and reporting.

George T. Milkovich and John W Boudreau, argue that it is necessary to design certain selection strategy, which involve the following(Milkovich G, 1991):

- The criteria used to select candidates;
- Techniques or methods for collecting the information needed;
- Use of required information in the selection process;
- Measuring results and evaluating the effectiveness of the personnel selection process.

Human resources recruitment and selection methods and criteria are considered employment policy of human resources in a company / organization. (Chivu I et all, 2008)

RECRUITMENT: The process of attracting people in time and in a sufficient number which are appropriately qualified to apply for a position within an organization. (Mondy R, 2008).

**Table 1. Sources of human resources recruitment**

<b>Recruitment Sources</b>	<b>Advantages</b>	<b>Disadvantages</b>
Internal	The organization has a better understanding of the job, Candidates for the position have a better knowledge of the organization, Employee motivation is stronger, Human resources are seen as investments.	Fighting for a promotion may adversely affect employee morale, Finding a job within the same organization can bring creativeness and implement new ideas from the human resources.

Recruitment Sources	Advantages	Disadvantages
external	The group of people who have real knowledge and skills is wider New perspectives and ideas can be brought into the organization.	Attracting, contacting and evaluating potential employees is more difficult, The period of employee orientation and training is longer, Moral problems may occur among those employees who feel qualified for the job.

Source: (Chivu I, 2001:113)

Recruitment and selection process costs can be high; Recruiting new employees should take place only after careful consideration and only when the organization anticipates long-term need of additional manpower. Recruitment plan begins only when other alternatives were considered and eliminated. Human resource planning involves a complex task of forecasting and planning staff at the right time and place in order to carry out activities that will benefit the organization in achieving its objectives and in helping its members to meet their needs (<http://www.shrm.org/education/hreducation/documents/recruitment%20and%20selection%20im.pdf>).

The stages of the recruitment process can be seen in the figure below.

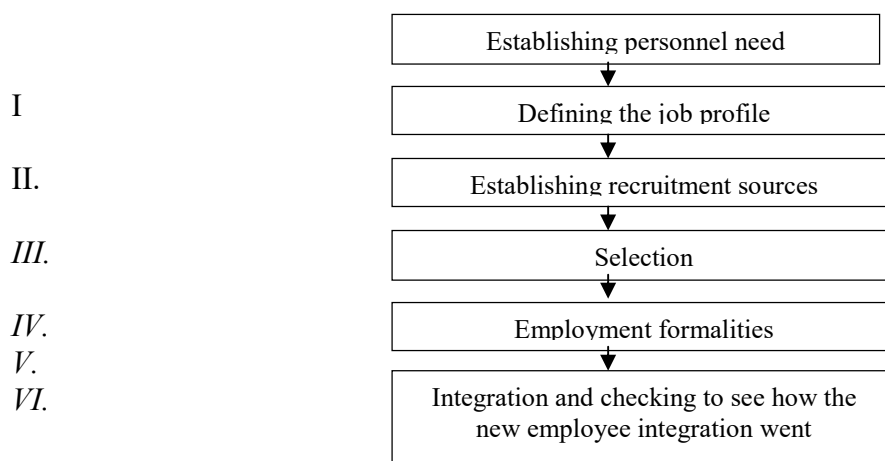


Figure 1. Stages of personnel recruitment

Source: (Stănciulescu G, 2002: 84)

## 2. Develop strategies to improve the quality of recruitment and selection

### 2.1. Research Methodology

Goal – the lack of information on active involvement from managers in addressing the weaknesses of selection and recruitment processes in public administration resulted in the need for a research that in addition to presenting features and diagnosis of human resources also brings solutions to remedy the deficiencies occurred.

#### Objectives

1. Knowledge of the personnel structure of the Local Council of Gura Ocnitei;
2. Identifying the gender predominance of employees;
3. Presenting the most eloquent measures to improve the weaknesses in this public institution;
4. Providing solutions to attract the most competent employees.

### Assumptions

1. In this City Hall the male human resources are predominant;
2. Most employees of the Ocnița Local Council are graduates;
3. Among the measures to improve the deficiencies in the process of selection and recruitment the team effectiveness holds the utmost importance.

### 2.2. Diagnosis of human resources in public administration

We perform an analysis of the human resources of the Gura Ocniței Local Council. The workforce consists of 19 employees structured on the management and execution. The distribution of employees by position is reflected in Table 2.

**Table 2. Structure of employees by position**

POSITION NAME	NUMBER
TOTAL NO. PUBLIC OFFICIALS	10
TOTAL NO. PUBLIC OFFICIALS MANAGEMENT	2
TOTAL NO. PUBLIC OFFICIALS IMPLEMENTING	8
TOTAL NO. CONTRACTING MANAGEMENT	9
TOTAL NO. CONTRACTING FOR IMPLEMENTATION	8
TOTAL NO. DIGNITARIES	1
TOTAL NO. EXISTING POSITIONS	19
TOTAL NO. AVAILABLE EXISTING POSITIONS	20

In Gura Ocniței Local Council there are 2 persons holding the public official position in management: the mayor and the deputy mayor. Leadership in the civil service department includes a head office and a UAT secretary. In the implementing civil service department there are 6 inspectors, one reviewer and 1 legal counsel. One person has a contracting management position- chief SVSU and 8 persons hold the contracting implementing position: 1 counselor, one guard, one driver, one librarian, one doctor and one Adviser to the Mayor.

**Table 3. Personnel Structure**

PERSONNEL CATEGORIES	2012		2013		2014	
	NR	%	NR	%	NR	%
IMPLEMENTING	12	70.5	13	72	14	73.6
MANAGEMENT	5	29.5	5	28	5	26.4
<b>TOTAL</b>	<b>17</b>	<b>100</b>	<b>18</b>	<b>100</b>	<b>19</b>	<b>100</b>

Analysis of the number of employees for the year may show the existence / or lack of between the management and staff.

**Table 4. Structure of human resources according to the position held**

Position	2011	2012	2013
Mayor	1	1	1
Deputy mayor	1	1	1
UAT Secretary	1	1	1
Librarian	1	1	1
Inspector	4	5	6
Mayor councillor	1	2	1
Driver	1	2	1
Guardian	2	1	1
Local Councillors	8	5	6

As a result of the analysis the table shows that there is an evolving trend for employees dealing with implementing and that those responsible with management there is a continuity trend for the years 2011-2013. In order to identify the accordance between the training and the position a research was held between 2011-2013.

**Table 5. Personnel structure based on completed studies**

Level of education	Number of people	Percents
Master's degree	2	12
College degree	15	86
Bachelor's degree	2	12
Total	19	100

The personnel structure analysis of the Local Council shows the fact that the majority of the employees are the one's holding a college degree.

**Table 6. Structure of human resources by gender**

Gender	Year		
	2012	2013	2014
Men	10	7	9
Women	9	12	10
Total	17	18	19

In 2014 in this Local Council there is not a significant difference between the number of females and the number of males. The employee's wages record is held through REVISAL program. The Revisal software that the City Hall uses in recent years allows them to:

- Introducing and updating raises including percentage value;
- Downloading the registry data for the previous version of the application - Revisal 5;
- Updating COR according to the ISCO 08 compatible classifications;
- It is regulated by the Ministry of Labour, Family and Social Protection no. 1832 of 6 July 2011 / National Institute of Statistics no. 856 of 11 July 2011;
- Generation the registry in order to be submitted to the territorial labor inspectorate;
- Validation the registry generated by administration software.

### **2.3 Strategies of improvement of the quality of recruitment and personnel selection Gura Ocniței**

The improving the recruitment and selection processes in this public institution focuses on three priorities: recruitment and selection activities, sub-activities and other improvements. In determining the appropriate strategies everything has to start with the improvement measures (Table 7).

**Table 7. Measures to improve the deficiencies in the selection and recruitment processes**

Analyzed recruitment and selection activities	Subactivities	Measures of improvement
1. Recruitment team efficiency	-choosing a well prepared recruitment team (experience in recruiting and selection, diversity). -analysis of the effectiveness of the recruitment ad.	-diversity-different ages, genders, ethnicity, religion -the team must be selective - made of (economists, lawyers, recruitment specialists, department manager, sociologist sau psychologist). -respecting the general rules while making a recruitment ad.

Analyzed recruitment and selection activities	Subactivities	Measures of improvement
		-AIDA (describing the organization, the position, the recruiting and selection costs).
2.The efficiency of the management of human resources department	<ul style="list-style-type: none"> <li>-acting according to some performance standards.</li> <li>-acting based on some ethic rules and conduct.</li> <li>- acting so as to achieve financial and social performance.</li> <li>-forming recruitment and selection policies and strategies in order to obtain performances.</li> </ul>	<ul style="list-style-type: none"> <li>- introduction of indicators for measuring the performance of recruitment and selection (automatic calculation of submitted resumes, of the right people, of phone calls received).</li> <li>- appropriate behavior by all parties involved in the process.</li> <li>-ethical actions meaning promoting by posting on the bulletin board, on the official internet page and in meetings.</li> <li>- promoting the principles of ethics, discrimination, social responsibility, so that all employees have equal opportunities in recruitment (internal promotion) and selection.</li> <li>- improving the organization's reputation</li> <li>-the policies must not be thick, but constructed to obtain economic performance.</li> </ul>
3. Aligning human resources department to the objectives and overall strategy of the organization.	<ul style="list-style-type: none"> <li>- strengthening existing strategies</li> <li>- supporting the changes in the organization</li> <li>- It provides necessary information for strategic planning process</li> </ul>	<ul style="list-style-type: none"> <li>- by recruiting and selecting the best candidates</li> <li>- after the assessment and performance monitoring processes the organization and employees feedback is ensured, rewarding employees</li> </ul>
4.Analysis of the cost of recruitment and selection	<ul style="list-style-type: none"> <li>- using financial indicators</li> </ul>	<ul style="list-style-type: none"> <li>-choosing the people in the committee; insiders</li> </ul>
5. Analysis of the consequences of choosing a wrong candidate	<ul style="list-style-type: none"> <li>-time management</li> <li>-social conflicts</li> </ul>	<ul style="list-style-type: none"> <li>- efficient use of working time</li> <li>- Tensions caused by different personnel personalities</li> </ul>
6. Selection team efficiency	<ul style="list-style-type: none"> <li>- transparent and encouraging communication</li> <li>• use of various methods of recruitment and selection</li> <li>-correct evaluation of the candidates skills.</li> </ul>	<ul style="list-style-type: none"> <li>- BARD formula</li> <li>-resume, interview</li> <li>-probation</li> </ul>

### **Strategies developed and implemented in improving the quality of recruitment and selection:**

1. Improvement of the efficiency of recruitment team. Increasing the efficiency of the recruitment and selection team members aims to:

- Various typologies of persons who are on the committee. Their professional structure must be different and include people from all fields like: psychology, economics, law. Increasing the efficiency of the employment ad can be achieved through the following measures:

- Following the steps of compiling the employment ad,
- Proper grammar drafting of this ad,
- Presenting in the ad the organization, the position and requested requirements.



2. Increased efficiency of the institution's human resources specialist.

All his actions must be in accordance with a set of regulations. His obligation to act according to the ethics. He must adopt an appropriate behavior towards all potential employees, and all actions taken on behalf of the institution should reflect transparency. This transparency means that the institution's website must display information in this regard, information to which the public must have access.

3. Adaptability to changes, and implementing and supporting the existing strategies for recruitment and selection is achieved by:

- Rigorous selection which will leave the best employees in the institution,
- Payroll systems in accordance with the results obtained by the employee.

This adaptability can be implemented with the following models:

1. "The matching model" developed by academics at Michigan Business School, introduced the concept of matching human resources policies with corporate strategic objectives.

The model stresses that there must be factors that lead to the proper development of human resources policies and systems:

- Recruiting and selecting the best people to meet the organization needs;
- Evaluating and monitoring performance and ensuring feed-back both for the organization and employees;
- Rewarding employees;
- Developing skills and knowledge necessary to achieve the organization's objectives.

2. The model called "map of human resource management", which was developed in 1984 in Harvard University, which recognizes that there are a wide variety of participants in the organization, such as shareholders, government and the community.

This model recognizes the legitimate interests of groups and states that human resource management strategies should reflect these interests and merge them with business strategy.

4. Reducing the costs of selection and recruitment by:

- Electing for the analysis committee people within MAI, specialists in various fields,
- The locations where the interviews and practical tests take place will not be external, but everything will be done within the institution.

5. Reducing risks of choosing candidates who do not meet the institution's performance by:

- Increasing the number of interview steps,
- More rigorous physical and psychological tests,
- The existence of a training period of up to 1 month.

6. Maximizing the efficiency level of employees by:

- Transparent communication and encouraging, use of various methods of recruitment and selection
- Correct evaluation of skills of the candidates.

## **Conclusions**

The main conclusions of this research highlights that the process of selection and recruitment that does not comply with the appropriate steps and procedures will bring losses to the public institution that will lose its credibility with the public service users, the loss will also be felt by the employee who will feel like he's not in the right position and will have difficulties with his colleagues.

Of the three hypotheses in the beginning of the research only hypotheses number two is verified. The first analyzed hypothesis stating that males are the majority in this public institution does not verify. Even if there is not a significant difference in terms of numbers in this case the number of females is higher than the number of men.

Hypothesis number two is verified because according to the information provided by Gura Ocniței Local Council representatives most employees are university graduates. The last

hypothesis is not verified because not only the effectiveness of recruitment and selection team has a role in improving this process but also: aligning human resources department objectives to the organization strategies, the generated cost, the consequences analysis, the effectiveness of the selection team.

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# FROM MILITARY STRATEGY TO BUSINESS STRATEGY

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## **Abstract:**

*Strategy has always been a highly debated topic both in theory and practice. Business organizations need strategies for several reasons such as to establish a goal, to deploy resources in the most effective manner, or to obtain revenues. Many elements of business strategy can be found in the military strategy. However, the evolution of business strategy has been driven more by the practical needs of business than by the development of theory. The aim of our paper is to present the theoretical foundation of business strategy starting from the military domain. The methodological approach is literature review.*

**Keywords:** *strategy, military strategy, business strategy, war*

**JEL Classification:** *M1*

## **Introduction**

Strategy has always been a highly debated topic both in theory and practice, and has been evolving for centuries (Aurik, Fabel and Jonk, 2014). While the importance of the concept of strategy is generally accepted in many domains, ranging from military art to politics, international relations, economics or business, there are as many definitions of it in the literature as there are organizations. The concept of strategy has been described through multi-faceted approaches either as a science (Coutau-Bégarie, 1999; Clausewitz, 1873), an art (Coutau-Bégarie, 1999; Linnert, 1973; Mead Earle, 1943) or a combination of them (Bariş, 2015).

As any organizations, enterprises need business strategies for several reasons such as “to give direction and purpose, to deploy resources in the most effective manner, to coordinate the decisions made by different individuals” (Grant, 2013, p. 12), or to obtain revenues. This why there are many similarities between business strategy and military strategy. However, the evolution of business strategy has been driven more by the practical needs of business than by the development of theory. The aim of our paper is to present the theoretical foundation of business strategy starting from the military domain. The methodological approach is literature review.

## **Strategy: from war to business**

The term strategy derives from the ancient Greek word “strategia”, meaning “generalship”. During the time, the concept has been adopted from the military domain and expanded in many others such as business. In this respect, strategy represents “the art of distributing and applying military means to fulfill the ends of policy” ([Liddell Hart](#), 1967, p. 321). Two of the most relevant books on strategy and war were the creation of two famous military thinkers: a Chinese, Sun Tzu, and a German, Carl von Clausewitz.

Despite the passage of time, “The Art of War” written by Sun Tzu some 2,500 years ago, has remained a fresh and profound insight into the military wisdom. His book is about “life, death, fear, courage, subterfuge, integrity, victory and defeat, honor and disgrace, profit and loss, unpredictability and simplicity, accountability and responsibility” and about “relationships and interacting with those you view as generals, your fellow soldiers- even your competitors” (Chu, 2007, p. xii). Starting from the assumption that the art of war is of vital importance for the state, Sun Tzu identified five main elements which are at the heart of the “art of war” (Table no. 1).

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In his view, winning without fighting or winning without bloodshed is the best strategy. This is why “by playing on the psychological weaknesses of the opponent, by maneuvering him into precarious positions, by inducing feelings of frustration and confusion, a strategist can get the other side to break down mentally before surrendering physically” (Greene, 2007, p. xvii).

“The Art of War” constitutes a masterpiece of the military strategy. The wisdom of this book is reflected through several teachings such as:

- War is a very serious business of a state, a key of its survival or ruin.
- The elements of the art of war are the measurement of space, the estimations of quantities, calculations, comparisons, and chances for victory.
- The best strategy is obtaining the victory with the least amount of conflict. As an integral part of human society, conflict is all around us.
- Deceiving the enemy and good intelligence are vital in order to be successful in a war.
- The commander is responsible for military strategy.
- The difference between victory and defeat is determined by the commander’s qualities (e.g., courageous, sage, trustworthy).

Written by Clausewitz in 1832, “On War” has asserted that war might be seen as a duel on an extensive scale (Clausewitz, 1873). The Prussian general and military theorist systematically developed “his most creative and original insights into the nature of war (e.g., the primacy of rational, political cost/benefit calculations; the value of setting the objectives to be obtained and estimating the national means to be invested in war; the inherent differences between the offense and defense in the interruption and miscalculation in war; the concepts of friction and chance; and the dominant role of uncertainty [i.e., lack of information and intelligence])” (Handel, 1991, p. 4).

In his opinion, the art of war comprises tactics and strategy: “The first is concerned with the form of the individual engagement, the second its use.” (Clausewitz, 1984, pp. 131-132). He also stated that military strategy refers to the employment of the battle to gain the end of the war and revealed five elements of strategy: moral, physical, mathematical, geographical, and statistical (Figure no. 1). Later, Luttwak’s “Strategy: The Logic of War and Peace” provided a lucid review of Clausewitz’s insights into war’s dialectic. He has shown that strategy is made of self-contradictory propositions (Luttwak, 2001).

In search of the military success, Clausewitz advocated “six principles of strategic effectiveness:

1. Advantage of terrain.
2. Surprise.
3. Attack from several sides.
4. Aid to theatre of war by means of fortifications.
5. Assistance of the people.
6. Use of great moral forces.” (Horwath, 2006, p. 3)

**Table no. 1. Three translations of the five key elements which are governing the “art of war”**

No.	Author of the translation of “The Art of War”	The five key elements which are governing the “art of war”	Explanation
1.	Denma Translation Group	a) Tao; b) heaven c) Earth d) the general e) method	“Tao is what causes the people to have the same purpose as their superior. Thus they can die with him, live with him and not deceive him. Heaven is yin and yang, cold and hot, the order of the seasons. Going with it, going against it, this is military victory. Earth is high and low, broad and narrow, far and near, steep and level, death and life. The general is knowledge, trustworthiness, courage and

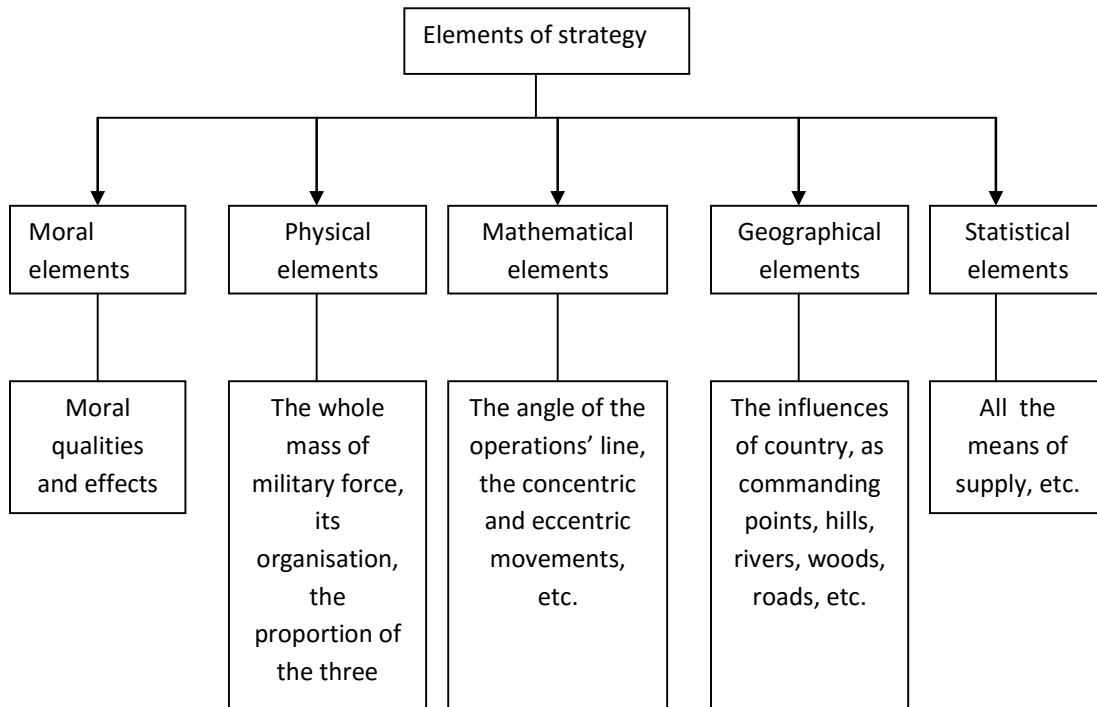
No.	Author of the translation of “The Art of War”	The five key elements which are governing the “art of war”	Explanation
			strictness. Method is ordering divisions, the Tao of ranking and principal supply.” (Sun, 2002, p. 3-4)
2.	Giles L.	(1) the Moral Law; (2) heaven; (3) Earth; (4) the commander; (5) method and discipline	“The Moral Law causes the people to be in complete accord with their ruler, so that they will follow him regardless of their lives, undismayed by any danger. Heaven signifies night and day, cold and heat, times and seasons. Earth comprises distances, great and small; danger and security; open ground and narrow passes; the chances of life and death. The Commander stands for the virtues of wisdom, sincerely, benevolence, courage and strictness. By method and discipline are to be understood the marshaling of the army in its proper subdivisions, the gradations of rank among the officers, the maintenance of roads by which supplies may reach the army, and the control of military expenditure.” (Sun, 2000, p. 1-2)
3.	Shibing Y.	I. politics; II. weather; III. terrain; IV. the commander; V. doctrine	“Politics means the thing which causes the people to be in harmony with their ruler so that they will follow him in disregard of their lives and without fear of any danger. Weather signifies night and day, cold and heat, fine days and rain, and change of seasons. Terrain means distances, and refers to whether the ground is traversed with ease or difficulty and to whether it is open or constricted, and influences your chances of life or death. The commander stands for the general’s qualities of wisdom, sincerity, benevolence, courage, and strictness. Doctrine is to be understood as the organization of the army, the gradations of rank among the officers, the regulation of supply routes, and the provision of military materials to the army.” (Sun, 1998, p. 21)

Some of these principles served as a guide for other authors. In this respect, the so-called “Marine Corps Way” pictures the power of maneuver warfare starting from the following seven guiding principles:

- I. Targeting critical vulnerabilities.
- II. Boldness.
- III. Surprise.
- IV. Focus.
- V. Decentralized decision-making.
- VI. Rapid tempo.
- VII. Combined arms. (Santamaria, Martino and Clemons, 2003)

These principles have proved to be a useful framework for designing a successful business strategy (Clemons and Santamaria, 2002). Similar ideas are to be found as explanations for victory and defeat both in the military and business world, as follows:

- i. Knowledge of the enemy’s characteristics and plans.
- ii. Focus.
- iii. Choice of terrain.
- iv. Surprise. (Vasconcellos e Sá, 2005)



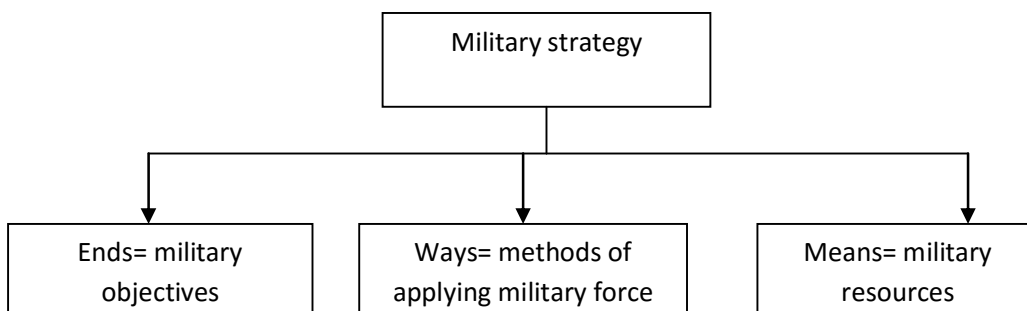
**Figure no. 1. The five elements of strategy according to C. von Clausewitz**

Other researchers proposed the ends, ways, and means paradigm of military strategy (Lykke Jr., 1995). Thus, strategy equals ends plus ways plus means (Lykke Jr., 1997- Figure no. 2), taking into account that: “Ends are expressed as national objectives drawn from national values and interests. Ways are courses of action to achieve ends. Means are the resources (manpower, materiel, money, forces, logistics, etc.) required to support each course of action.” (Fast, 1997, pp. 8-9)

Nowadays, military forces are facing a multitude of challenges all over the world. A strategic five-step risk assessment process should focus on several key issues such as:

- “Understanding the strategic and operational environment and leveraging information...
- Shaping strategic and operational conditions...
- Projecting forces...
- Employing forces and capabilities to achieve strategic and operational objectives...
- Protecting and sustaining forces consistent with operational conditions...
- Terminating military operations consistent with strategic and operational objectives...” (CSIS, 2013, p. 5)

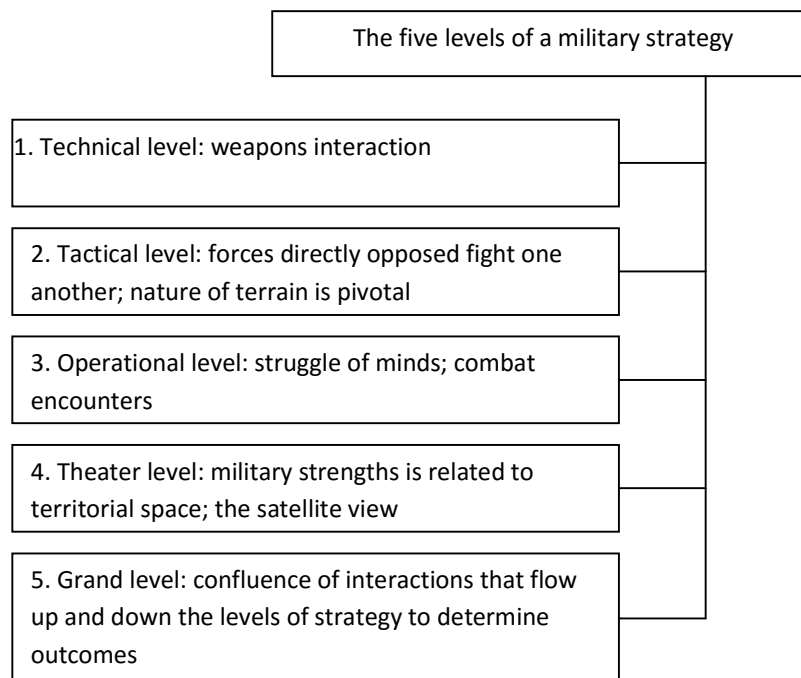
All these lead to the identification of the main levels of a military strategy. The first level is a technical one, and the last is a so-called “grand” level (Figure no. 3).



**Figure no. 2. The three components of military strategy according to A. F. Lykke Jr.**

In spite of the fact that the study of strategy started with warfare, many books and articles on business strategy have been written worldwide since the 1960s (Mintzberg, 1994; Ansoff, 1984; Andrews, 1980; Porter, 1980; Ansoff, 1969; Ansoff, 1965). Moreover, “business began to adopt and adapt the military discourse to ‘discover’ its own articulate discourse of strategy” (Hoskin, Macve and Stone, 1997, p. 20).

As the military principles for success in strategy proved their effectiveness, they were adopted in the business world. Therefore, the principles for business strategy success are similar or identical to principles of military strategy (Cohen, 2004). Without any doubt, “modern business strategies, just as military ones, are based on analyses of enterprises and how they conclude their struggles with minimum loss and maximum profit.” (Ozleblebici and Dogan, 2015, p. 79). For example, “a military commander will vary his strategy and tactics depending on whether he is fighting a large or small enemy, and whether he is fighting on flat, open ground or hilly terrain” and “likewise, each sector of the market or even each major customer should be looked at as an individual battleground, and the most appropriate tactics and strategy used.” (Skellon, 2000, p. 191)



**Figure no. 3. The five levels of a military strategy**

Source: Horwath, 2006

Business organizations need strategy for several reasons. Thus, “strategy assists the effective management of organizations, first, by enhancing the quality of decision making, second, by facilitating coordination, and, third, by focusing organizations on the pursuit of long-terms goals” (Grant, 2013, p. 16). As “a plan that aims to give the enterprise a competitive advantage over rivals through differentiation”, strategy is “about understanding what you do, what you want to become, and-most importantly- focusing on how you plan to get there” (Luecke, 2005, p. xiv). Corporate strategy defines “the scope of the firm in terms of the industries and markets in which it competes” whereas business strategy is concerned with “how the firm competes within a particular industry or market” (Grant, 2013, p. 19).

Whether in military or business world, strategy is a plan and involves the deployment of resources, and the establishment of a goal. Also, strategic decisions are very important in both cases. In sum, military strategy and business strategy have in common many concepts and principles.

## Conclusions

Strategy is critical in any field of activity, either war, or business or politics. The concept of strategy was used for the first time in the military domain. Later, it was adopted and adapted for application in the business world.

Similar or identical concepts and principles are to be found both in the military strategy and the business strategy. In military, as in the business, strategy bridges the gap between means and ends, and represents a link between the organization and its environment. This is why strategy should be fully integrated into all activities and processes of any organization.

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# CHALLENGES OF ENTREPRENEURSHIP IN ROMANIA

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## Abstract:

*Being an entrepreneur nowadays is truly a challenge, a joint synergy between active, innovative behaviour and risk in all its forms, resulting in changes within the socio-economic environment, namely in values to individuals and the society.*

*Personal satisfactions, independence, work safety, the chance of unlimited earnings, power and influence are doubled by major risks such as: loss of invested capital, full responsibility, affecting one's career and own image, personal and family damage.*

*The importance of start-ups in any economy cannot be denied: they create jobs, generate sustainable economic growth, lead to progress in all forms.*

*In Romania at present, there are about 51,000 active small and medium enterprises accounting for 9% of the total number of companies, yet contributing 24.5% to the total added value. Now, more than ever, there should be emphasis on financing, on the tax environment, regulations, coordinated support, as well as on education and training.*

*Under these circumstances, both the private business environment and the state by its government policies must create conditions for the development of SME's, generate a competitive entrepreneurial environment, and support the Romanian entrepreneurial culture.*

**Key Words:** *idea, creativity, innovation, entrepreneurship, entrepreneurial culture*

**JEL Classification:** *L26*

## 1. Introduction

In an unstable socio-economic environment characterized by a high level of risk and high uncertainty, with major imbalances on the labour market, entrepreneurship is one of the solutions for economic growth. In as early as 1985, Peter Drucker, father of modern management, in his work "Innovation and Entrepreneurship" highlighted the importance of entrepreneurship to the economy of any country: "... we need to encourage flexibility habits, ongoing learning and acceptance of change as being something normal and take them as opportunities, both to institutions and individuals". Indeed, time has shown that small businesses create jobs, generate sustainable economic growth, and generate progress in all its forms.

Since powerful countries with entrepreneurial traditions increasingly rely on the development of this sector, emerging countries are catching up, focusing on entrepreneurship and on specific steps to stimulate entrepreneurial initiatives. Thus, countries such as Great Britain, Canada, Australia have created a favorable tax, financial, educational, cultural environment realizing the importance of this type of business for the entire economy.

Being an entrepreneur nowadays is truly a challenge, a joint synergy between active, innovative behaviour and risk in all its forms, resulting in changes within the socio-economic environment, namely in values to individuals and the society.

Personal satisfactions, independence, work safety, the chance of unlimited earnings, power and influence are doubled by major risks such as: loss of invested capital, full responsibility, affecting one's career and own image, personal and family damage. Nevertheless, in entrepreneurship, more than in any other kind of business, that which alone is at its peak is job satisfaction. The idea one starts from is essential, but it plays a relatively modest role in the business success itself; what matters is how such an idea is implemented, how it is capitalized.

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## 2. Diagnosis of Romanian Entrepreneurship

The entrepreneurial environment in Romania has acquired new meanings over the last years: from frail initiatives to well-defined successful business in successful areas.

The “Romanian Entrepreneurship Barometer” has conducted an overview. According to statistics, of the total number of active companies on 31 March 2015, around 64% are limited liability companies which have one shareholder on average. Of these, around 91% belong to the category of micro-enterprises, with an average of 2 employees, with an average capital of about 11,000 Euros, which achieve an annual turnover of 47,000 Euros. The survey shows that around 2.6 million companies have been set up over the last 25 years, whose average lifespan has been estimated as being 9 years and 9 months.

**Table 1: Comparative Analysis of SME’s in Romania and the EU (%)**

	<b>Romania</b>	<b>European Union</b>
Share of SME’s in total number	99.6	99.8
Contribution of SME’s in total gross added value	44	59
Share of SME employees in total number of employees	66.2	66.9

The Romanian SME’s in five activity sectors: manufacturing, trade, construction, professional activities and transport create 70% of total gross added value and 60% of all the employees in SME’s are concentrated in trade, manufacturing and construction. The profile of a Romanian entrepreneur is: male, aged between 40 and 49, coming from the urban areas, working in trade, construction and transport.

Almost 50% of entrepreneurs worldwide are young and very young people, in the age group of 25-44, the most frequent entrepreneurial group being the one between 25-34 years of age. Additionally, to 8-10 million SME’s worldwide there is at least one female shareholder and as to 67 countries, there are about 126 million women running a start-up.

### **2.1. Access to Financing**

The most important financing sources for entrepreneurship are: bank loans, European funds, micro-financing, public-private partnerships, venture capital, business angels, crowdfunding, stock market etc. A special role in the creation and development of a competitive entrepreneurial environment is yet played by government policies.

The government steps that can improve the access to financing mainly envisage:

- tax facilities for investment in small companies;
- guaranteeing loans;
- reduced taxation of capital gains.

The attractiveness of the Romanian business environment is declining especially to foreign investors, as shown by the negative trend of foreign direct investment reported in 2014 as compared to the previous year (2,43 billion Euros, 11% less than in 2013) and by the number of newly set-up companies (101,000, 19% fewer than in 2013). Therefore, a number of tax steps for investment and reduced taxation of gains are absolutely necessary in order to increase the attractiveness of the business environment both for domestic and foreign investors.

The provisions of the new Tax Code to some extent support the information above. The current legislation provides a number of tax facilities: granting additional deductions in the calculation of taxable income of 50% of eligible costs; local tax exemptions, reduced taxes on tangible and intangible assets, tax exemptions on land, infrastructure development programmes, development donations and funds for companies operating in technological and industrial parks etc. The tax exemption for reinvested profit applicable until 31 December 2016 may generate benefits in terms of cash flow. Regarding the tax on dividends, it will reduce to 5% as of 1 January 2017 according to the latest amendments of the Tax Code published in Official Gazette no. 688/10 September 2015.

In order to guarantee loans, the National Fund for Credit Guarantee for Small and Medium Enterprises provides guarantees of those loans falling into government programmes and facilitates the access to European funds by guaranteeing the loans to finance projects co-financed from European grants. In the year 2014, FNGCMM granted 35,570 individual guarantees amounting to 615.6 million Lei, of which 2,500 million Lei were granted to SME's. The amount of loans backed up by guarantees from the Fund is more than 5.9 billion Lei for over 11,000 SME's.

Other active guarantee funds in Romania are the Rural Credit Guarantee Fund (FGCR), a non-banking financial institution supporting the absorption of European funds and the encouragement of agricultural producers' and processors' access to loans and financing instruments. As well as the former fund, FGCR covers up to 80% of a contract financing value, stating that the maximum financing amount may not exceed 2.5 million Euros. Furthermore, the Romanian Credit Guarantee Fund (FRGC) guarantees up to 70% of the loans specifically intended for Romanian entrepreneurs.

JEREMIE is an active European financial instrument in Romania that provides financial intermediaries with certain financial instruments intended for SME's: guarantees, co-guarantees and counter-guarantees, equity guarantees, (micro)loans, risk capital, co-investment funds, and investment in technology transfer funds.

This financial instrument provided three products for 2007-2013:

- guarantees up to 80% for investment loans and working capital amounting to EUR 1.9 million Euros/beneficiary, with the guarantee free of charge to the beneficiary SME;
- subsidized interest with interest sharing for investment loans and working capital of up to 1 million Euros – with a 4.5% average interest rate for beneficiary SME's and with the loan cost reduced by 50%;
- venture capital by 3TS Capital - investment capital in companies operating in the Internet, media, telecommunication fields.

For the financing year 2014-2020, the financing instruments used by JEREMIE are risk-sharing guarantees or financing, risk capital and an initiative devoted to SME's. Additionally, the Romanian government has got involved in supporting entrepreneurship through a number of programmes meant especially for start-ups and also young entrepreneurs (of up to 35 years old) who set up a limited liability company while they are entrepreneurial beginners.

**Table 2: Programmes to Encourage SME's in Romania**

Programmes for SME's	2014		2015	
	Budget(Lei)	Beneficiaries	Budget(Lei)	Beneficiaries
Development and modernization programme of selling market products and services	21,049,000	267	30,000,000	200
Encouragement programme for the set-up and development of microenterprises by young entrepreneurs	21,000,000	415	29,879,000	493
Multiannual national programme for supporting arts and crafts	1,000,000	166	1,700,000	200
Multiannual national programme for the set-up and development of technology and business incubators	5,400,000	11 incubators	13,300,000	18 incubators
Multiannual national programme for developing entrepreneurial culture among women managers	500,000	12	1,000,000	20
UNCTAD/EMPRETEC Romania programme for supporting the	500,000	8 work-shops/ 152 participants	1,000,000	8 work-shops/ 160 participants

Programmes for SME's	2014		2015	
	Budget(Lei)	Beneficiaries	Budget(Lei)	Beneficiaries
development of small and medium enterprises				
De minimis scheme	100,000,000	464	250,000,000	555
Romanian-Swiss programme for SME's	28,524,286 CHF	300	28,524,286 CHF	384
Programme for the development of entrepreneurial skills among young people and facilitating the access to START financing	17,000,000	167	20,000,000	150

Source: Ministry of Energy, Small and Medium Enterprises, and Business Environment

Romanian entrepreneurs also benefit from European funds of 4.4 billion Euros meant for SME's through the following operational programmes:

**Table 3: Operational programmes during 2014-2020**

Operational programmes	Specification
"Human Capital" Operational Programme (POCU, the former POSDRU)	Meant for entrepreneurship and for increasing workforce employment by providing support to individuals to set up new businesses or SME's with non-agricultural profiles in urban areas. The financial support available through direct grants and loans or guarantees provided for business development is 550 million Euros, in order to create new jobs, counseling or advice services.
Competitiveness Operational Programme (POC)	Meant for SME's in the sectors of Research, Technology Development and Innovation (CDI) in order to support economic competitiveness, and in the sector of Information and Communications Technology (TIC) for competitive digital economy. In the TIC field, advanced services are to be financed for supporting SME's and groups of SME's (including management, marketing and design services) as well as TIC services and applications for SME's (including e-commerce, e-business and interconnected business processes). The financial support is over 250 million Euros.
Regional Operational Programme (POR)	Meant for SME's in two directions: Technology Transfer and Competitiveness. The former direction shall aim at research strengthening, technological development and innovation as its thematic objectives, whereas the latter direction aims at improving the competitiveness of small and medium enterprises, agriculture, fisheries and aquaculture. The financial support is 865 million Euros, of which 165 million Euros for Technology Transfer and 700 million Euros for Competitiveness of SME's.
National Rural Development Programme (PNDR)	Meant for SME's for investment in physical assets, processing and marketing of agricultural products, support provided to young farmers, development of exploitations and enterprises, supporting non-agricultural productive activities, craft services and activities, rural tourism. The financial support is about 8 billion Euros.

Furthermore, a number of financial instruments for SME' are available at European level, namely:

**Table 4: Financial Instruments Typical of SME's in the European Union**

UE Financial instruments	Objectives	Specification
HORIZON 2020	Research, Development, Innovation	Capital for research and innovation meant for SME's amounting to 0.43 billion Euros; Guarantees of 1.06 billion Euros.
COSME COMPETITIVINESS & SME'S	Creating jobs, Generating growth, Social cohesion	Growth capital – 660 million Euros; Loan guarantee facility - 660 million Euros.

UE Financial instruments	Objectives	Specification
SOCIAL CHANGE AND INNOVATION	Creating jobs, Generating growth, Social cohesion	Investment in social economy of 192 million Euros.
ERASMUS	Creating jobs, Generating growth, Social cohesion	Education loan guarantee facilities of 517 million Euros.
CREATIVE EUROPE	Research, Development, Innovation Creating jobs, Generating growth, Social cohesion	Guarantee facilities for the cultural and creative sector of 121 million Euros.

In February 2015, the Bucharest Stock Exchange launched AeRO, a market meant for financing successful projects and success stories of start-ups and SME's. The listing conditions are: a minimum expected market capitalization of at least 250,000 Euros and a free float (holdings of shareholders who have less than 5%) of at least 10% or a total number of at least 30 shareholders. After two months, the shares of 10 companies were available for trading, including: Delivery Solution – courier services; CarpathiaC - investment fund; and Brittnet Systems, the first IT company listed on the exchange.

Depending on the development stage of business, the financing sources vary, therefore entrepreneurs may resort to alternative sources. For the early stages, which are the most vulnerable in fact, capital is needed and it is usually difficult to obtain, which is why one relies on their own funds. In the emerging stage, the financing sources can be one's own or one can choose specific forms such as *venture capital* (capital provided by institutional investors, namely innovative start-ups with high growth potential), *business angels* (successful entrepreneurs investing in young companies and provide them with consultancy to a greater or smaller extent) or *crowdfunding* (it intervenes in business financing even earlier than business angels do and relies on the contributions and donations made by people to whom the entrepreneur introduces a project on specialized platforms).

It is in 2013 that Romanian entrepreneurs started to realize the importance of the first two financing sources to the emerging stage of their business. Tax facilities, creating business angel networks and especially education are instrumental in their viability. As far as crowdfunding is concerned, as an alternative financing source, there is no legislative basis in Romania. In contrast, at the European level, the market of alternative financing increased to 3 billion Euros in the year 2014, as a total of over 5,800 start-ups and SME's obtained them.

## 2.2. Entrepreneurial Culture and Education

Economic growth involves business, some that emerges, increases, decreases, disappears, i.e. economic dynamism based on a number of factors, including entrepreneurial culture and education.

Entrepreneurial culture in Romania is in progress, with field specialists stating that the fear of failure is the most important barrier to entrepreneurship development. Business failure remains a flaw both in terms of companies (insolvency and bankruptcy of companies are penalized), and especially from the perspective of further financing.

Promoting business opportunities for young people, easy access to information and improved communication largely contribute in increasing the maturity level of entrepreneurial culture.

Creating a friendly entrepreneurial environment involves joint efforts: efforts of the government, entrepreneurs and corporations. The first type of steps, the government ones, envisage the perception of entrepreneurs and business failure, in which case a number of levers can be used, such as the law of insolvency and company bankruptcy (where a company in default draws its law protection demanding insolvency opening) and mentoring and popularization programmes for entrepreneurship.

Entrepreneurship must be valued and promoted as a source of sustainable economic growth and failure should be regarded as an experience to learn from. Besides, statistics show that in terms of entrepreneurship, success is more likely in its second attempt than in its first. Regarding mentoring programmes, they are based on encouraging successful leaders to provide mentoring and create business connections (networking opportunities).

An essential contribution in developing the entrepreneurial culture is held by entrepreneurs themselves, by means of promoting entrepreneurship and its benefits as well as by cooperation within entrepreneur networks in order to develop ideas.

Corporations can intervene in developing the entrepreneurial environment by sponsoring business incubators and also by the coverage of successful entrepreneurial business.

Models are very important in entrepreneurship; a few examples of success stories are enough: Ion Țiriac, Marius Ghenea, Dragoș Anastasiu, Camelia Șucu and the list can go on. When it comes to successful foreign entrepreneurs, one thinks of: Bill Gates, Steve Jobs, Mark Zuckerberg, Donald Trump and here, too, the list can go on.

Entrepreneurial education must be oriented towards the development of basic knowledge, namely business organization, finance, marketing, human resources, communication and PR, and also to the contact with Entrepreneurial models and their success stories.

The solutions to improve entrepreneurship-related education are:

- pre-university education, with changes in teaching and assessment methods;
- financial education classes in schools;
- development of tertiary education;
- university education;
- specific entrepreneurial courses;
- informal education/ongoing learning.

Traditional education helps entrepreneurs succeed in business, but that requires they should benefit from support, guidance, being creative and being able to take risks. Formal education must be supplemented with idea and business competitions, business plan competitions, incubators, internships.

### **3. Conclusions**

Entrepreneurship, regarded as a source of sustainable economic growth, is linked to the trends at economic, technical and technological levels, to the demographic evolution and social changes.

The development of entrepreneurship requires a joint effort among entrepreneurs, government, corporations, school, education, culture, regulatory bodies, support organizations, investors, media.

At the macroeconomic level, one of the strongest motivations to encourage the set-up of companies is the important role of entrepreneurs in economic growth and in creating jobs.

Entrepreneurship equally involves challenges and risk taking, along with satisfactions, as that which manifests at its peak is job satisfaction. Being your own boss, hope for virtually unlimited material gains, creating yourself a successful image is a dream that has come true for many entrepreneurs.

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# HOW MANAGEMENT ACCOUNTING SYSTEMS CAN SHAPE INSTITUTIONAL LOGICS

Paulino, Silva<sup>1</sup>

## **Abstract:**

*This paper tries to respond to the call of several Institutional Theory authors for studying the causal mechanisms for institutional change.*

*We found evidence that suggests professional logics that were in place within the public health sector over the years were challenged by the introduction of management accounting systems. Nevertheless, the power health professionals have within the public health sector maintained professional logics as prevalent comparing with the market logics that were behind the introduction of new public management practices such as management accounting systems. The study also showed how health professionals react to this change, especially how the introduction of activity-based costing enabled a higher level of legitimation of market logics before these professionals. Health professionals questioned their medical practices in a management efficiency point of view and tried to adapt themselves to a different equilibrium of forces between market and professional logics. This study adds value to other previous studies in the health sector.*

*Evidence collected encompasses semi-structured interviews, observations and internal archival data from a public hospital. Directors, physicians, nurses, managers and accountants were among the interviewees. Some complementary documentary sources of public access, such as legislation, newspapers, and websites were also used.*

**Keywords:** *Management Accounting Systems, Institutional Logics; Healthcare, Hospitals*

## **Introduction**

Institutional theory has been studied and developed over the years. One of these developments is the institutional logics perspective. Conversely what historically happened in terms of the dichotomy between the macro and micro field, institutional logics perspective pretends to connect what happens outside the organization with what each individual does. In other words, institutional logics accepts that institutions perform at different levels of analysis and that actors are laid in higher order levels - individual, organizational, field, and societal. The institutional orders, the basics for the institutional logics perspective, are the external environment in which organizations and individuals are supported in such a complex society. Community, profession, religion, the state are some examples of the main pillars of society, according to the institutional logics perspective.

Research studies about institutional logics in the health sector are not developed in Portugal. The existing studies are more related with technical and practical issues. For example, Borges et al. (2010) present technical questions about costing in the hospitals. Another study made in several Portuguese primary healthcare services presents the performance management topic (Silva & Ferreira, 2010).

## **Literature Review**

### **Institutional Logics**

In their work, Thornton et al (2012) aimed to create a textbook that reveals a programmatic statement on the institutional logics perspective that differentiates it from neoinstitutional theory. Additionally their idea was also to summarize and suggest original theory to promote and amplify the metatheory initially proposed by Friedland and Alford (1991). Origins of institutional logics are usually credited to the work of these authors. They captivated the attention of academics because they criticized organizational and neoinstitutional theory as these theories did not consider social context of actors. Friedland and Alford (1991) argue that society and social relations are not the result of the diffusion of material structures, but are also related with culture and the symbolic. Additionally, they

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question network theory, specifically why this theory why people are connected, what they are available to do, and why power and status do not have general consequences (Friedland & Alford, 1991). Empirical work by Haveman and Rao (1997), Thornton and Ocasio (1999), and Scott et al. (2000) were also important bases to create a new approach to institutional analysis, which posited institutional logics as defining the content and meaning of institutions. In the last years institutional logics perspective has been increasingly an interesting topic to research, as confirmed by the contents of management and accounting journals.

### **Institutional Logics and Healthcare**

It is usual to find multiple institutional logics in healthcare organizations. As an example, Broekab et al. (2013) studied institutional logics in health care organizations and found that they difficult the adoption and implementation process of a quality improvement programme. The authors used a longitudinal case study method to understand how the process of adoption and implementation was conducted (Broekab et al., 2013). Scott et al. (2000) argued that dramatic changes occurred in the U. S. healthcare system after World War II. Technological development, service delivery agreements, financing issues, and new organizational principles were incorporated in the 'new' healthcare system. The authors studied institutional logics at the societal level, as the focus were hospitals (Scott et al., 2000). Dunn and Jones (2010) focused their study on medical education and found plural logics related with doctor's profession. In this case, they found logics of science from academia and logics of care from healthcare. These authors discovered that some factors, such as contestation among physicians, or the rise of managed care, were related with the care logic. On the other hand, differentiation in the missions of medical schools is related with the science logic (Dunn and Jones, 2010). Their study contributed in a way that the existence of plural logics was important for different groups and interests were varying over time, creating strong pressures about the way of educating future physicians (Dunn and Jones, 2010). Sonpar et al. (2009) studied the intervention of an institutionally driven essential transformation in a rural public health organization in Canada. The authors of this transformation were managers and physicians supported by the government. The idea was to emphasize on efficiency and wellness in order to improve service and quality of care. However, nurses and support staff questioned this change as it was conducted by market-based logics, which, according to these professionals could put in question ethical issues and their professional interests, since the large-scale layoffs were in place (Sonpar et al., 2009). Reay and Hinings (2005) used a qualitative approach to study healthcare in Canada and developed a theoretical model to understand transformations in mature fields. They highlighted the role of competing institutional logics as part of the process. The authors focused the study how the organizational field was transformed after the radical structural change (Reay and Hinings, 2005). Kitchener (2002) used qualitative analysis to study legitimacy at US academic health centre mergers. The focus was on the field level of these professional organizations. The author presented a model that explained the whole phenomenon: antecedents, processes and consequences (Kitchener, 2002). Novotna (2013) used a qualitative approach to study the consequences of the existence of two different institutional logics in Canada healthcare organizations. These logics were managed care and patient-centered care. The authors found that healthcare services have been pressured to use managerial-based practices focusing on a hard performance culture and this change was conflicting with patient-centered principles originating some inconsistencies to the process (Novotna, 2013). Reay and Hinings (2009) studied the health sector, a field where competing institutional logics were in place for a long time. In their study they identified some mechanisms that helped key actors to manage the conflicts between different logics. The authors showed that is possible that different and competing logics coexist over the time when cooperation between key actors are in place

(Reay and Hinings, 2009). Goodrick and Reay (2011) studied historically U.S pharmacists from 1852 to the present and found that professional work reflects several institutional logics. They exhibited that cooperation and competition among different institutional logics influence professionals' logics and work (Goodrick & Reay, 2011). Arndt and Bigelow (2006) studied the American Hospital Association and one of its publications and dedicated their research on the creation of the efficiency logic. They realised that the focus on efficiency prognosticate several issues that affected how hospitals were managed and health policy as well, such as the supposition that hospitals should perform as businesses (Arndt & Bigelow, 2006).

### **Methodology**

This paper studies the influence of management accounting systems on institutional logics in the hospital. So our main research questions are: How management accounting systems influence institution logics in the hospital? What are the causal mechanisms of institutional change?

Our study was developed through a qualitative research approach, as qualitative studies can explain fundamental and practical problems associated with how management accounting is used and changed in different contexts (Vaivio, 2007). This research, based on a descriptive case study, since the aim is to obtain a holistic, systemic and integrated knowledge about the research (Ryan, et al., 2002; Scapens, 1990). Case studies are considered adequate when 'how?' and 'why?' research questions are utilized, when there is no control of behavioural events, and also when there is a focus on contemporary events (Yin, 2009). So, in our study the case study method in an interpretive approach to date was utilized.

We used the 'pattern model of explanation' (Kaplan, 1964), since "the particular social system being studied and its context provided the basis for an explanation. It is the relations between various parts of the system and the system's own relationship with the larger system of which it is part which serve to explain the system" (Ryan et al., 2002, p. 147). The study followed the main steps proposed by Scapens (1990; 2008), Ryan et al. (2002) and Yin (2009) when conducting case studies: i) preparation; 2) collecting evidence; iii) assessing evidence, and iv) identifying and explaining patterns.

### **Access and data collection**

The case study was conducted in one of the largest Portuguese hospitals, the second largest of Porto city: *Hospital Geral de Santo António* (HGSA-CHP) This hospital was selected to participate in the pilot phase of ABC implementation promoted by the Portuguese Ministry of Health during 2007. A total of 39 semi-structured interviews were conducted, all tape-recorded and transcribed in the period from January 2009 to October 2013. All interviews were authorized and conducted in person. Confidentiality of interviewees was guaranteed and so no interviewee was identified in this study. A total of 34 different professionals were interviewed including the head of the MIS, the chief officer of information systems, the two professionals from the ABC implementation team, members of the ABC monitoring team, the president of the board of directors, other members of the board of directors, members of management board of different departments. The first interviewees were the chief officer of MIS that supervises the management information produced to support decision-making process of the Board of Directors and the two professionals from the CHP-HGSA implementation team. Before these initial interviews, the Financial Administrator was contacted in order to give the necessary support and authorization for the research study in the hospital. Some additional interviews were made to different professionals from other public health institutions, as well as to the former Ministry of Health, in the Government, when the ABC pilot project was initiated. Professionals from other hospitals that implemented ABC, as from Northern Region Health Administration were interviewed in order to triangulate and validate evidence (Lukka & Modell, 2010; Modell, 2005; Yin, 2009).

## **Research methods**

Interviews were tape-recorded and transcribed. Interview material was coded using webQDA, a qualitative analysis software that allows the treatment of texts and images, even from audio sources. We tried to ensure the reliability of our findings by triangulating among the various social actors interviewed and archival materials examined, and gathering data until a point of evidentiary saturation was attained (Strauss & Corbin, 1998).

In addition to interviews other qualitative research methods were used. The observation research method, considered essential by several recognized researchers, was used during the research process. Mason (2002) refers that "observation in a fieldwork setting can feel a more intensely personal and intimate endeavour than conducting interviews..." (Mason, 2002, p. 87). Observation was used as a complement of all interviews in different moments of the study enabling researchers to find out how things really work or happen (Flick, 2006). In other situations observation was also importantly used, such as in a working meeting with the consulting company and the hospital supporting team (February 2009) in ACSS headquarters, in Lisbon, and also during the session where final results of ABC implementation were presented (July 2009) in HGSA headquarters, in Porto.

Our data set contains also archival documents, composed of legislation, internal documents and public documents. Legislation is composed by Portuguese Laws from the Parliament, Decree-Laws and other legislative documents from the Government. Internal documents were from several different sources, such as production and costing reports, and activities' plans from different departments of the hospital. Public documents included activities' plans from the Ministry of Health and from Regional Health Administrations, program contracts between the Ministry of Health and the hospital under study. National newspapers articles concerning health care (from the period 2009-2013) and online resources were also used during the time of the study, since a very large portion of information is available in the Internet. For example, websites from different organizations were accessed, such as Portuguese Ministry of Health, Portuguese Central Administration of the Health System (*ACSS*), Northern Health Region Administration (*ARS Norte*), Order of Portuguese Doctors, Order of Portuguese Nurses, World Health Organization, just to mention a few.

## **Empirical Study**

In the Hospital Regulation made in the 1960's (Decree-Law 48357/68), there was already information, in the article 35, about management of hospitals. In the preamble of the same regulation was written "the administration of hospitals became a task for professionals with careful preparation and proper status. The hospital management, essential infrastructure of all medical action, should developed, according to economic techniques, but subordinate to social and human objectives (Campos, 2003).

## **HGSA-CHP hospital: Context and Institutional Logics**

HGSA-CHP (*Hospital Geral de Santo António – Centro Hospitalar do Porto*) is a central and university hospital that "aims at excellence in all activities in a global and integrated perspective of health", according to what is referred about the mission in its website (CHP, 2013). As the other NHS public hospitals HGSA-CHP provides healthcare to improve patients and population health. Additionally, this is a university hospital, which facilitates the "contribution for the development of science and health technology" (CHP, 2013). The CHP, which is the main institution and is composed presently by four hospitals, *Hospital Geral de Santo António*, *Maternidade Júlio Dinis*, *Hospital Maria Pia* and *Hospital Joaquim Urbano*. All these units cover a part of Porto city and are references for several municipalities from the northern region.

Comparing our study with a very similar one in terms of sector (health), we identified Scott et al. (2000). Although initial similarities, conclusions are opposite. These authors presented the dramatic changes that have happened in healthcare systems in the San Francisco Bay Area during the past half-century. These changes are related with demographic and socioeconomic trends in that area, and also with shifts in regulatory systems and policies at national, state and local levels. Also changes in the belief systems were analysed. For this analysis, the authors used different theoretical lens, such as strategic management, organizational ecology, and institutional theory. And also used both quantitative and qualitative methods. They realized that the professional dominance in healthcare was changing over the years until managed care be in place. In our case, as we have a different context, the change from a professional dominance to a managed care did not occur. Nevertheless these two logics co-exist and the competition between them is constant. Our evidence shows that health professional logics are still dominant comparing to a more and more important role of the market logics.

### **Market logics**

"Hospitals should be managed by managers", said one of the members of the board of directors. The same interviewee said that technical (medical) component should not be mixed with management component. To clarify this point of view, the manager exemplified:

*Notice, the decision to take a drug or other medicine is a clinical decision indeed but when the result is exactly the same with different costs, no longer should be a clinical decision but it should be a management decision, and that does not happen in our country yet. It still costs a lot to get into that philosophy.*

Besides the fact that managers think management should be seriously taken into account into the hospital decisions, they admit that reality still is a little different, since doctors prevailed their professional logics.

The changes that recognisably occurred in other countries from a professional logic to a market logic (see, for example, Samuel et al., 2005; Scott et al., 2000) seem to be very difficult to happen in Portugal:

*I think this is inevitable [to change to a market logic], because all of us want our children to have access to health care, and will no longer be the same as we have today because there is no money. Unfortunately we will be pushed for this change because there will be no money, and because of that more cuts will be in place. All ordinary citizens will be penalized.*

A manager from Central Agency of Health affirmed:

*Although all the cost cuts, and the efficiency philosophy in the Health Ministry, physicians always have the last word. If they decide to treat the patient, even with very high costs, the patient will be treated.*

Patient-centered care seems to be essentially a result of pressure from corporative behaviour of doctors – Order of Doctors with all the rules, medical procedures, best practices, World Health Organization with guidelines, etc.

The changes will happen, according to this member of board of directors, but with problems:

*That will change even the worst possible way. Look, let's put things around, we now have a deficit of some million euros, have a limited budget, we do not have the same attitude to accept any patient with an open door. Patients must be referred to our hospital, which means that their freedom of choice has to be conditioned in fact. We should not receive patients here, only because they decided to come to the hospital, we only should receive patients from our area otherwise we should have financing for that.*

### **Professional logics**

Doctors and nurses are the most influential professions in a hospital. These medical professionals use their professional logic as the prevailing institutional logic.

The managers' logics and the doctors' logics are competing all the time. This is a very important dichotomy, since doctors are much better paid than managers are. A comment from the responsible of the management accounting area was:

*The salary payslip of a doctor has an infinite number of bonuses lines.*

Some health professionals think about themselves as very special people. A nurse said:

*In fact, and obviously this is always medicine, including physicians and nurses, I think also the nurses, we always think a bit about ourselves as gods, since we can save patients and such, and then we also think we deserve different things because of this our capability.*

Over the time, there was a big change, either in terms of the relative importance of management. A nurse referred:

*And ... and what was good, and I think it was, was we worked very well as a team in the provision of care. But then when it came to management, one group treated only nurses, the other group treated only physicians; managers did not existed for us. This happened until the change to entrepreneurial management in the hospitals. At that time, for us, managers were some funny people we almost did not know them.*

### **Discussion and Conclusion**

This study provides evidence that several and competing logics are in place within the hospital. Market logics, especially associated to NPM recent developments in the Portuguese public sector are very strong in pressuring actors to perform in a certain way. Efficiency is one of the most important outputs of this pressure. Hospitals and other Portuguese public organisations are questioned about their cost efficiency in a day-by-day basis, since financial resources are less and less available. Public National Budget are restricting different areas, especially education and health, pillars of a modern and fruitful society. Even though the pressure from international organisations, such as International Monetary Fund, European Union (just to mention the most important ones) are leading Portuguese Government to make cuts in costs of different Ministries. These costing cuts within the Health Ministry has led hospitals and other public sector organizations to restructure their activities and processes in order to save money and be more efficient. Even at the organizational level, some important events occurred. Some small public hospitals were merged with larger ones. One of the most important goals of the Government was to diminish costs at the management level (less board of directors, less intermediate managers, etc.). Another objective was to put small and most of times not so well managed hospitals in contact with larger and more sensitive to management concepts. These larger hospitals were the first ones to change from a retrospective management type to a prospective management type during the first incursion of the Portuguese Government in the NPM philosophy, when entrepreneurialization occur during 2001. Hospitals have seen changes the way they were paid for their production, from a pre-defined value to an agreed level of health activities. If they do not accomplish what they agree, they are not paid. This way of managing organisations has impacts not only at the organisation level, but also at the individual level, since the behaviour and actions of staff contribute to the achievement of the agreed performance of hospitals.

However, market logics are not the only ones present in the hospital. For example, a Nurse Director blamed the bureaucratic system of the state for the fact they could not hire experienced young nurses that made the internship in the hospital. A public tender was always needed to hire new nurses.

*There are a lot of restrictions to hire and dismiss nurses. If we want to hire nurses, for example, we cannot do it without open a public tender. In this way we can loose some candidates that made the internship within the hospital and had already absorbed the organisation culture.*

Reay and Hinings (2009) discovered the coexistence of several logics for a long period of time. They argued that it is possible to manage competing logics through the development of collaborative relationships. The mechanisms presented in their study can be used successfully by physicians and managers to do the required work. However only one of the four mechanisms interviewees mentioned. It was the case of differentiation of medical from other RHA decisions that was mentioned by one of the members of the board of directors. However, the interviewee recognized the difficulty of implementing it, especially in a context in which a physician's decision prevails.

We found evidence that suggests professional logics that were in place within the public health sector over the years were challenged by the introduction of NPM practices. Nevertheless the power health professionals have within the public health sector maintained professional logics as prevalent comparing with the market logics that were behind the introduction of NPM practices such as management accounting systems. The study also showed how health professionals react to this change, especially how the introduction of activity-based costing enabled a higher level of legitimation of market logics before these professionals. Health professionals questioned their medical practices in a management efficiency point of view and tried to adapt themselves to a different equilibrium of forces between market and professional logics.

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# PERFORMANCE MANAGEMENT IN PUBLIC PRIMARY HEALTHCARE

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## Abstract

*The present article explores management control systems in the Portuguese public primary healthcare. To do so, a performance management framework was used to capture and analyse in an organized and profound way the data collected. Key members of each organization were interviewed and internal documents were collected and analysed.*

*In general, it can be said that the initial proposed objectives were achieved. This study was able to analyse the way primary healthcare organizations operate, understand how their staff is assessed and check if the law was, or not, being followed, opening avenues for future research.*

**Keywords:** *Management control systems, performance management, public sector, primary healthcare.*

## 1. Introduction

The current global financial picture is something that social sciences investigate carefully. The lack of economic stability and financial capability resulted in a huge cost for some countries and its citizens. In particular, the public sector enforced several budget cuts due to excess of expenses, causing a real decrease in the quality of service provided to the general population.

In addition to the questions related to budget management, there are other concerns connected to an effort on making the public sector more efficient, economic and effective (Hood, 1991). In particular, management performance within the public sector, particularly in Portugal, is a much-noticed subject in the media and within society in general. However, despite such attention, it is not really a subject developed by researchers, proven by the low number of papers and practical applications. This last fact can be changed. A new public management, with efforts turn to control, based on the capabilities of decision making of every professional involved has showed to be an effective asset to counter the sector's financial limitations and increase the quality of service (Hood 1991, 1995). That is why a Performance Management System (PMS) up to date and adapted to the public sector can create conditions to the evolution and management improvement of public institution. However, globally, recent reviews of the field showed that the effects of PMS on a change within management is still somewhat in an early stage, despite some positive signs (Franco-Santos, Lucianetti and Bourne 2012).

Also, the number of quotes made by academic works of an extended framework created by Ferreira and Otley (2009) under the performance management subject suggests that it could be able to describe the current organization's structure and the implemented performance management and assessment systems. The test of this framework inside the public primary health care can contribute to prove its aptitude, even though it was not created specifically for this field, but also to a better understanding of the performance management tools implemented in this branch of the public healthcare system.

Bearing that in mind, a script was created based on the framework created by Ferreira and Otley (2009) and used in semi-structured interviews with several key members of different public primary healthcare providers. With that, we expect to provide a real test on how the framework describe the structure and operating methods, find out how exactly the performance of the organization and its professionals is assessed, and compare it with the

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current written legal framework, providing a valid contribution to a better performance assessment and increasing the used extended framework, leaving some prospects for future research.

## **2. Performance Management: Concepts**

Although it can be said that Performance Management is a complex subject, it can also have a very simple definition.

When question about it, Aubrey C. Daniels answers that '*In simplest terms, it's a way of getting people to do what you want them to do and to like doing it.*' (PM eZine 2000).

With James E. Daniels, they publish the book 'Performance Management: Changing Behavior that Drives Organizational Effectiveness', to provide to its readers guidance and a better understanding of the basic concepts of performance management in any area – operational or scientific study – even if performance management is applied the business world. However, A. Daniels and J. Daniels (2004) also point out that performance management is not a critic or praise to performance or organization structure, but a scientific approach of how to manage the behaviour and conduct of all professionals involved, as it could be into many areas.

Other authors also contributed with definitions of performance or management. Neely, Gregory and Plats (1995) defined performance as the efficiency and the effectiveness of actions in a professional context. The efficiency scale is given by the amount of needed resources to fulfil clients' demands, while effectiveness is found when those demands are well fulfilled. Therefore, performance is assessed when efficiency and effectiveness is measured. To do so, it is mandatory to choose, implement and monitor PMS, by measuring in a countable way efficiency and effectiveness of certain actions to achieve an objective (Fortuin 1988; Neely et al. 1997). These must be able of measuring the true performance of an organization, as the lack of well-defined standards capable to the task will create difficulties in planning and control of normal operations of organizations and will not motivate its personnel. (Globerson 1985). Also, Franco-Santos, Lucianetti and Bourne (2012) called Contemporary Performance Measurement Systems, with a simple definition '*We argue that a Contemporary Performance Measurement Systems system exists if financial and non-financial performance measures are used to operationalize strategic objectives*' (Franco-Santos, Lucianetti and Bourne 2012, 80).

### **2.1. New Public Management**

The concept of a 'New Public Management' (NPM) appeared during the 1980's, according to Hood (1995). As a basis for its application, it begins with the definition of objectives like an operation budget or resources allocation, so that their usage allows providers to offer the best services possible as the focus of obtaining results and reaching certain objectives are the main ways of assessing performance.

Hood (1991) was one of the first to write about NPM and defined its doctrinal components, seven to be exact: professional management in the public sector, explicit standards and measures of performance, emphasis on output controls, disaggregation of units, increased competition between public units, private-sector styles of management and greater discipline and parsimony in resource use. Hood says that the enforcement of these seven principles will guarantee a better control and management, and more involved and accountable professionals, as they are responsible for their own actions instead of simply follow orders. To do so, public sector managers must have similar management skills comparing to private sector managers (Yamamoto 2003).

## **2.2. Performance Management Systems and Management Control Models**

The use of performance management systems in health services provides a framework that can ensure that the organization's strategy is successfully executed and the results are as expected. Thus, PMS become a vital instrument to management, serving multiple purposes.

When analysing the literature available in the field of management control or performance management systems, it is important to highlight two key contributions: the levers of control model by Simons (1995) and the model proposed by Otley (1999).

Simons (1995) published a book in which he presents a proposal for levers of control as a tool for apply and control business strategies. According to Simons, this is a practical and interactive implementation of a control model, which results form a more than a ten-year study that included case studies and discussions with senior members of the management organizations. The author points out, in his model, four key aspects: two are defined as positive (belief systems and interactive control systems) and two are defined as negative (boundary systems and diagnostic control systems).

Simons says that a successful execution of the company's strategy requires the use of the four levers simultaneously. This model provides a comprehensive perspective of the organization. However, it is limited by the fact that the same control mechanism may be used by more than one control lever. The difference here comes from the importance that is given to each control mechanism (Ferreira 2002).

On the other hand, Otley, in a scientific paper published in 1999, proposed a new model to analyse management control systems. Otley says that previous ways of performance assessment in companies, but also other types of organizations, focused only on the economic and financial performance, which is not enough to illustrate the reality of the organization, including its activities. Therefore, actions, decisions and attitudes of the employees were not taken into account, resulting in a set of poor information for poor management.

Otley started by assuming that the organization works in a proper way, maintaining good performance levels and achieving the desired objectives, despite the apparent need of attention from stakeholders for the true definition of performance. On the other hand, Otley also favoured a more inductive approach, taking examples from the past, in order to establish different but important aspects of greatest importance in the field of control systems. The advantages taken from the use of this model was demonstrated by studying three examples of already existing control techniques and identifying applications that were not used so far, by both professionals and researchers.

By studying Otley's work, one can check that he highlights five important topics with a purpose of creating a performance management model of any organization. Despite these topics remaining the same over time, the organization must realize that it should periodically update their responses, as both context within it - strategy, objectives, vision – and the competitive environment that surrounds it can change. These issues, according to the author, are related, in a way, to the most recent issues faced by management. The topics are: objectives, strategies and plans, target setting, rewards, and information flows.

This model proves to be advantageous in different perspectives, given the possibility of more information about important aspects of performance management (Silva and Ferreira 2010). Also, this model is based on the information structure, proving its usefulness also in non-profit organizations (Ferreira and Otley 2005, 2009; Silva and Ferreira 2010).

Ferreira and Otley (2009), through a paper published in 2009, proposed a new performance management model able to describe the structure and operational ways of an organization management and performance. The authors say that despite the issues involving their management control systems and, in particular, the complexity around performance management, research in these fields turns out to be too basic and partial and does not address all necessary points, so the results turn out to be ambiguous and sometimes contradictory.

To solve these problems, Ferreira and Otley proposed a new model that could describe the organization's efforts in these fields in a more global and comprehensive way. This new framework is based on the extensive work done by Otley, particularly the five questions model introduced in 1999, and expanding it to twelve questions and integrating aspects based on Simons' levers of control (1995) framework. Publications in these two areas recognize a growing need for research based on more coherent and theoretical basis (Chenhall 2003; Covaleski et al. 2003), and suggest that they should be used to create a background to research findings, and therefore would provide the research field a more regular development (Chapman 1997).

Other authors showed some difficulties in making a significant progress since, because of the research in this field is based on empirical data, there is a predisposition to focus only on specific aspects and not adopt a more comprehensive method (Dent 1990; Malmi and Brown, 2008). Another interesting point highlighted in the work of Ferreira and Otley (2009) was that progress remains slow, as this same empirical research ignores the obvious relations between different control mechanisms within the organization (Abernethy and Brownell 1999). Therefore, the authors believe the positive effects of applying this model, as it provides a more comprehensive overview of the main aspects of management control systems, and an opportunity for researchers to have a more comprehensive and complete view more effectively. The twelve topics are vision and mission, key success factors, organization structure, strategies and plans, key performance measures, target setting, performance evaluation, reward systems, information flows, systems and networks, PMSs use, PMSs change, and strength and coherence.

The authors expect that this model, which is designated as a performance management system, can contribute to a change in today's more traditional perspective of control in organizations for a broader perspective on what is control and management of performance within it, given the focus in the fields of management and the addition of other management activities within the control system.

Comparing the two contributions of Otley, we can highlight some similarities, developments and differences between the two models. First, as its name shows, it is a more extensive model, increasing the range of analysis and therefore the number of topics: from five to twelve. Therefore, we end up addressing most of the issues that the first model already did. However, although there is a slight change in the approach order, joining objectives with goals and key success factors, which turns out to be an evolutionary sign, the question related to direct feedback seems to be dropped, comparing to previous model. Even so, new questions related to the performance management system are present in this new model, including its use and modification and the information flows used, which previously was not give much attention or importance.

It should be noted that this research should be classified as empirical, as it can investigate the consequences of different controls in different contexts. On the other hand, the authors say that one should not expected to see a huge consistency between each part of the organization, stressing the differences that may exist between each unit, but also between each hierarchical level. Still, the authors praise the ability to adapt this same model, as they believe it may be used under any circumstances, providing the user with an illustration of all active processes at a given moment and its evolution over time.

### **2.3. Performance Management in Healthcare**

Business models and technological resources currently available for use of organizations are key to raise the quality of healthcare. (Chorpita, Bernstein and Daleiden 2008; Kaplan and Norton 1992; Chamberlain et al. 2010; Seelig et al. 1996). Given these developments, it is possible to take advantage of tools available to have information about different services in real time. This information can be used to generate instant feedback, particularly within the healthcare sector, where in the case of the public sector, the basis of individual and institutional assessment focus on quantitative indicators.

Within this sector, we can see some efforts, in measuring the performance of professionals. For example, Smith et al. (2009) published a book where they make an extensive overview of performance management examples in the health sector. In the British case, when, in 1986, the Government decided to create ways to measure the performance of professionals, it was considered 'political and provocative'. These authors also report that initial assessment methods and procedures used in the wrong way (McGlynn et al. 1994) but also different levels of service quality (Mangione-Smith et al. 2007; McGlynn 2003; Seddon et al. 2001).

Specifically within the primary health care, we can highlight rare but valid examples of field case studies. Given the growing interest in the area of performance management, but with a limited focus on the health sector, Silva and Ferreira (2010) focused their efforts to, based on the model of Otley (1999), and from a set of interviews and other data, analysed how performance management systems were implemented in the public primary health sector during 2004 and 2005. Interviews were conducted in three healthcare centres belonging to the Administração Regional de Saúde do Norte. Meetings with health officials from headquarters, and later with professionals from each healthcare centre, with and without management responsibilities. In addition to the conclusions regarding the application of the model, it was detected a lack of vision and strategic thinking in the organizations and lack of performance management mechanisms.

Particularly in the public sector, we can highlight an important change in performance management. The performance assessment in Public Administration (SIADAP) was created in 2007, and slowly implemented in the years followed in public services, including the public primary healthcare. Legislators describe it as an integrated approach to management and assessment systems allowing for consistently aligning the performances of services and of those who work in them. The system is based on a set of pre-established objectives by the State.

### **3. Research Method**

In order to fulfil the objectives previously described, it was necessary to establish a research approach, highlighting the strengths and weaknesses, limitations and potential.

The qualitative research approach is widely used on social sciences, generally associated with understanding and interpretation, of reality, including its values, representations, beliefs, opinions, attitudes or habits. The interpretative analysis is always looking for a solution, evolving within its predispositions, in order to give the best answer to the problem in question, starting with a familiar context and progressing to understand the organization's processes (Yin 2011). Therefore, this approach requires field work. It is not recommended to delegate tasks or share parts of the study between several people. Because of these distinct features, qualitative research seeks to develop an understanding of what is really happening within the organization, how and whom its actions and processes affect, and why certain results happen. Finally, the results should always bring conclusions on how to improve processes within the organization (Denzin and Lincoln 2011).

Taking into account the strengths and weaknesses of this research approach and, above all, the available forms of gathering information, we came to the conclusion that, given the established assumptions, the most appropriate would be a qualitative approach, with interviews as the primary way of data collection. We believe that this approach gives more guarantees of a successful case study.

#### **3.1. Data Collection**

To meet the objectives set, a contact was promoted with the ACeS Póvoa do Varzim | Vila do Conde (ACeS<sup>1</sup>), in order to understand the availability to participate in this case

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<sup>1</sup> ACeS (Agrupamento de Centros de Saúde), or Healthcare Centre Grouping is a group of primary healthcare providers that covers a specific region. They are formed by several USF (Unidade de Saúde Familiar, or Family Healthcare Units), that largely replaced the former primary healthcare providers, the Healthcare Centres.

study, having been reached assent by the Clinical and Health Council. Later, individually, further contacts were made with the USF from the ACeS in order to understand their willingness to be in this case study. Throughout the case study, individual interviews were conducted with professionals from five Model B Family Healthcare Units (USF). In all USFs we interviewed the coordinator and general practitioner (GP) of the USF, the nurse member of the Technical Board and a clinical secretary, to a total of fifteen professionals of USF. In addition to them, we interviewed a total of five professional from ACeS: the Executive Director, the President of Clinical and Health Council, the nurse member of the Clinical and Health Council, the responsible for the Management Support Unit and a member of the nurses' Board of Review. Twenty individual interviews done in 2014, between the months of May and September.

#### **4. Empirical Study**

The Agrupamento de Centros de Saúde do Grande Porto IV – Póvoa de Varzim | Vila do Conde, from the Administração Regional de Saúde do Norte, I.P., has the mission of providing primary healthcare to registered population, with quality and safety and optimize resources. It also aims to be recognized as a reference to proximity of healthcare providing, offering accessibility, technical quality and service, with equity, ethics, effectiveness and efficiency (ACeS' website)

Headquartered in Vila do Conde, the ACeS covers a resident population of 143.090 inhabitants, representing about 4% of the northern region's population (Local Health Profile, 2014). In 2013, the ACeS had 150.631 registered users, covering about 105,4% of the resident population. In the same year, 123.331 patients were consulted in one of the USF, about 81,9%. Being the first to have all of its primary healthcare providers converted in USF, as of today they are fourteen in total: eight Model B and six Model A. During 2013, the five Model B<sup>1</sup> USF where interviews were conducted, 68.190 patients were registered (about 45,3% of the ACeS), 55.027 first appointments (44,6% of the ACeS) and further 156.543 appointments were made (about 47,3% of the ACeS). 103 professionals work in these 5 USF.

##### **4.1. Data Analysis**

In this section, we will proceed with the analysis of data collected during the interviews. Given the number of interviews noted above, we were able to understand the view and vision of each employee as well as those responsible for the ACeS. Thus, we propose a presentation that respects the script made by organizing the information for a better understanding while respecting the original model. Later, a more general discussion of these results will occur, indicating compliance and contrasts with the law, positive and negative activities, and discussing other issues related to the entities.

###### **1. Vision and mission**

*'What is the vision and mission of the organization you work in? How did you obtain that information? Is there any other objectives?'*

In the first question, there was, among the interviewees, some informality. Attending patients was the immediate answer. However, when asked for a greater degree of formality, the professionals were clear in identifying the main purpose of the organization where they work: provide healthcare services. Depending on the person, additional details were given, such as quality, safety, references to family health and registered population, and the stress on primary healthcare.

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<sup>1</sup> Model B USF are subjected to greater scrutiny and demands in performance assessment than Model A USF. Therefore, they were chosen to participate in this research.

They also found very little difficulties in identifying the formal documents of the entity in where the mission and vision is written. The Internal Rules was the most prominent document, with some references to the Action Plan as well. It was also interesting to note the immediate stress of weekly multipurpose meetings held by the professionals of each USF, which explains their importance, as the reference was made several times during the interviews. Regarding other references to other objectives, there were some complementarity answers among the interviewees. Some focused on the special attention given to specific risk groups, but others focused the existence of performance indicators that the entity (USF and/or ACeS) must meet.

The President of Clinical and Health Council of the ACeS stated that '*... there are other objectives, according to the needs of the population, adapted to them...*'.

Therefore, there is a general awareness of what is the main objective of both the USF as the ACeS.

## 2. Key success factors

*'What are the key factors that are believed to be central to the organization's overall success? How are they brought to your attention?'*

In general, professionals immediately pointed out the compliance of the contracted performance indicators as the USF's most important goals for its success. The vast majority not only understand this reality, but they can also describe them as health or financially related.

However, there were those who answer that '*The most important thing is the satisfaction of professionals and patients; however there are performance indicators*' (Coordinator / GP of USF-B 2).

That statement also showed the pursuit of quality healthcare and a good working environment. Once again, the information is shared in weekly meetings where all the members of each USF come together to discuss their contracting, if this is the period, but also to monitor its fulfilment. All professionals emphasized the presence of the indicators in the formal documents of the USF like the Action Plan and the Commitment Letter.

*'It's discussed, negotiated and approved by the team.'* (Clinical Secretary of USF-B 1).

The surveillance of risk groups, as well as the general satisfaction of professionals and patients were also highlighted.

## 3. Organization structure

*'Is there a complex organization structure? What impact does it have on the of performance management systems? How does it influence and how is it influenced by the strategic management process?'*

According to the answers given, there is not a complex hierarchy within each USF. In fact, some mention the lack of it, or at least visible. Of course, the legislation, which was referred to by some professionals, demands a coordinator for each USF. However, you can not detect hard hierarchic levels, difficult to access by the professionals, as they seeing the coordinator as a representative of USF and not so much as a boss.

Citing a clinical secretary from USF-B 1: '*You do not notice a hierarchy. The cooperation of all is crucial*'.

Thus, it can be said that there is a simple hierarchy and easily understood within the USF, respecting the current legislation, which, in the view of respondents, came to help as it simplified and diluted the hierarchy and promoted a shared management. The enforcement of organization and communication within the USF is made in other ways, with particular emphasis to the multidisciplinary meetings. The same can be said for the connection between

each of the USF and the ACeS. Professionals understand the current organization's structure within the ACeS, knowing whom to talk, and stressed how easy it is to communicate with upper management. Geographical proximity registered by certain USFs was also considered relevant for easy communication. However, we cannot see the opposite, that is, the geographical distance between the ACeS and the USF as a factor which negatively affects communication.

The Executive Director of ACeS stated that *'The USF have brought a shared responsibility, diluting the hierarchy'*.

While it is possible to identify a positive structure and good relations between organizations, some people used this question to comment on its view of the current high bureaucracy in some management processes.

#### 4. Strategies and plans

*'Has the organization adopted strategies, plans and activities ensure its success? How are strategies and plans adapted, generated and communicated to managers and employees?'*

All professionals from any USF or ACeS confirmed the existence of a plan with planned activities to help reach the objectives. It was possible to register the freedom of any USF to outline their own strategies and activities best suited to achieve its indicators, according to their own judgment and respecting the technical guidance provided by the government.

Therefore, it is up to each USF to list in their formal documents their objectives and their planned activities. The strategy is discussed by all elements of USF before the agreement of the performance indicators, particularly with regard to the set of indicators chosen by the USF. All-staff meetings are the main opportunity for discussing this matter, where all elements are called to help in creating plans for each performance indicator.

The nurse and member Technical Board of USF-B 3 says that *'... there are distinct strategies for each objective, respecting the provided technical guidance ...'*

Subsequently, the results are also reported in multidisciplinary meetings of each USF, where they can make small adjustments to the current plan. The ACeS must approve all plans, assuming a monitoring role. Monitoring over the assessment period enables the possibility of adjusting the plan, taking into account the results already achieved.

Thus, it can be said that there is a team effort of all elements of each USF to fulfil their objectives, where everyone is informed and does their part, including the ACeS in a supervision and guidance role. Again, there were no major differences between answers.

#### 5. Key performance measures

*'How is your performance determined? In what ways? Is there a performance assessment?'*

Because the interviewees perform different tasks within USFs and ACeS, there are some different answers to this question.

Looking first at the answers of the GPs, we can see that SIADAP is being implemented according to legislation, although with some delays and even some doubts explicit by some professionals. On the other hand, in addition to healthcare services, these GPs also have management responsibilities as Coordinators. In this matter, it was not possible to determine a formal assessment of its performance. However, there is an overall assessment of its performance by all the elements of USF for his commitment to be renewed, or not.

Interviews conducted with nurses were able to confirm that the performance assessment is taking place according to the legislation. Respondents report that, although a transition is taking place, they underline the existence of many doubts about the new assessment process, particularly regarding its implementation.

This short reaction from a nurse to a question shows just that: *'It's complicated ...'* (Technical Council Member / Nurse of USF-B 5).

Thus, there is still the performance assessment through a periodic activity report, and, according to those interviewed, the evaluators are people who do not know enough their work, which leads him to want that there are deficiencies in the current assessment of the way. The nurses that were interviewed have management responsibilities in their respective USFs, with a similar evaluation of the Coordinators.

Finally, regarding the Clinical secretaries' situation, we confirmed the presence of a performance assessment system according to the law. The performance of Clinical secretaries is being assessed through an individual evaluation grid. In this case it was possible to identify some complaints, as they say that unfortunately the opinion of their co-workers is not taken in to account when assessing their performance.

Analysing the interviews with ACeS's members, there are again different forms of assessment. However, they stress that there are those who simply are not formally evaluated, and the performance assessment of their work is only made after clearing the results of the performance indicators contracted by the ACeS.

#### 6. Target setting

*'What level of performance does the organization need to achieve for each of its key performance measures and how does it set performance targets? how challenging are those performance targets?'*

This question showed, for the first time, some significant differences in the answers of the interviewees. All of them said that the performance indicators, a key factor in the definition and measurement of their performance, are very demanding. But the vast majority also acknowledged that it is possible to achieve them. However, some professionals, mainly with management responsibility, point out that the high demand of these same indicators cause many problems to the current healthcare activities. Extreme situations such as difficulties of compliance with healthcare practices, the mismatch between the indicators and the population characteristics, the detrimental effect on the quality of work and a lack of collaborating patients were stressed during the interviews, which affects the performance results of the various USF.

The Coordinator / GP of USF-B 3 gave a particularly interesting answer: *'As Coordinator, they seem adapted. As a GP I believe they are not rational and they're going against workers' health. The quality of the workplace is being affected'*.

While most indicators are numeric, some subjective targets also hinder the perception of its difficulty. Another point raised during the interviews was how counter-productive some indicators are. If the constant demand for quality healthcare is high, the economic indicators are increasingly tight, which hinders the achievement of healthcare indicators. Although there was no fully defined trend in this aspect, it can be said that the clinical secretaries have a more optimistic view regarding the performance indicators than other professionals in the USF.

#### 7. Performance evaluation

*'What processes, if any, does the organization follow for evaluating individual, group, and organizational performance? Please describe their importance for you and the organization (objective, subjective, formal and informal)?'*

As this is a question with a multipart answer, we registered a different number of answer. To understand these answers better, we must clarify that the individual assessment consists in assessing the work of a professional, collective assessment is the performance analysis of the group of doctors, nurses or clinical secretaries, and the overall assessment surveys the performance of a USF or ACeS as a whole.



Regarding the current forms of performance assessment, not all respondents are able to describe them in an accurate way. Not everyone can agree on the existence or non-existence of individual and collective assessments. There is individual assessment in all functions of the USF. GPs, with contracted individual objectives, nurses, with a periodic report of activities and clinical secretaries, through an individual evaluation grid, they are all being individually and formally assessed. However, there is no collective assessment, given the contribution of all people to achieve the overall objectives. Therefore, the overall assessment, specifically the fulfilment of contracted performance indicators, gains a new weight in reading the performance of professionals of any USF. Most professionals also admit that there is a real and essential teamwork to achieve those objectives. In addition, this overall assessment is taken into account in the assessment of the elements with management responsibility.

A similar situation takes place when we analyse the current forms of evaluation inside the ACeS. In fact, management is only rated in indirect terms by the results of the performance indicators contracted by the ACeS. Their renewal or resignation of their management responsibilities depends on them. However, the professional from the Management Support Unit have a similar evaluation to the clinical secretaries.

Regarding the importance of the existence of a performance evaluation, all professionals, without exception, understand its relevance, pointing as a major factor the existence of a feedback on their actual performance rather than a general idea, avoiding entering into a daily routine without an attempt to improve.

Quoting the Nurse and Technical Council Member of USF-B 5: *'... it's important because a professional needs to know what he must achieve. It's a challenge'*.

However, others preferred to underline that a performance assessment system must highlight the best, and it does not. Also, the vast majority cannot see this form of assessment as motivation to be better at what they do, since promotions are currently suspended.

#### 8. Reward systems

*'What rewards — financial and/or non-financial — will managers and other employees gain by achieving performance targets or other assessed aspects of performance (and what penalties will they suffer by failing to achieve them)?'*

According to the interviews, all professionals know and can describe the type of financially rewards and incentives that they can earn. In addition to their basic income, GPs receive a set of incentives according to specific individual indicators. Nurses and Clinical secretaries can also earn financial incentives if a certain overall indicators are achieved. Shared to all are the supplement related the number of patients registered in their USF. In addition to this, each USF may apply for a set of institutional incentives to improve their working conditions or invest in better training.

Regarding the individual incentives, only some are being paid. GPs are received every incentive according to the legislation, unlike the nurses and clinical secretaries. In addition to that, none of the interviewed USF received any institutional incentives. In both situations, the USF and professionals fulfilled their part of the agreement.

There seems to be no formal non-financial incentives in place. Professionals stress that happy patients, satisfied with the good healthcare services provided, are the main non-financial incentive to them.

On the other hand, if for some reason objectives cannot be reached, there seems to be no financial or non-financial negative consequences to the professionals of the USF. The main concern of respondents is the possibility a Model B USF being demoted to a Model A USF, with lower income possibilities. This possibility is considered real if the contracted indicators are not achieved.

The Clinical Secretary of a USF-B 3 interviewed says ‘... *there is a dark cloud surrounding Model A...*’

In general, professionals seem to understand the current legislation, and more specifically the current reward system.

#### 9. Information flows, systems and networks

*‘What specific information flows has the organization in place to support the performance management systems?’*

Regarding the information flows related performance management systems, all answers confirmed that they meet the current law requirements. The different software available for the USFs allow a constant monitoring of each performance indicator, while nurses still deliver their activity report in paper. Periodic multidisciplinary meetings are also a very important tool available, as all results are discussed during these meetings.

Communication between USFs and the ACeS is made mostly through e-mail, and post mail is only used when legislation demands it. There are also several group meetings between them to monitor the accomplishment of all performance indicators, as the success of the ACeS depends on the results of all USFs, which are represented by their respective Coordinator. Among all respondents, it can be said that there is a general knowledge of available information flows. However, all professionals recognize some difficulties in communication, specially between the ACeS and any USF, but not the other way around.

The Head of the Management Support Unit of ACeS admits it: *‘It is difficult to get information out to every professional.’*

This seems to happen due to the excess information exchanged among the organizations, with USFs having difficulty in processing it, given the little available time. We also felt these difficulties during this study. However we could not determine which alternatives are being studied during the case study.

#### 10. Performance management system’s use.

*‘What type of use is made of information and of the various control mechanisms in place? Can these uses be characterised? How do controls and their uses differ at different hierarchical levels?’*

Considering all answers, it is clear that the professionals of the USFs are informed about the implemented control systems, and the information resulting from the performance management system. Some highlighted the practice guidelines manuals for each healthcare team as an example of it. However, interview results point to a general knowledge of the details of all information, enhanced by its global availability. The multidisciplinary meetings also show to be a major contribution in this field, in line with the ACeS policy of information distribution. Nevertheless, elements with management responsibilities showed an extensive knowledge of the matter, with an immediate response. Answers pointed to a surplus of information available considering what these professional can process while working, and therefore becomes somewhat complicated to some of them to absorb all the available information, despite some efforts in sorting it.

Something similar also happens within the ACeS, although their management responsibilities require from them a more detailed analysis of the matters related to the control and performance.

#### 11. Performance management system’s change.

*‘How have the performance management systems altered the organization and its environment? Have the changes in performance management systems design or use been made in a proactive or reactive manner?’*

The PMS implemented inside any USF are required to comply with the current legislation. Thus, according to the interviewees, there is such respect for the existing legal framework, including the contracting of periodic performance indicators. The creation of these same indicators has brought a bigger responsibility and a more detailed direction to the USFs. Due to this mandatory respect of this legal framework, possible changes turn out to be necessarily reactive, as they react to the changes in the legislation.

However, none of the professionals believe that any changes to the implemented performance management systems will also change their daily operations.

*'There is more to life than the indicators'*, says the President of Clinical and Health Council.

The Nurse Member of the Clinical and Health Council of ACeS tries to be more specific: *'In simple terms, no. The healthcare is not affected. However, because the indicators, you can focus on the most influential areas'*.

## 12. Strength and coherence

*'How strong and coherent are the links between the components of PMSs and the ways in which they are used (as denoted by the above 11 questions)?'*

As this was a matter with some complexity, besides the answers to the question, we were able to get additional information before the question was even made, something that even Ferreira and Otley (2009) predicted on the theoretical framework.

Even so, it is possible to draw some conclusions about this particular subject. Given the information, there are many ways of analyse the matter. First, we can confirm that there is a link between what the government requires and what actually is contracted and registered in the official documents of the all USFs and ACeS. Furthermore, we can confirm that the strategic thinking of the ACeS and all USFs is very positive. For each objective, there is a strategy, a plan and a result, if possible positive. There is also an effort by organizations to build a road to success. However we could not confirm the adaptation of the contracted performance indicators to reality. Professionals complained about the excessive demands of the contracted indicators, stressing the lack of balance between what is required of USFs with great and less success. Instead of promoting similar results, the authority would rather raise the difference in performance between USFs even more. Professionals with management responsibility were the ones who stressed this the most.

## 5. Conclusions

In pursuit of a high public performance to justify the allocation of public resources, performance management systems should contribute decisively to evaluate and reward, in a fair and balanced way, the performance of public institutions and its professionals, highlighting the best and pursuing a steady path of progress in the quality of services provided. The Portuguese Government has implemented, in a step-by-step manner and with agreement of several trade unions, a set of performance assessment systems based on contracted periodic performance indicators in order to assess the performance of several organizations, including primary healthcare providers, like the USFs.

Thus, from an extended model of performance management created by Ferreira and Otley (2009), it was possible to go beyond the obligations written in the current legislation, and understand the current state of the evaluated institutions, highlight what is and is not according to the legislation, indicating its strengths and weaknesses and point out the important opinions of professionals.

Gathering all the information, which was largely explained previously, general conclusions should be able to resume all the collected data, aiding the development of the

participant organizations, giving a judgment regarding the model's efficiency and a contribution to the development of the literature in this less explored field.

Starting with the issue related to the literature, it was possible, through this case study, confirm the validity of the performance management system created by Ferreira and Otley (2009) in the type of organization studied, i.e. the primary healthcare providers, with special praise for its length and the number of areas it addresses, which are, on a large scale, useful and appropriate. It has the ability to approach various subjects, starting with a more general analysis of the organization and then move on to a deeper study of the assessment process. It can also consider other issues related to it, like information flows and PMS development.

However, given the results of this case study, it is also possible to point out some limitations. The main feature of this model, its length, ultimately limits its application. In addition to the lack of time that the organizations had to participate in the study, the script based on Ferreira and Otley's (2009) framework addresses some subjects that are difficult to answer, especially for people without management responsibilities. Question 12 in particular is of such complexity that, often, we felt the need to explain it better and collect data from previous questions. Although the number of citations made to date recognizes its extent, the truth is that it is not a complete model. The focus is on the testing implemented performance management system. However, in theory, there is not a place for a direct collection of opinions of the interviewee regarding his own assessment. Although, in most cases, it has not necessary to ask respondents to express their opinion, the fact is that the model should have a proper space to collect it, something that differs from Otley's original model of 1999.

Examining the study's development, we could not detect major problems during the interviews. While it is possible to point out a lack of availability off the part of some entities, overall, it was possible to understand this due to the lack of time to participate in the study, given the small number of employees in each USF. This study confirms this pattern, with the USFs with more elements usually having a bigger willingness to participate in the study. However, it was possible to interview important elements with management responsibilities inside the ACeS and thus increasing the validity of this study. Starting with some more general issues addressed by the script, it is clear that the organization inside the USFs is significant. All professionals recognize their objectives and main overall goals and how to achieve them. Furthermore, there is very good communication between professionals of each USF. The most important information is easily spread, thanks to constant staff meetings. Therefore, all the elements, regardless of their function, have a say on the contracted indicators of the USF's initiative. On the other hand, it is important to underline the existing order when we speak of strategy. There is a beginning, middle and end to the implemented strategy and outlined set of activities, with the support of the ACeS, in order to achieve each goal. Thus, we can say that the USFs understand the obligation of complying and objectives they have to fulfil, while providing quality primary healthcare services. In this field, the backing of the management of the ACeS is also important, as an entity of support and control, as already outlined above. Still, it was also possible to identify some flaws on the operations of USF, particularly in its communication with the outside. During the period to ask of the availability of USFs to participate in this study, there were various case of absence of response during the first contact via e-mail. It was necessary to explore other means of communication to reach the USF.

As regards to the evaluation itself, the complexity is extensive. As mentioned earlier, there is an individual assessment, but also general assessment of each organization. Today, there is an individual assessment of the performance of each professional of the USF, but also a survey of the USF's global performance, through contracted performance indicators. By gathering information through the script based on Ferreira and Otley's (2009) framework and the analysis of the legal framework that all USF are subjected, we can say that the evaluation

system is not being fulfilled in their entirety. You can still detect parts per run. Regarding the actual contractual act, no errors were registered. The contracting act takes place according to the current legislation. However, some elements of the USFs had a critical opinion regarding the current evaluation system at various levels, also depending on its function and existence of responsibility in management.

The main complaint of professionals points to the lack of a contractual act on its own, because the indicators are seen as imposed, rather than agreed upon. Perhaps this is why the most acclaimed change is for more flexibility. On the other hand, it is also necessary to understand the limitations of this assessment. By analysing the legal framework and the interviews, it is possible to identify some problems in the system and difficulties in assessing professionals in a qualitative way. Currently, the clinical secretariat is the one that seems to get a more complete assessment system, merging the quantitative performance indicators with the decisive opinion of the USF's Coordinator.

It is important to stress the poor control implemented, particularly within the USFs. They rely on computers for their daily work and, specifically, to monitor their performance. Therefore, certain indicators are also based on information entered by the professionals. In detail, it is clear that there is a lack of control in the introduction of some information, opening a window of opportunity for the distortion of certain results. This does not imply that it happens. However, we could not find any control mechanisms implemented to prevent it.

Finally, it is crucial to emphasize the non-compliance by the State regarding the incentive payment, both USF and its professionals. Therefore, the State ends up not fulfilling its obligations, even after demanding good performances from USFs and its professionals.

In short, we can say that, with the introduction of SIADAP, performance evaluation gave an extremely important step towards rising the quality of healthcare. However, it is also important to underline the remaining limitations and flaws, for which the State is yet to respond. The road ahead is long and tumultuous, due to not only disputes and uncertainty of professionals already assessed by this new system, but also because of the doubts of those who will in the future be evaluated by it.

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# ENTREPRENEURSHIP IN THE TOURISM AND HOSPITALITY INDUSTRY

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## Abstract:

*Tourism and hospitality industry is a complex sector, a distinct field of activity, a component of economic and social life that offers multiple opportunities for small business development, but also capital intensive and highly competitive. In this context, its connection with entrepreneurship takes into account the economic development of tourist areas, aims to create new sustainable businesses by increasing the capacity and willingness of enterprises to develop, organize a business, to manage risk and profit. This paper, through recognizing micro factors influencing the development of local entrepreneurship, tourism and hospitality industry, aimed to analyze the behavior of entrepreneurs consistent with the existence of constraints regarding business, a limitation of entrepreneurship, growth and behavior. Romanian entrepreneurship in tourism and hospitality industry must boost competitiveness, leading to increased productivity and economic development.*

**Keywords:** *entrepreneurship, tourism, entrepreneurship, hospitality, local development*

**JEL Classification:** *L83, M13, Q13*

## Introduction

Currently, entrepreneurship, business development and innovation through SMEs are important drivers for success in the tourism and hospitality industry, major sources of jobs. Worldwide dynamism and rapid evolution in this industry, call for a new entrepreneurial approach, both in new business development and existing businesses. The current context, that is a theoretical and practical approach to analyze the entrepreneurship of tourism in, identifying the available support, how to develop an innovative new service, idea/product is a challenge. The place and role of small and medium enterprises in the tourism and hospitality industry and their link to the socio-economic development of the areas highlighted tourism entrepreneurship development opportunity as a dynamic factor in the development of local communities. With positive effects on national economies, European and global, occupying market segments unused by other structures, able to respond quickly to community needs by using local resources, tourism entrepreneurship helps to ensure a balanced economic and social development.

This paper aims to identify the relationship between entrepreneurship, SMEs and tourism and hospitality industry, the role of this relationship in local economic development, to identify the main elements of the link between entrepreneurship and Tourism and the elements necessary for small and medium enterprises in the current economy to increase their competitiveness, improve efficiency and business activity in this area. An analysis of the literature, focusing on the connection between these elements shows that the concept of entrepreneurship is complex as it incorporates elements from many disciplines, even if the entrepreneurial spirit emanates from personalities in the field, from the traits of successful entrepreneurs. Linking information provided by studies in the field of statistics for tourism activity in Vâlcea County highlights the importance of the sector and of studies on entrepreneurship and SME management.

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### **The concept of entrepreneurship**

With profound changes in recent years the environment in which entrepreneurship develops should be based on an entrepreneurial spirit that is the essential foundation to satisfy the economic, social, environmental and cultural needs of society. The complexity of the concept gives rise to a multitude of definitions from different perspectives. Thus, JB Say (1860) states that “the entrepreneur extracts economic resources in an area with low productivity and introduces them in an area with high productivity and yield”. Schumpeter argues that innovation is the driving force not only of capitalism but also of economic progress in general and that entrepreneurs are agents of change in the economy. In this context, the function of the entrepreneur can be defined as a combination, in an innovative way, of several factors, to generate value for the customer, superior returns for firms, wealth for the economy, through creating jobs and developing innovations.

A study by the Research Institute for SMEs Guardian Life, New York, quoted by Portfolio shows that “Entrepreneurs oriented towards success, owners of small businesses, represent a special category of individuals, inquisitive, highly motivated and who care about what happens around them. They manage to keep personal and professional goals in balance, learn from others and are constantly trying to learn from other companies’ good practices”.

According to a study by the Guardian Life Small Business Research Institute, quoted by Business Insider, all businessmen have six personality traits common of which: teamwork, interest in new enabling them to improve their business, create new products, passion being a priority over experience.

With time, some researchers explained entrepreneurial spirit through the relationship with national culture (Shane, 1995; McGrath, MacMillan and Scheinberg, 1992 and Mueller and Thomas 2001), while others focused on the entrepreneurial environment (Meredith, Nelson 1982 Zimmerer and Scarborough 2005). In defining entrepreneurship, the following can be included: innovation, recognizing opportunities, risk management, action, resource use, added value. However, Davidsson and Wiklund (2001) suggest that regional variations in the level of entrepreneurial activity are influenced by cultural values. They argue that “the determining factors are the cultural and economic”.

Sewell and Pool (2010) define entrepreneurship by focusing on “desire, motivation and skills” as traits “necessary to start and manage a successful business”. Hansen, Shrader and Monlam (2011) state that “the definition of entrepreneurship varies based on what opportunity is defined as”. Kobia and Sikalieh (2010) emphasize identification of entrepreneurship as innovation.

It becomes evident, therefore, that any definition should include mandatory elements relating to both the individual characteristics of the entrepreneur and environmental opportunities. The term tends to be associated with economic development and the welfare of society. Entrepreneurs investigating these transformations create new channels for economic activity and employment. No business looks like another and no entrepreneur could not think like one another. Hence, entrepreneurship is a necessary ingredient in the complex process of economic development, serving as a catalyst for market transformation and providing new opportunities for economic growth, employment, leading to growth in income per capita.

### **Tourism and hospitality industry**

Since ancient times people have traveled, with different motivations, but the idea of outing or exploration appeared much later. The content of the term tourism is a complex one, in literature it is considered a global phenomenon, with a multifunctional approach, a human experience, a geographic phenomenon, a business, an industrial type complex, comprising a set of activities, services and industries: transport, accommodation, catering and restaurant trade, leisure and hospitality services that are offered to meet the needs of tourists. “Nowadays, tourism manifests as a distinct field of activity with an increasingly more active

presence in economic and social life, with one of the fastest evolutions. Generator of profound transformations in social dynamics, tourism was also stated to be a factor of progress and civilization, as a promoter of international relations and, more recently, the argument of globalization and sustainable development”. (R.Minciu 2004)

Tourism can be considered an economic and social phenomenon in the context that it has become a force, representing a major source of income for many developing countries in international trade. David Scowsill, President & CEO of WTTC, said: “At a time of global economic challenges, Travel & Tourism continues to grow faster than the global economy, and is a sustainable source of jobs and a motor of growth for each region the world”. (Travel & Tourism 2015 will grow faster than the global economy, Monday, March 23, 2015).

From different perspectives, tourism is defined as “the set of relationships and phenomena resulting from the movement and stay of people out of their homes as long as they do not lead to permanent establishment and are unrelated to any gainful employment”. (Hunziker and Krapf, 1941), “a combination of services and attractive image” (Lanfa, 1980) “Temporary movement of people to destinations outside their normal work and subsistence, activities undertaken during their stay in those destinations and the facilities created to meet their needs”. (Mathieson and Wall 1982), “The sum of the phenomena and relationships arising from the interaction of tourists, business suppliers, host governments and host communities in the process of attracting and hosting these tourists and other visitors”, (Macintosh and Goeldner 1986), “the art of travel for pleasure” (Bran, F., 1997), “a study of human lives outside the place where he usually meets the needs of industry and the impact that both he and industry have on the host, ie the socio-cultural, economic and physical” (Jafar Jafari, 2000).

The Explanatory Dictionary of the Romanian Language defines tourism as “the sum of all relationships and phenomena resulting from the movement and stay of people from their place of residence (like spending holidays or annual leave, participation in various events, etc.)” (Https://DEX for Android .com/definition/tourism).

Recent documents of the World Tourism Organization (UNWTO) show that tourism is currently the largest industry in the world and the largest employer, simultaneously accounting for a path (in some cases only) to superior capitalization of all resource categories local and especially natural ones: the beauty of landscapes, curative qualities of thermal mineral water, climatic conditions, being able to ensure the prosperity of disadvantaged areas.

Large consumer of manpower, tourism plays an important role in the economy through the fact that, having little possibility for mechanization or automation, tourism operations create permanent new jobs.

The hospitality industry targets: food, recreation, accommodation for those who are away from home for longer or shorter periods of time, including hotels, restaurants and commercial activities such as: guest houses, snack bars and fast-food establishments.

Each year, the WTTC estimates the economic impact of the Travel & Tourism sector in 184 countries and 24 regions. In 2015, tourism is a sector that is growing strongly again, creating jobs and driving economic growth.

**Table no. 1. International tourist arrivals and expenditures, 2010-2014**

Top destinations Series 1	International tourist arrivals								International tourism receipts				
	(1000)				Variation (%)			Part (%)	(Millions \$EU)				Part (%)
	2010	2012	2013	2014*	12/11	13/12	14*/13	2014*	2010	2012	2013	2014*	2014*
<b>Europe</b>	<b>488.864</b>	<b>540.229</b>	<b>566.445</b>	<b>581.769</b>	<b>3,9</b>	<b>4,9</b>	<b>2,7</b>	<b>100</b>	<b>411.615</b>	<b>454.658</b>	<b>491.718</b>	<b>508.897</b>	<b>100</b>
Centr./orient Europe.	98.389	118.211	127.350	121.066	9,1	7,7	-4,9	20,8	48.249	56.585	60.336	57.725	11,3
Romania	1.343	1.653	1.715	1.912	9,1	3,7	11,5	0,3	1.140	1.468	1.590	1.813	0,4
Bulgaria	6.047	6.541	6.897	7.311	3,4	5,5	6,0	1,3	3.637	3.748	4.059	4.134	0,8

Source: World Tourism Organization (UNWTO UNWTO) © (data from the UNWTO UNWTO May 2015)

According to the latest UNWTO World Tourism Barometer the number of international tourists worldwide between January and August 2015 was 810 million, 33 million more than in the same period of 2014.

### **IMM Tourism Entrepreneurship**

At the level of national economies, in many countries, central and local governments create and implement programs and policies to stimulate and support the initiation of new businesses, enhancing the place and role of small and medium enterprises. The main goal is economic growth, solving environmental problems, increasing social inclusion etc.

Various studies show that the image of SMEs - is very heterogeneous. The size of a business seems to be an important factor, but innovation is everywhere in the business world, is considered fundamental to sustainable economic development. It must be understood not only as the development of new products but also as a business development process. Focusing only on cost reduction, in these difficult times, is not a solution. Businesses play a key role in the tourism and hospitality industry, with an increased interest in small business growth. The usefulness of their development is highlighted by measures taken at EU level to create the necessary framework for sector growth small business initiatives in developing their tourism industry. Tourism plays an important role in the EU because of its economic and employment potential, and because of its social and environmental implications.

Tourism statistics are not only used to monitor tourism policies in the European Union, but also regional policy and sustainable development. Estimating the number of tourism SMEs is still facing difficulties, even though a system of statistics has been created in the tourism sector, Directive 95/57/EC of 23 November 1995 concerning the collection of statistical information in the field of tourism, Member States must provide permanent, comparable tourism statistics. However, in July 2011 the European Parliament and Council adopted the new Regulation 692/2011 regarding European statistics on tourism.

The 22.1 million SMEs in EU-28 in 2011 represented 99.8% of the companies in non-financial business economy and are considered a key factor for growth, innovation, employment and social integration. The European Commission aims to promote successful entrepreneurship and improve the business environment for SMEs, to allow them to reach their full potential in the global economy.

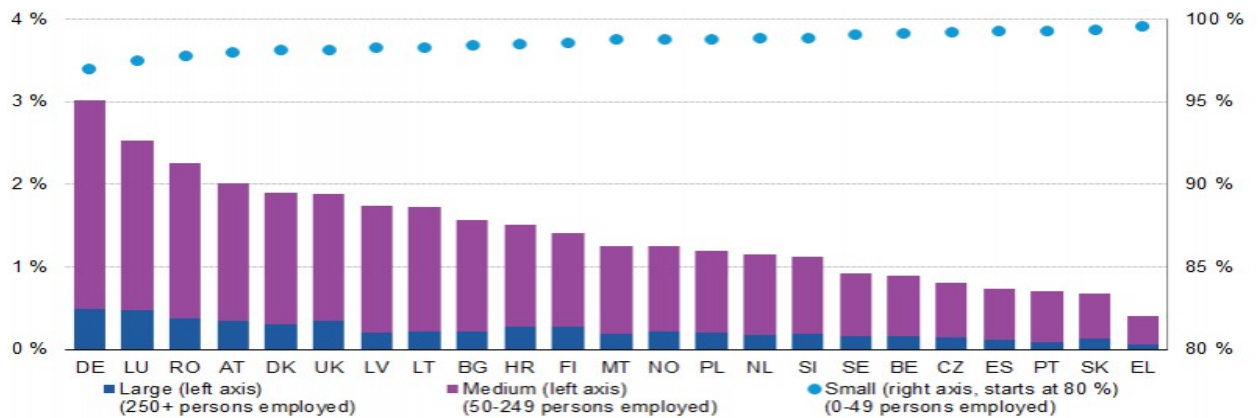
In June 2008 the “Small Business Act for Europe” (SBA) was adopted by the European Commission and endorsed by the Council in December 2008 to improve the approach to the entrepreneurial “Think Small First” policy and promote the growth of SMEs. Action Plan Entrepreneurship (COM (2012) 795 final), which proposes measures to enhance the entrepreneurial potential of Europe, to remove existing obstacles and transform the culture of entrepreneurship in Europe, was presented as a Communication by the European Commission in January 2013.

It has four main parts: educating young people about entrepreneurship; highlighting the entrepreneurial opportunities for women and other groups; creating an environment of simple administrative requirements; and making it easier for entrepreneurs to attract investors. The Europe 2020 strategy strives towards a smart, sustainable and inclusive growth, designed to enhance EU competitiveness and create more jobs.

Romania has developed Governmental Strategy for the development of small and medium enterprises and improving the business environment - Horizon 2020, details the Romanian Government’s policy for the next seven years, as follows:

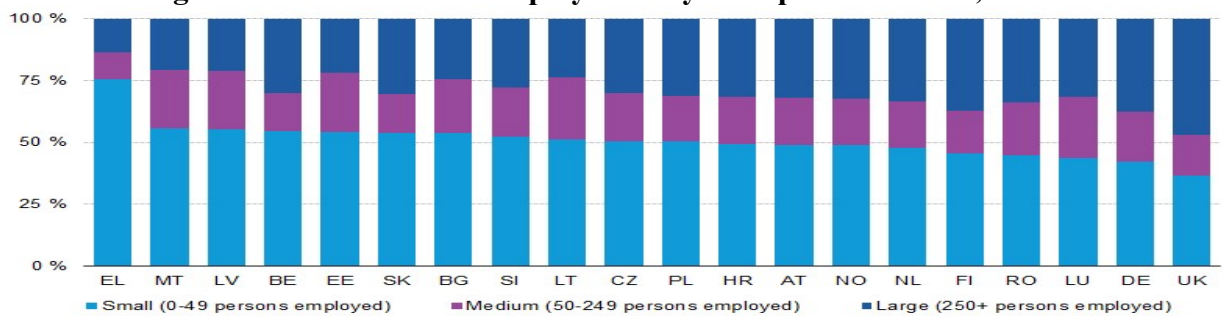
- To support the extensive and intensive growth of the SME sector, primarily by increasing the number of SMEs active in local and foreign markets of interest;
- To reduce regional disparities by increasing current SME density, especially in areas where their numbers are below average.

**Figure 1: Distribution of number of enterprises by size class, 2012**



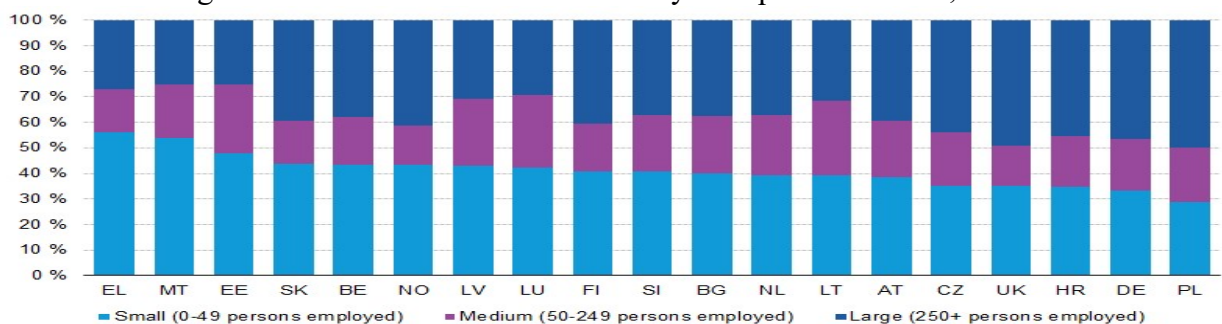
Small businesses are present in all EU countries, ranging from 97% in Germany to almost 100% in Greece. On the other hand, large enterprises with 250 or more employees represent less than half a percentage of all enterprises in the EU.

**Figure 2: Distribution of employment by enterprise size class, 2012**



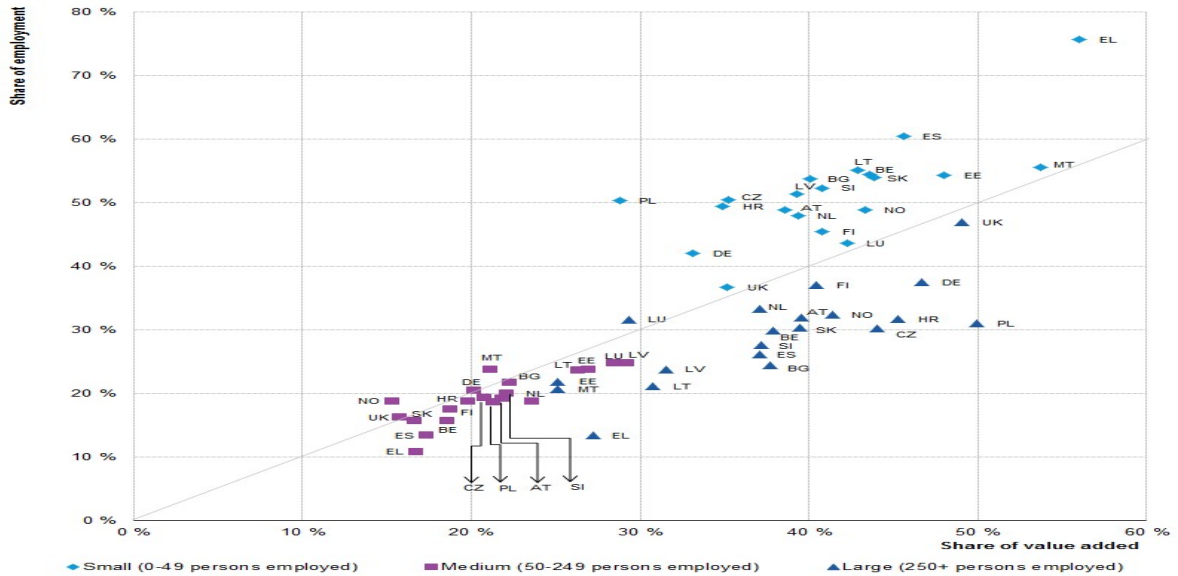
Small businesses represent roughly between 40% and 60% of total employment. The two exceptions are Greece, with a higher level, and the UK with the lowest level. However, small businesses in Greece encompass approx. 75% of total employment, while in the UK, 98% of small enterprises occupy only 37% of total employment.

**Figure 3: Distribution of value added by enterprise size class, 2012**



Small businesses represent approximately 35% -50% of total value added. Only Germany (33%) and Poland (29%) are in this range, while Greece (56%) and Malta (54%) have higher values.

**Figure 4: Value added vs. employment, shares by enterprise size class, 2012**



By comparing the average share of value added to the average share of employment in each of the three groups of companies, it becomes obvious that:

- Small businesses produce 41% of total value added, with 52% of total employment;
- Medium-sized enterprises produce 21% of total value added, with 19% of total employment; and
- Large enterprises produce 38% of total value added, with 29% of all jobs.

It appears that for small enterprises, the share of added value is lower than their share of employment of labor. “Governments looking for a sector which can create jobs and drive economic growth should focus on Travel & Tourism. This industry requires the right regulatory environment in which to flourish, along with progressive policies on visa access, taxation, human resources planning, and sustainability”. (<http://www.wttc.org/press-room/press-releases/2015/travel-tourism-in-2015-will-grow-faster-than-the-global-economy/>)

SMEs in Romania have a certain feature that is dependent on how business is managed, on some entrepreneurs’ understanding of how to build their business. Romanian economy is supported by the activities of SMEs and large companies with mostly foreign-owned or state capital. Although representing over 99.7% of all enterprises, they influence only 55-56% of the country's GDP.

Most small businesses in Romania started as a family business, relying mainly on a minimum of knowledge awarded by work experience or education of entrepreneurs. With insufficient training, often, in management or marketing, with limited financial resources to develop business, small and medium business originators have encountered problems in development and their positioning. "The educational level of most technical and economic level of SMEs ensures their survival, but chances of attracting, hiring and keeping the business skills, particularly managerial, technical and market skills, are still quite limited. Many enterprises have not set targets for market penetration or growth in market share, considering the need to attract and hire specialists unnecessary, e.g. regarding the quality of the product or its promotion on the market, usually focusing on achieving production and employer's ability to manage/maintain the business “afloat”. Relevant statistics show that about 57% of enterprises are subsistence enterprises, ensuring a certain standard of living only for the business owner and his family. (Department for small and medium businesses and tourism- Governmental Strategy for development of small and medium enterprises and improving the business environment in Romania - 2020, 2014 p.7)

The economic measures taken by the current government, especially tax, cannot help a lot of small businesses. While in the past there was a 10-15% annual increase in the number of companies, in recent years we have witnessed a decrease in this percentage. Every entrepreneur must understand that measures taken now will have effect in 3-6 months, whether it is about measures for re-launching credit or fiscal measures. (Peter Barta, President of Post Privatisation Foundation).

SME's are threatened, largely, on the one hand as a result of the economic crisis, directly and indirectly, through governmental measures in the financial and tax sector (restrictions on reimbursement, vat, introducing levies that do not correlate with smes' real incomes).

**Jonathan Fields shows that "the three knights of fear" in the initiation and development of business are the risks of loss, insecurity and uncertainty. In order to achieve success, they have to be converted into power, innovation and creation.**

In the Tourism and hospitality industry, SMEs focus on a wider range sector, small commercial establishments (restaurants, pubs/bars, hotels, clubs, guest houses with more than 10 employees). Entrepreneurship aims to generate new sustainable businesses, developing the ability to create, to organize a business, to manage risk and profit. Romanian entrepreneurship in the tourism and hospitality industry must boost competitiveness, entrepreneurial spirit and lead to increased economic productivity and economic development.

A study of Vâlcea County shows that entrepreneurship in the tourism and hospitality industry has developed under certain limitations given by:

- Reduced access to funding,
- Reduced availability of resources for investment in promoting the image and creating their own brands,
- Lack of experience and skill in entrepreneurs,
- An inappropriate attitude towards the economic reality and the setting of unrealistic goals.

***a. Specific tourist infrastructure in rural areas of the county Vâlcea.***

The analysis of tourist infrastructure in Vâlcea County was based on available data from the National Statistics Institute on localities and counties.

As many tourist businesses are in rural areas, due to the desire of recreation and leisure and vacations at the "countryside", which lately has become a mass phenomenon, and no longer just a desire of nature enthusiasts, the statistical database has been altered to show that entrepreneurship in rural tourism occupies an important place. The aim was, through entrepreneurship, to emphasize the particularly favorable characteristics of rural tourism, through the three main elements participating in the dispensation of tourism: the rural area, the rural population with customs and traditions, the natural treasures.

At INS level, data about tourist activity is processed, from the following 10 Vâlcea county towns: Bărbătești, Bujoreni, Costești, Măciuca, Mălaia, Mihăești, Slătioara, Tomșani, Vlădești, Voineasa.

**Table 2. Structures of tourist accommodation in Vâlcea County**

	2007	2008	2009	2010	2011	2012
No. of guest and agro-tourist houses	17	18	18	24	26	32
Average no. of rooms/guest houses	8.7	9.1	11.1	13.0	16.0	15.7
No. rooms offered at county level	148	163	200	312	416	501
Equivalent no. rooms in operation 365 days/year at county level	75.9	56.0	78.2	132.6	142.0	233.9
The average number of days of operation/place	187.3	125.3	142.7	155.1	124.6	170.4

Source: INS and processing author

Existing data from the INS is not sufficient to provide a clear picture of entrepreneurship in the tourism and hospitality industry in Vâlcea County since, in 2012, even though at county level, 78 localities are registered, 60 of which have tourist potential, data is collected from only 10 rural settlements. However, the data only considers agro-tourist guest houses with more than 5 rooms and certificates or those responding to the INS' requests for data collection.

***b. Analysis of indicators of tourist traffic***

Analysis of tourist traffic is essential for understanding the opportunities that have generated business ideas. Indicators of tourist movement in Table 3 take into account agro-tourist and guest houses in Barbătești, Bujoreni, Costești, Măciuca, Mălaia, Mihăești, Slătioara, Vlădești, Voineasa, Tomșani.

**Table 3. Evolution of tourist traffic in Vâlcea County**

	2007	2008	2009	2010	2011	2012
Number of rooms-days	2771481	2625499	2639045	2446611	2376073	2664215
Number of rooms-days – agro-tourist and guest houses – rural area	27714	20430	28531	48406	51817	85384
No. tourists - Vâlcea County	208917	223326	233812	205473	184264	225997
Number of tourists – agro-tourist and guest houses – rural area	2587	2224	2747	3067	2060	3865
Number of overnight stays – Vâlcea County	1271596	1257688	1280263	1086589	960520	1046532
Number of overnight stays – agro-tourist and guest houses – rural area	7035	4830	6675	6772	4960	10485
Occupancy (%) - Vâlcea county	45.88	47.90	48.51	44.41	40.42	39.28
Occupancy (%) - agro-tourist and guest houses – rural areas – Vâlcea county	25.38	23.64	23.40	13.99	9.57	12.28

Source: INS and processing author

Decreasing occupancy demonstrates that the rural tourism sector does not have the management to develop effective strategies to best harness the tourist offer, adapting it to the needs of customers, and that the owners of agro-tourist and guest houses lack the funds necessary to promote so as to ensure occupancy rates at least equal to the rent.

***c. Evaluation of the technical infrastructure, the "opportunity" for developing entrepreneurship in tourism***

Vâlcea County includes, from an administrative point of view, 78 communes and 525 villages. Their access to public infrastructure is still quite low, as is the pace of its development (Table 4).

**Table 4. State transport infrastructure in 2012**

		Railroad	Total public roads	national roads	county roads and communal
TOTAL - ROMANIA	Km	10777	83703	16690	67013
Oltenia region	Km	988	11001	2177	8824
% Oltenia/Whole country	%	9.17	13.14	13.04	13.17
Vâlcea	Km	163	2261	529	1732
% Vâlcea/Oltenia	%	16.50	20.55	24.30	19.63

Source: INS and processing author

But we must emphasize that the pace of modernization of county and communal roads providing access to tourism infrastructure is low, in 2012 only 12.1% of the county and communal roads were upgraded, and 38.9% were unpaved (gravel or earth).

The technical infrastructure's potential to support tourist activity was estimated by scoring rubrics up to a maximum of 30 points. "To assess accessibility to major transportation infrastructure, the presence of major transport nodes along their way was considered, a prerequisite for a territory to be included in tourist activity. Of the 30 points through which the importance of technical equipment for a municipality to conduct tourist activities was evaluated, 16 were awarded for accessibility. The four indicators that have been taken into account for assessing direct access of administrative units to the major transport network were considered based on their importance in an international network of intermodal and passenger transport" ([http://www.mie.ro/documente/dezvoltare\\_teritoriala/amenajarea\\_teritoriului/patn\\_elaborate/secV/metodologie.pdf](http://www.mie.ro/documente/dezvoltare_teritoriala/amenajarea_teritoriului/patn_elaborate/secV/metodologie.pdf))

Of the 60 localities with tourism potential, only 24 received points for technical infrastructure. Most of the analyzed localities have received the maximum 15 points, demonstrating, as pointed out earlier by analyzing statistical indicators, a reduced growth in the transport, public utilities and telecommunications sectors.

**Table 5. The situation of tourism in the rural areas of Vâlcea county**

Commune	Landform	Potential	Pensions	Margarete	Rural tourism offers -rooms-	Tariff
<b>Bărbătești</b>	Mountain	High	Mircea Valeriu	2	4	60
			Calu Bălan	2	9	80
<b>Bujoreni</b>	Mountain	Very High	Intim	3	16	80
<b>Costești</b>	Mountain	Very High	Arnota	2	14	100
			Evricea	3	40	100
			Nicoleta	3	24	120
			Ferigile	2	8	100
			Ralu și Ello	3	12	100
<b>Mălaia</b>	Mountain	Medium	Elena	4	6	120
			Garvis	3	24	90
			Casa dintre lacuri	2	8	80
			La Casa Albă	3	16	80
			Ciobănelu	3	48	80
			Monica	2	8	80
<b>Slătioara</b>	Mountain	Very High	Lume Nouă	2	14	80
<b>Vaideeni</b>	Mountain	High	Moara Viselor	3	14	90
<b>Voineasa</b>	Mountain	High	Antoaneta	2	10	60
			Ștefănescu	2	8	70
			La Săndel	2	14	80
			Paitra Lotrului	2	24	110
			Lazăr	3	20	100
			Bella Venere	3	18	100
			Giulia	2	20	70
			Valea Haiducilor	2	9	75
			Popasul Haiducului	3	21	120
			Casa de Vacanță Daria	2	6	90
			Casa Apollo	3	4	120
			Dori și Teo	2	8	60
			Traian	3	4	100
			Bradul	3	18	100
			Luminița	2	12	80
			Mariana	2	10	80
			Manasie	2	3	80
Andreea	2	4	80			
<b>Total</b>			34			

Source: Data collected by author



The management and development of small businesses in the hospitality industry, in particular with reference to entrepreneurship, should be seen as an analytical category different from the large enterprise working in the field, which they are not miniature versions of.

### **Conclusion**

The development of family business provides a specific backdrop for entrepreneurial activities in the tourism and hospitality industry. These businesses are often focused on a vision that puts personal and family needs and preferences before profit maximization. The tourism industry attracts many entrepreneurs through business operations in this area, even if in most cases, more than 80%, leadership is provided by the owner, who does not always have the necessary training.

The increased demand in the tourism industry stimulated the emergence of more small and medium sized hotels, resorts and lodges. According to literature, small and medium sized hotels are an extension of entrepreneurial characteristics of the owners or managers of hotels.

In most, owners/managers of small and medium sized hotels/guesthouses/cottages are male, middle-aged or older with a secondary and higher education level, and whose previous majors or knowledge were not related to tourism. They possess, however, self-confidence and an independent personality as basic traits. In Romania, the largest number of businesses began to develop after 2000, once they could benefit from European funding through pre-accession instruments. In addition to weaknesses in terms of lack of knowledge and skills in business management, which the entrepreneurs themselves are aware of, the government needs to play a more proactive role in promoting the tourism and hospitality industry.

“An ideal recipe for success in business has not been invented yet, but the magic ingredients have been known for a long time. Most strategists and analysts reduce those to these key traits: curiosity, action, strategy, to be achieved by those who want to do business and profit”. (Valentin Dimitriu, 2011)

This, in the context in which they operate in a marketing environment, continues to change, with cumbersome accessibility to financial resources, with falling demand, increased bureaucracy, the economic downturn worldwide, excessive taxation, inflation, difficulties that create issues regarding the overall evolution of national and international business.

The strength of SMEs is the high capacity to adapt to changing business environments, the flexibility to redirect their activity. These are entities that are much easier to control due to their smaller size and can be considered as staff “incubators”, SMEs in the local market being the most powerful private employer in the economy, with 1.2 - 1.8 million employees at national level. The most notable disadvantage of SMEs is, usually, the lack of financial resources, weak capitalization. At the same time, SMEs generally lack the financial strength to support themselves for long periods of reduction or stagnation of activity or financial loss, requiring support in these periods, when they cannot act as a supplementary source of budget revenue. (Theodor Nicolau, Consulting Director Ana KTZ). As the global economy struggles to recover and marketing through social media becomes a strategic imperative, small businesses have excellent opportunities to expand in new directions.

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# CONFLICT IN ORGANIZATIONS

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Laura-Filofteia, Pănoiu<sup>2</sup>

## **Abstract:**

*Any organization brings together individuals working in groups of personalities , attitudes , education, value systems and different behaviors . Maintaining a perfect harmony is difficult, conflicts are inevitable. Conflict is a fact pervasive social reality there is no area that is not animated by a series of conflicts, and different magnitudes . By limiting the scope of the approach, we can say that organizations are always and in every aspect and animated troubled by conflict. Organizational conflict can occur when a person, group or department within a firm, for example, frustrates the objective to another .*

**Keywords:** *conflict, organization, group behavior, competition , power.*

**JEL Classification:** *I15*

## **1. Introduction**

Ana Stoica Constantin says in his interpersonal conflict (2004, p.77) that "internal conflict / intrapersonal occurs within the individual usually is not obvious to others (unless the individual externalized ) and not It depends on the relationship with each other (though often is the result of a relationship)". The author emphasizes that each individual is characteristic of a particular set of goals derived from personal loans that are in a relationship of competition, each end having attached positive consequences and negative ways (often exclusive) to achieve each and barriers between goals and their efforts to achieve

Encarta Encyclopedia defines conflict in relation to reference four areas : military conflict or war - a fight especially open from enemy forces; conflict as a "difference " - disagreement between ideas , principles, or people ( conflict that we identify as interpersonal conflict ); psychological conflict , seen as a mental battle psychological state produced by the opposition often unaware of desires, needs, impulses or tendencies simultaneous but incompatible , and literary conflict between characters or opposing forces.

J. Burton defines the conflict as " a relationship in which each side perceives the goals, values , interests and conduct other as antithetical to those of ,,

Effective management of conflict situations requiring previously identify their causes in order to act on the proper use of the benefits and adverse consequences .

In this paper we consider the conflict as any modified form, affected, altered, negative interpersonal relationships compared to how they are accepted or expected studied organization.

This scientific approach has proposed a detailed analysis of the sources of organizational conflicts: insufficient resources (especially in the consumer society that traverse in which are overdeveloped) and belonging to the group, beneficial for the development of team spirit, but of conflict when each employee, the group feels superior , together with the whole group, at least 50 % average efficiency level teachers and other groups belonging to the organization. Obviously interrelation of these organizational groups will generate conflicts.

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## 2. Methodology

This research aims to understand the behavior of the company conflict MLS real estate and how it affects the life and work of those investigated .

**In the current context has formulated the following hypothesis:** *Assume that analyzed the company may be conflicts that can take various forms of manifestation, and can be caused by many factors .*

**The main objective** of the research is that the degree of conflict in the organization analyzed to identify sources of conflict.

This work constitutes an exploratory research that was conducted in May 2015 and used as a quantitative survey research method , but also the qualitative method by highlighting information in the field.

The questionnaire comprises of 20 - questions, both closed and open , of which a total of 15 questions were as the response variable **YES / NO**, and the others emphasize the personal opinion of the employee. The paper demonstrates how conflict is perceived within the organization , but that is a reality today.

## 3. Analysis of data and research results

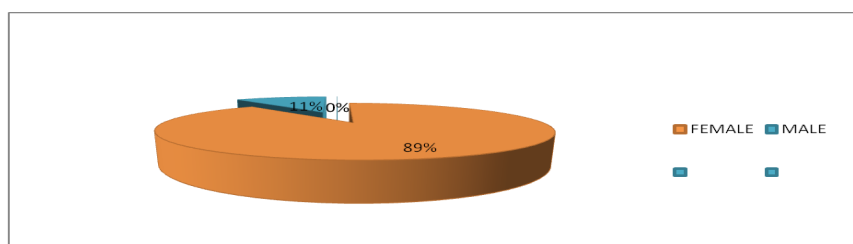
### Socio-economic characteristics on subjects

The research was focused 11 employees in the firm Real Estate Services MLS aged 21-36 years, of both sexes, computer operator positions. They seniority from 1 month to 3 years, some of them being university graduates. Their main task is to update the databases of the company, assuming this telephone communication with various groups of people, property and land owners with different education levels and with different expectations which can sometimes generate the appearance of conflict.

**Table no. 1. Characteristics of investigated subjects**

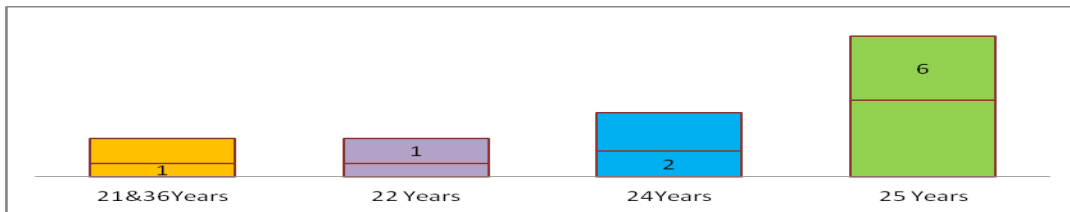
Category	Features	Nr.	%
Sex	Male	1	11
	Female	10	89
	<b>total</b>	<b>11</b>	100
Age	21	1	7
	22	1	7
	24	2	19
	25	6	60
	36	1	7
	<b>total</b>	<b>11</b>	100
Education	University	10	95
	College	1	5
	<b>total</b>	<b>11</b>	100

**Figure no. 1** shows that 11 % of the subjects are male, the remaining 89% are female.



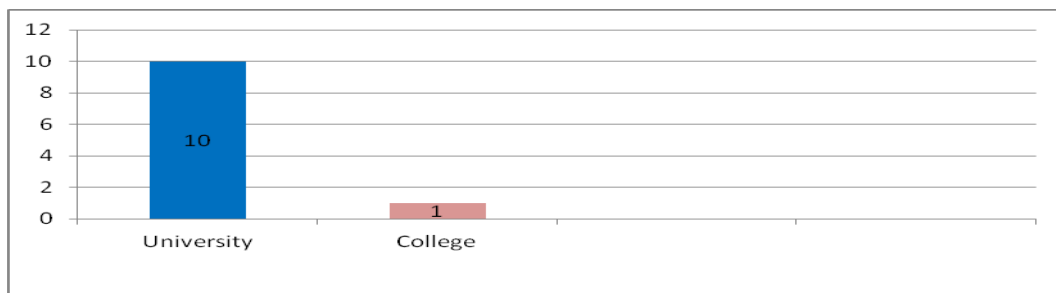
**Figure no. 1. The percentage of subjects by gender**

Taking into account demographic characteristics, subjects are divided into the following age groups: *group of 21 years-* 7% of subjects, one person, *group of 22 years-* 7% of subjects, one person, *group of 24 years* and 19 % of subjects, 2 people, *25-year group*, 60 % of subjects, 6 people, *and of 36 years*, 7% of subjects a person.



**Figure no. 2. The percentage of subjects by age**

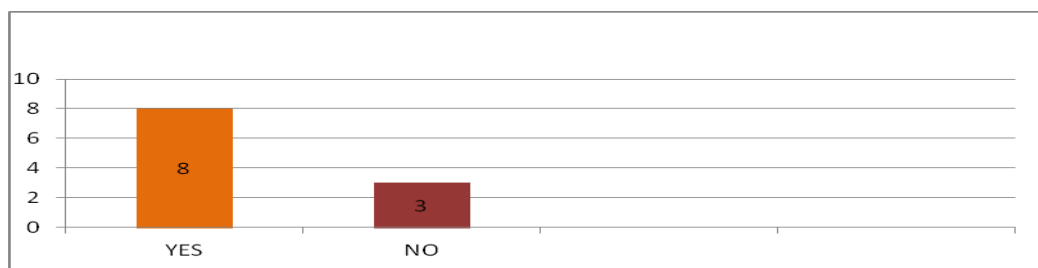
The study important is that 95 % of subjects had university education , 10 persons and 7 % high school (a person).



**Figure no . 3. Share based study subjects**

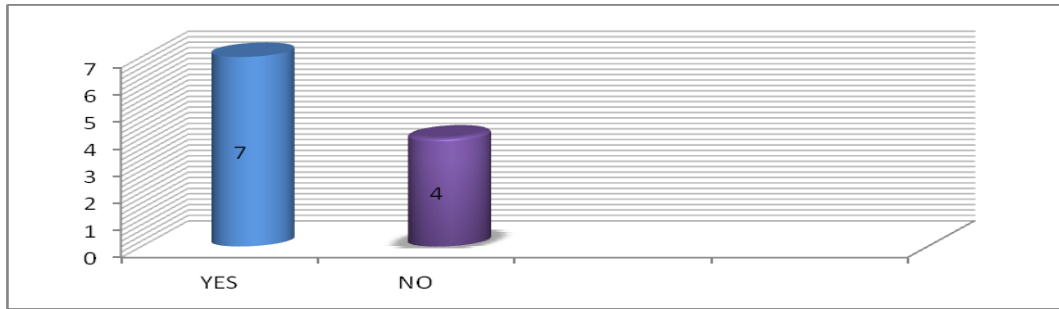
Analysis of the results obtained after the questionnaire on the subject, highlights the following things:

- To question no.1 (Figure 4), the causes that generate conflict in the organization studied, the majority of respondents, and 8 of the 11 employees answered **YES**, while the other three have expressed **disagreement** with this statement, which reflects the fact that in-house conflicts usually occur for various reasons, apparently unimportant.



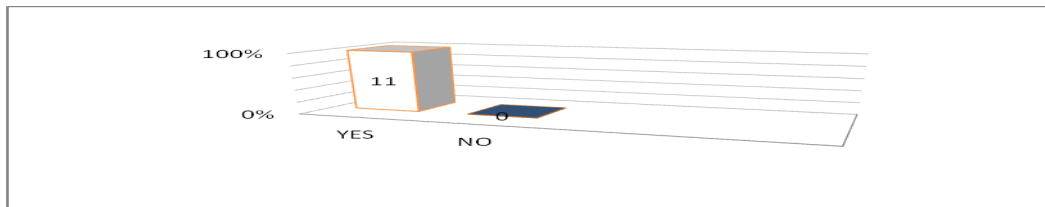
**Figure no. 4. question no. 1. Causes that generate most often conflict in your organization are represented by: communication failure, the feeling of not being treated fairly, misunderstandings, fights for power and influence ?**

To the question no. 2 (Figure 5), was watched what extent are affected employees in the organization studied by a conflict within, question totaled **seven affirmative responses** and **4 negative responses** from those surveyed. It is observed that in spite of everything, although they may not, most of the company's employees are affected when organizational conflict exists.



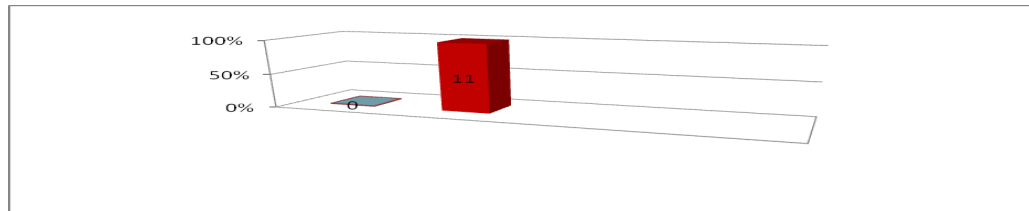
**Figure no. 5. Question no. 2. The rule will affect the appearance of a conflict in your organization ?**

The third question (Figure 6), regarding the opinion of employees in the case their impression on colleagues, recorded **11 positive responses, no negative response**, which proves that typically employees have a collaboration and a good impression about each others.



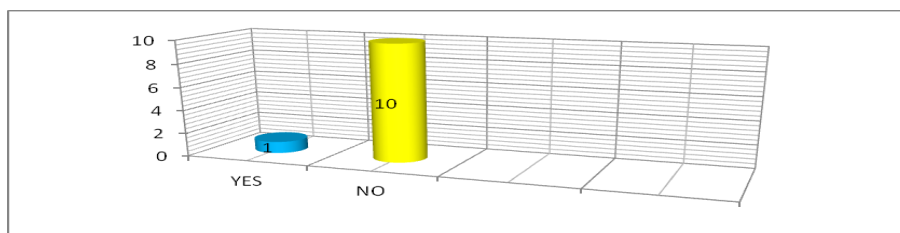
**Figure no. 6. Question no. 3. The others also viewing the organization employees feel good about yourself?**

To the question No. 4 (Figure 7), relating to the frequency of conflicts was unanimously elected (11 of 11), Variants, which indicates that within the organization there is a good collaboration and cooperation between employees and the environment is acceptable.



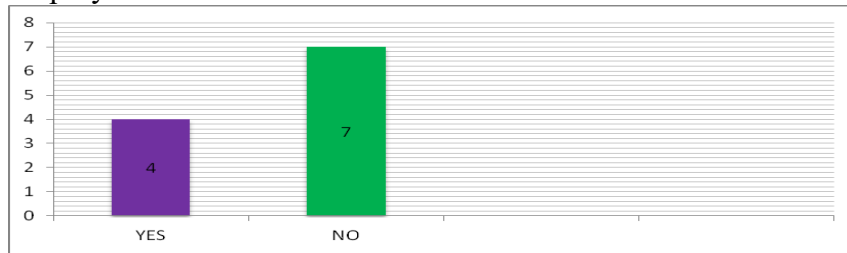
**Figure no. 7. Question no. 4. You often misunderstandings / conflicts with other employees of the organization?**

To the question No. 5 (Figure 8), It wanted to highlight if employees had disputes with managers, in total 11 people surveyed, 10 were chosen as response variables not, and one person opted for variable Yes, denoting climate released in which the activities, managers have virtually no "heads" that take into account the opinion of employees and supporting new ideas.



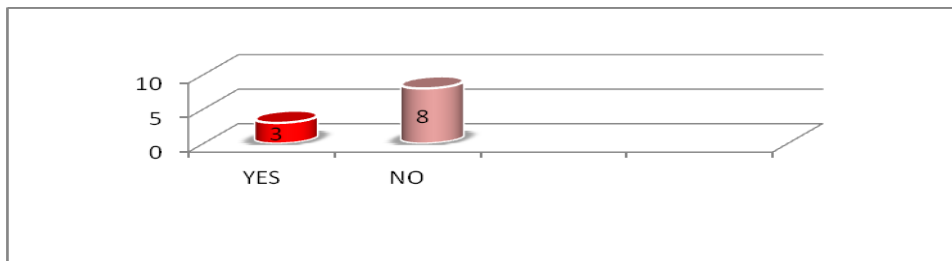
**Figure no. 8. Question no. 5. You had conflicts with managers ?**

At the 6th question (Figure 9), it appears that employees involved in conflicts easily divided into two camps and **7 individuals** not involved in the conflicts, while **4 people** support the involvement in the conflict. This highlights and practical take on the personality of each of the employees.



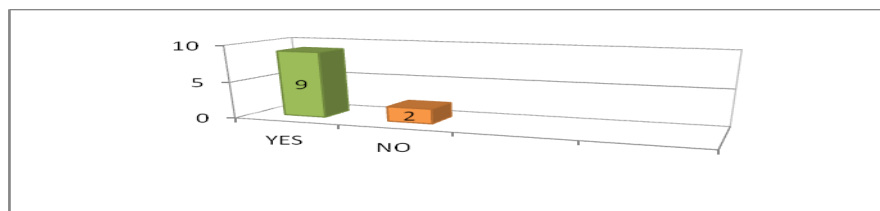
**Figure no. 9. Question no. 6. When a conflict arises in your organization get involved?**

To the question No. 7 ( Figure 10), the irritability, eight out of 11 people surveyed said they **were not being irritable**, and three of them said **yes**.



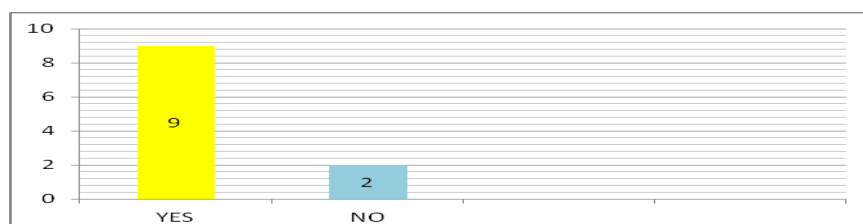
**Figure no. 10. Question no. 7. Are you a person irritable ?**

The question no. 8 (Figure 11) revealed that at the organizational level is achieved easily studied changes because most respondents have chosen the Yes and 9 , while two of them chose not , which means that most employees of the organization studied are people who adapt easily to new.



**Figure no. 11. Question no. 8. You adapt easily to changes in the organization ?**

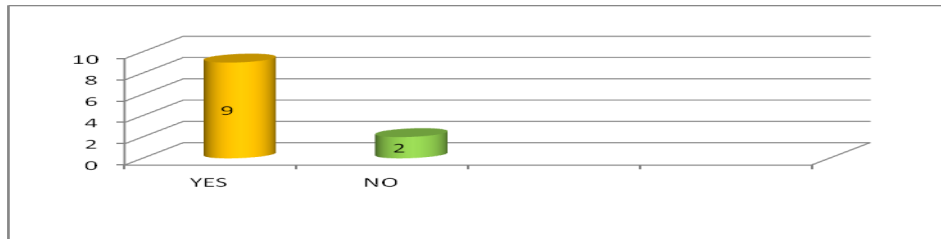
Regarding the satisfaction of employment (question no. 9), there was a majority of nine positive answers and only 2 negative , which shows that employees are satisfied with the current position held.



**Figure no. 12. Question no. 9. Are you satisfied / A current job ?**

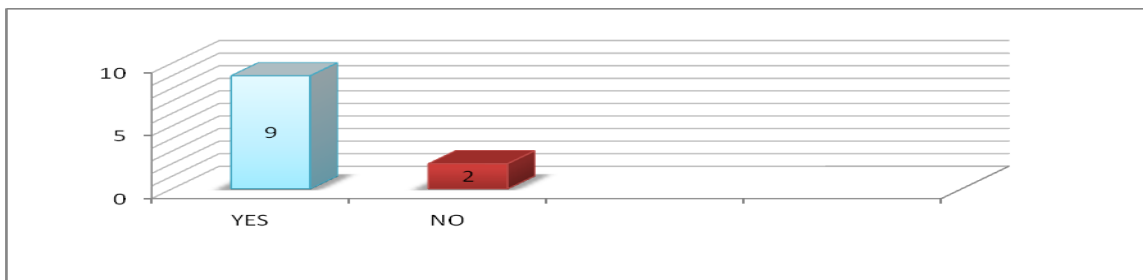


Question No. 10 (Figure 13), focused on feedback on the managers give the employee the assessment / recognition efforts. There were **nine positive** answers again and **only 2 negative**. Therefore it appears that employees feel appreciated by the organization studied by superiors.



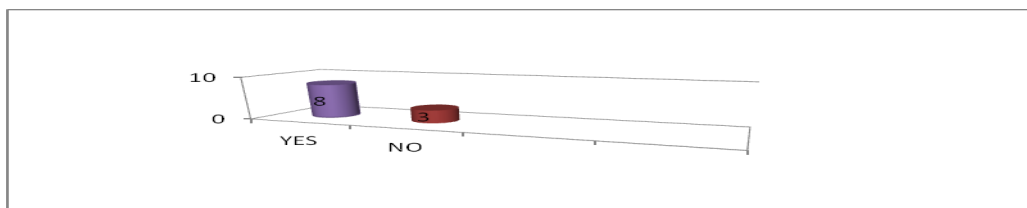
**Figure No. 13. Question no. 10. You consider appreciated of the organization's management ?**

To the question No. 11 ( Figure 14), where employees had to confirm or deny whether the organization studied, feel part of a team, the score was similar to the previous question, exactly nine positive the responses and 2 negative. We can deduce that the organization continues to broadly team spirit.



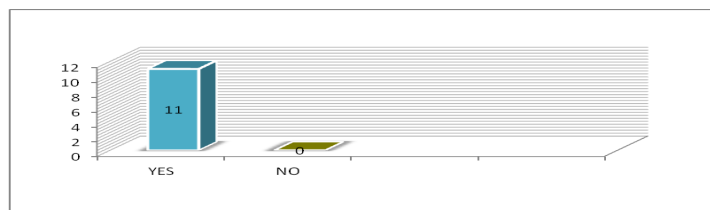
**Figure No. 14. Question no. 11. Within the organization, feel that you are part of a team ?**

Trust is a strength in the organization. So the question no. 12 (Figure 15 ) on mutual trust between colleagues, record **8 answers variable Yes**, versus 3 responses **variable not**.



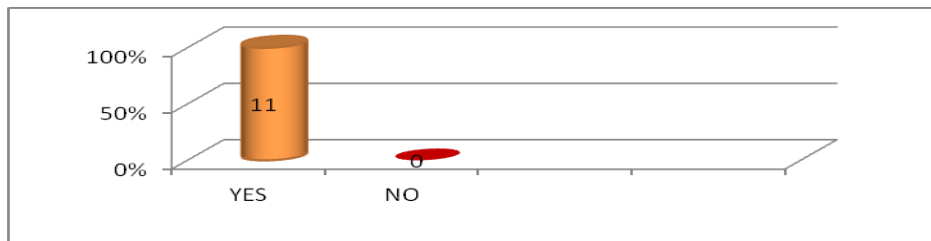
**Figure No. 15. Question no. 12. Trust your colleagues ?**

Question 13 (Figure 16), confirmed through the results of 11 and 11 affirmative answers possible, what emerges from the organization that studied management has a close relationship with employees.



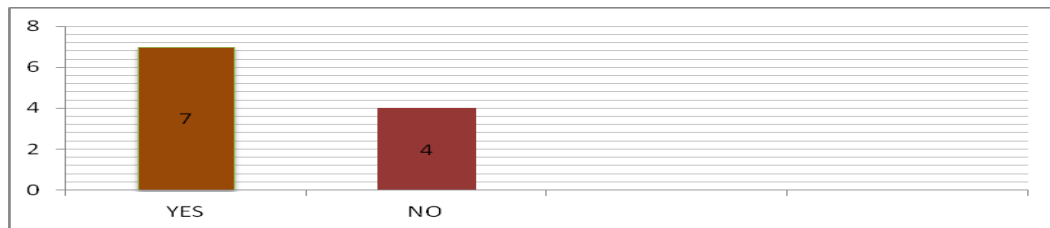
**Figure no. 16. Question no. 13 . The management has a close relationship with employees ?**

To the question no. 14 ( Figure 17) relating to the approach to problems encountered in the organization, noted that all employees are open natures , as demonstrated by the maximum score recorded **positive responses of 11** or 11 possible.



**Figure No. 17. Question no. 14. Labor difficulties encountered, discuss them with colleagues to identify possible solutions?**

To the question no. 15 (Figure 18), regarding salary as motivation , respondents chose the number **8 variable Yes**, and **4 of them have opted for variable No**, which indicates that salary is an important factor for any employee and also a powerful incentive.

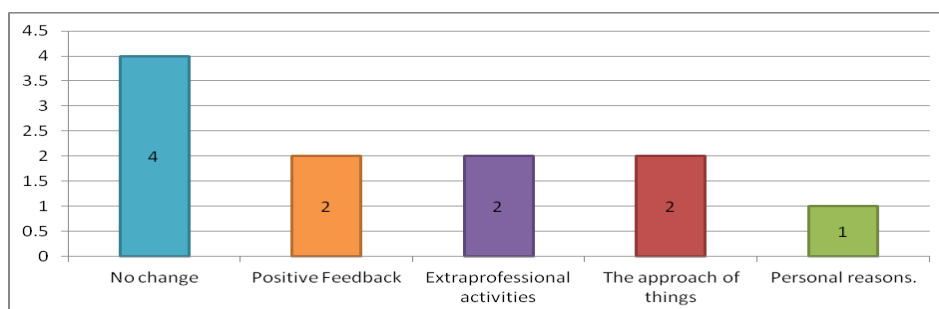


**Figure No. 18. Question no. 15. Salary in your organization is the main source of motivation ?**

Regarding questions concerning the personal opinion of employees results look like this:

*To the question no. 16. What changes do you need to improve communication, collaboration and trust within the organization?* The answers were:

- 4 people in the organization studied felt no need for any change;
- 2 people were of the opinion that extra- outputs and meetings would be useful;
- 2 people have argued that we need positive feedback from managers and employees;
- 2 people have opted for change of approach to things;
- 1 person thought it would be useful and motivating staff -effectiveness.

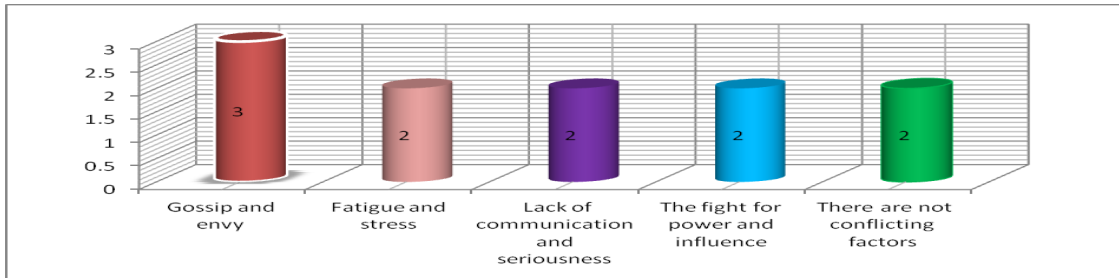


**Figure No. 20. Question no. 16. What changes do you need to improve communication, collaboration and trust within the organization?**

**Question no. 17, regarding the factors that lead to conflicts in the organization studied** Apart totaled the following views:

- Gossip and envy, 3 people;
- Lack of communication and seriousness, 2 people;
- Fatigue and stress, 2 people;

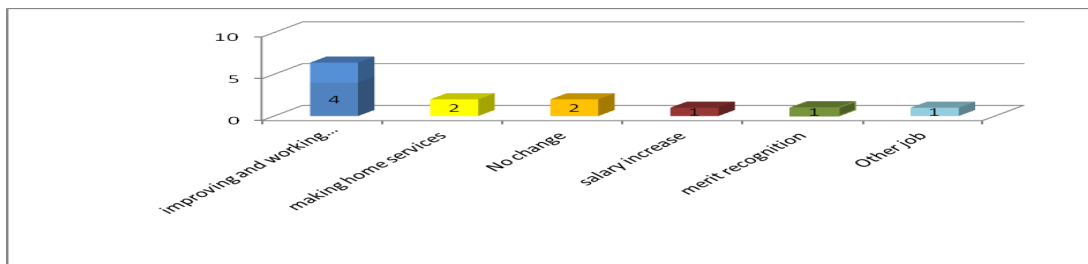
- The fight for power and influence, 2 people ;
- There are not conflicting factors, 2 people;



**Figure No. 21. Question no. 17. What do you think are the main factors that cause conflict in your organization ?**

To the question No. 18 (Figure 22 ) related to changes that would make life easier and work employees more comfortable, there were the following answers:

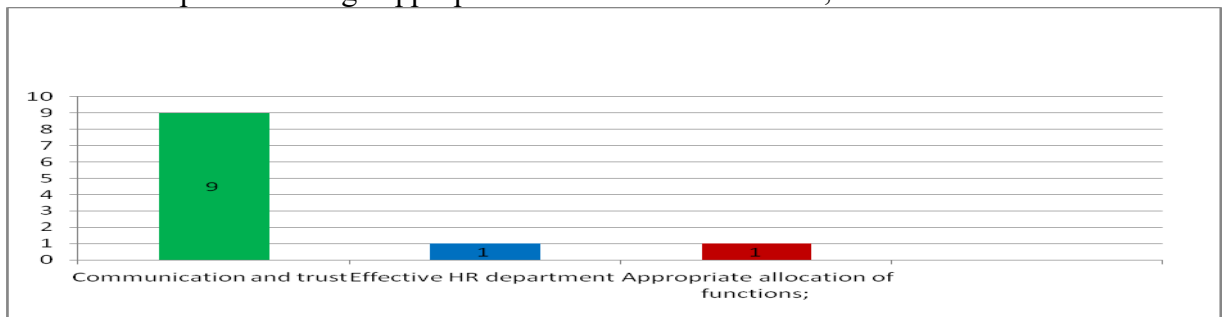
- 4 persons- improving and working environment;
- 2 people -making home services;
- 2 people - do not need to change;
- One person -the change of job;
- One person -merit recognition;
- One person -salary increase;



**Figure No. 22. Question no. 18. What are the changes you would make working life easier and more comfortable ?**

**Question no. 19** *How do you think can reduce conflicts in a company ?*, highlighted the following things:

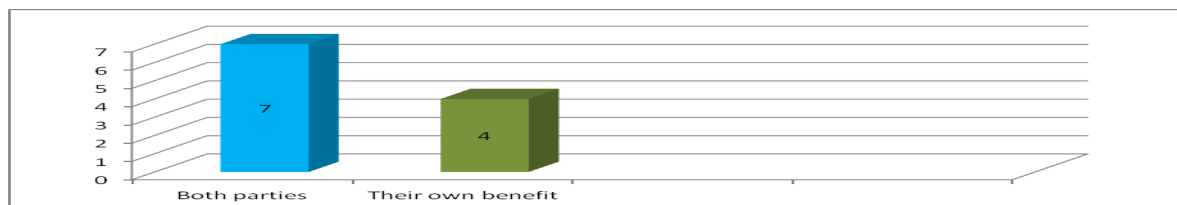
- 9 people through communication and trust;
- One person through an effective HR department;
- One person through appropriate allocation of functions;



**Figure No. 23. Question no. 19. How do you think can reduce conflicts in a company ?**

To the question no. 20 (Figure 24) Since you are employed , you have improved your level of knowledge for the benefit or the benefit of the organization where you work ?, resulted in the following answers:

- 7 persons benefit both parties;
- 4 persons for their own benefit;



**Figure no. 24. Since you are employed, you have improved your level of knowledge for the benefit or the benefit of the organization where you work ?**

Based on study results, we consider that the company analyzed the situation is not really one conflict, although there factors that may lead to them.

### Conclusion

The hypothesis from which we started, where we assumed that the company considered there may be conflicts that can take various forms of manifestation, and can be caused by many factors confirmed eight of the 11 respondents were of this opinion, and while most of they claim to be affected by the appearance of conflict in the organization. Therefore conflict is a ubiquitous phenomenon. We meet with him every day in our various interactions with the environment that surrounds us. From global conflicts we are bound to the particular to relate in one way or another and adopt a attitude to them.

In the life of an organization, group, professional activity, conflicts are inevitable. They can bring great harm productivity, but can be synonymous with dynamism and progress. The sources of conflict in an organization can not be eliminated, but the manager must be able to identify these sources, understand their nature and then, given both the objectives of the organization and of the individual to act in to minimize negative and positive effects of using. In situations that aim to reconcile opposing views, specific form of communication used is negotiation. A mid-level conflict is needed to allow evolution of organizational processes and prepare the ground for change. Conflict can create motivation to solve problems that would otherwise go unnoticed and can lead to creative behavior.

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6. <http://www.armyacademy.ro/biblioteca/anuare/2004/a13/>
7. <http://www.ssmar.ase.ro/reviste/2009/vol2/8.pdf>,
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# CUSTOMER LOYALTY USING CUSTOMER RELATIONSHIP MANAGEMENT

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## Abstract:

*Customer Relationship Management has developed into a major element of the business strategy of many companies and is based on creation and development of personalized relationships with customers to increase their profitability. A Customer Relationship Management strategy enables a firm organizational behavior rapid adaptation to changes occurring in the market and thus the company will be able to satisfy the wishes and demands much better clients. Managers of companies performing rationale "is difficult to conquer a customer than to keep an existing one," come to support this research on the costs of these alternatives; those determined by winning a new client are 3 to 15 times higher by branch and product than those implied by an existing customer loyalty. Customer orientation means that everything that makes a company must be based on its care of you fulfill all requirements, whether internal or external customer, whether public sector or a non-profit organization. This should mean that everything is made-setting priorities, making decisions, participating in meetings or discussions with management - to consider customers requests and demanding . This paper aims to address system - Customer Relationship Management customer service perspective as the reason why there are organizations, organization and its leadership must adopt a customer orientation and to show more attention to its demands.*

**Keywords:** *Customer Relationship Management*

**JEL Classification:** *L86, L96, M15*

**Customer relationship management (CRM = Customer Relationship Management) has developed into a major element of the business strategy of many companies and is based on the creation and development of personalized relationships with clients in order to increase their profitability.**

A CRM strategy allows a rapid adjustment of organisational behaviour to changes on the market and so the company will be able to meet so much better its customers ' wishes and requirements.

Given the fact that retention of customers is the most important objective is recommended two paths of action for its realization:

1. the placing of obstacles in the way of their departure. They exhibit a lower desire when this involves capital expenditure and search high loss of rebates for infidelity.
2. a better approach consists in increasing the level of satisfaction offered reviews. A competing firms would be more difficult to overcome this barrier by offering more favourable prices or by presenting perspectives more appealing.

Competitive advantage based on differentiation. Among the ways of generating a competitive advantage, from clients<sup>3</sup> are:

### **1. continuous improvement by bringing clients in your organization.**

Focus to do more than we're doing now — to work harder rather than smarter-it makes no sense, if what we are doing now is not what our customers want from us now and for the future.

To know opinions of clients means what products and services our customers need and how it could be expanded and our services and products to other customers.

**2. creativity continues to do so to satisfy the desires and expectations of customers keeps growing.**

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<sup>3</sup> The Guide "Perfect relations with customers", Ed. Rentrop and Stranton, Bucharest, 1999, pg 31

Nishikawa (Journal of Long Range Planning, vol. 22, no. 4/1989) States that "the most important factor in understanding the attitude of consumers and in the development of a strategy for the market analysis is not logical, but creative actions". If you respond to the needs of customers means that you act too slowly in order to have a successful marketing: to be able to have the future, provides organizations rather than need of creativity, challenge response than passivity.

### **3. to promise a clear advantage and then given to the clients.**

Many organizations will not take any sort of commitments ("can't promise") or take the commitment that they will do something and then will fail to keep their promise. You can get a competitive advantage if it jealously will lead the news that you keep your promises and commitments that you get only aimed at increasing the benefits that you have your customers. Organizations can win contracts if they promise but may keep their contracts if they keep promises.

Research shows that an increase of 5% the level of reviews causes an increase of the profit in terms of net present value, between 20-125%. Although managers know the importance of maintaining customers, few are aware of the impact on profits from close relations with customers. As a result, they often do not adopt the most effective strategies for customer acquisition and customer loyalty.

Due to the beneficial effect of keeping reviews on the profitability, organizations increasingly resorting more to information technology to increase customer loyalty. To improve retention are required three steps: measure the rate of retention of clients, identify the causes that gave rise to the dissatisfaction of the clients and the implementation of corrective action.

To measure the rate of reviews, a group of researchers in the field of CRM at Cranfield Institute (United Kingdom) has developed a model which he called the "Retention Gram" which allows managers to determine the impact of customer retention over profitability: acquisition cost, number of new customers conquered, profitability and detained clients retention rate. In order to facilitate the processes within this model requires sales force automation and creating contact centers, based on web and client-server.

Another model that describes the links among the attitudes of employers, retention of customers, their loyalty and profitability of the firm, is the chain of "client-service-profit" prepared by the Harvard Business School<sup>1</sup>. Within this pattern are highlighted five key elements: customers, employees, innovation, financial performance and values of the Organization, as well as the obstacles involved in the organization relationship.

Companies know what actions management must take (e.g., investment in the training of IT manpower for sale, calling for action e-CRM at a Call Center, Web, etc.) in order to improve customer satisfaction, retention and loyalty of them. This model was applied to the Roebuck &co company, where results have been impressive: links were identified between the degree of customer satisfaction as a result of e-CRM solutions applied and indicators of profitability of the respective companies. The attitude of employees towards the company was deemed critical to the approach of clients, while impression reviews due to e-CRM strategies affect positively their apprehension.

A project of the customer relationship management involves three stages: the first is project planning, in setting out the objectives, the project manager is selected, all tasks are defined and performance standards shall be fixed in the light of the value of management reviews; the second stage consists in carrying out effective project, within which are the deadlines for implementation of the various activities, and the last phase is the evaluation of the effectiveness of the project and its contribution to the overall strategy of an organization.

If we consider the triangle project as part of a CRM strategy we can highlight its restrictions related to time, budget and objectives<sup>2</sup>.

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<sup>1</sup> [www.crmlearning.com/ecrm-models.html](http://www.crmlearning.com/ecrm-models.html)

<sup>2</sup> R Nistor, C. Nistor, A. Capatina, - Metodologii manageriale informatice, Ed Academica, Galati, 2003, pg 78

The duration of the project plan for CRM can decrease because the Manager of the company which adopts the draft decide 1/3 reduction of time devoted to the implementation of a CRM system to get a competitive edge more quickly. You will need to increase the budget of the project, or goal should be reduced.

If the CRM project budget decreases, the project manager will need more time to complete the project or it will be necessary to cut the project's objectives.

CRM project budgets may be decreased for various reasons: either reflects a company's financial statement, either the Manager decides to relieve some of the tasks relating to CRM for its staff and to transfer a contact center.

If the objective of the project is increased, the project manager will need more time or more resources for the execution of the additional activities generated by the objective. For example: the objective of the project was initially force automation CRM Sales goal extended the initial objective consists in addition, to achieving an integrated electronic system communication with customers.

CRM focused on database complements the "4 p's" of marketing-mix with those "4T", designated by the terms: **Targeting, Tailoring, Tying and Tapping**.

In this context, the concept of **TARGETING**<sup>1</sup> may be translated by a fine portfolio segmentation of clients of a firm, facilitated by the use of a database.

Over the past 30 years, marketing has gone from a table (same products intended for all potential consumers) to a personalized approach to customers ("one-to-one"). The application allows the selection and ranking of reviews on the one hand; on the other hand determine the allocation of human resources, technological, material and financial targets for the various targeted marketing strategies.

The key to success lies in the clearer differentiation of the portfolio of clients and understanding their behavior in order to propose personalized offers. Methods of database management and marketing analytics facilitates the transformation of data relating to consumers-"raw" obtained contracts with them-in knowledge about customers, representing information which can be operated from a commercial point of view. "Datamining marketing"<sup>2</sup> techniques are part of the process of transforming data into knowledge essential for marketers to drive effective marketing actions focused on data bases at the operational level.

**TAILORING**, an adaptation of supply to customer needs, having been carried out beforehand the portfolio segmentation. Before drafting the offer takes place as many communication paths possible with the client, the most effective proving to be electronic environments. Creating an offer in the event of a marketing strategy focusing on databases, involves the collection and use of information obtained from customers; There are already a number of businesses which through commercial web sites allow the potential customers to participate in creating the offers. Also, firms can know consumer habits, preferences, and other characteristics of consumer- information collected from these through on-line forms and stored in their database.

**TYING** designates attracting and retaining customers, some authors associate the term with the "customer control". This approach is inspired from a mindset that currently isn't able to generate sustainable relationships with customers. Due to the fact that under no circumstances customers cannot be control, everything that can be done in order for a company to be successful is the Foundation of relations of trust and satisfaction. To gain confidence and generate enthusiasm represent critical points in marketing focused on databases.

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<sup>1</sup> K. Rohner - "Cybermarketing" – Ed. All, Bucharest, 1999, pg 132

<sup>2</sup> R. Lefebvre, G. Venturi – "Le Data Mining", Editions Eyrolles, 1999, pg 95

## Conclusions

Among the main benefits of a CRM strategy focused on data bases aimed at attracting and retaining customers we can mention:

- **high penetration rate:** the ability to contact a large number of prospects;
- **speed:** database systems for marketing and web technology allow information sharing with customers in real time;
- **increased Reactivity:** the ability to assess any change in supply, target or time of contact with the customer in real time;
- **personalization:** ability to adapt the offer to the needs of the individual leads;
- **optimization of sales potential during each contact with customers:** every interaction with customers via databases and information technology represents a major opportunity for the company to make new offers;

**Maintenance of a genuine dialogue with clients to assess their needs and demands and the development of customized products and services to meet those needs.**

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# EMPHASIZING THE PERFORMANCE MANAGEMENT OF THE PROJECT CYCLE

Cristina, Voicu-Olteanu<sup>1</sup>

## **Abstract:**

*Investment projects financed from European funds is performed in a sequence of steps, starting with a strategic development document which shows the need for a project in a particular area (infrastructure, environment, tourism, etc.), then it is formulated, implemented and finally its results are evaluated in order to create conditions necessary for the development of future actions.*

*A specific feature is the emphasis on performance management, resulted in two key points of the project cycle, relative accepting the grant application by the Intermediate Bodies / Managing Authorities and final reporting of the results.*

*This requires coordination of activities, cooperation of all relevant actors in order to achieve coagulation efforts managing budgets and investment programs should be better integrated in order to have better results in the implementation.*

**Keywords:** *performance, cycle, implementation, investment project*

**JEL Classification:** *M40, M41*

## **Introduction**

In the first acception formulated [Davis 1951: 268], the project was defined as "any action characterized objectives and results representing specific values that are used to satisfy the necessities and desires."

In another opinion drawn [Tuman 1983: 495], project is an "organization of people assembled for a particular purpose and objective. The projects generally involve large investments, expensive, unique or high risk should be completed by a certain date, with a certain value at a performance level expected. As a minimum, all projects must have clearly defined goals and all resources necessary to carry out all the tasks assigned. "

Economic theory [Graham, 1985: 24] ruled the idea that "a project comprises a set of people and other resources grouped together temporarily to achieve a particular objective, usually with a limited budget, a time time. Projects are generally associated with products and procedures performed in the first or procedures known but which have been modified."

## **1. The life cycle of the project**

Project life cycle is the sequence of steps (or phases) that the project progresses, each containing a set of activities to be undertaken under the project.

In 1992 the European Commission adopted the Project Cycle Management (PCM), which is a set of tools for developing and managing the project. The main objective aimed at improving the management of projects / programs of all kinds taking into account all of the essential framework conditions, both in development and in the implementation of projects or programs.

The evolution of the project includes six stages (phases) distinct programming, identification, formulation, financing, implementation, evaluation.

In literature, the Project Management Body of Knowledge (table no. 1) sustain a development project comprising five stages (phases) distinct: initiation, planning, execution, monitoring and control and conclusion.

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**Table 1. The stages of the project cycle according to the Project Management Body of Knowledge**

Initiation	Planning	Execution / Monitoring and Control	Closing
Necessities identification	Setting objectives	Mobilize the necessary resources	Quantification of results
Assessment of problems	Defining the activities needed to implement	Browsing activities	Realization of the final evaluation
Proposing solutions	Description of development stages	Monitoring / Control	Lessons for the future
Strategy development	Forecasting of the project	Reporting	Identifying new projects / opportunities
Analysis of organizational capacity	The proposal of material, human and financial resources		
Results capability	Assigning responsibilities		

## 2. Highlighting the performance management of the project cycle

Archibald and Voropaeva quoted by Prabhakar (2008) believes that there are four general phases of the life cycle of a project:

- 1) Concept (initiation, identification, selection)
- 2) Definition (feasibility, development, demonstration, quantification)
- 3) Execution (implementation, development, production, construction, installation and testing)
- 4) Closing (completion, including ex-post)

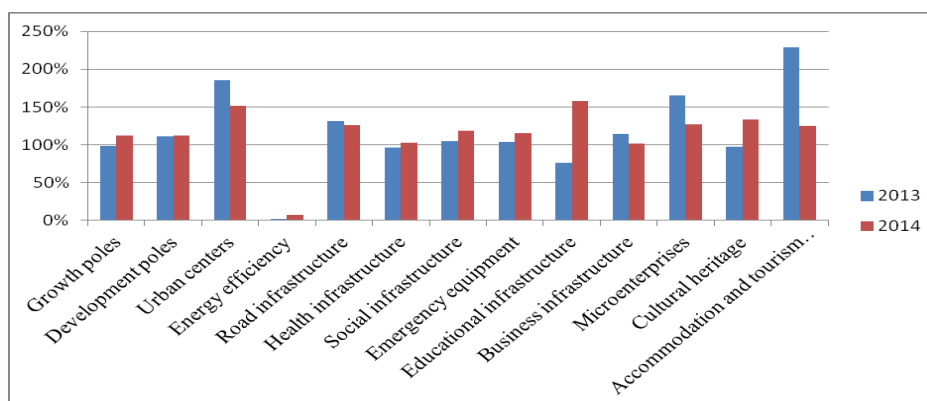
Performance management is emphasized in the two key points of the project cycle, or acceptance of applications by Intermediate Bodies / Managing Authorities and final reporting of results.

The indicator used to highlight performance in implementation of investment projects financed from European funds during the selection / the acceptance of the level of contracting, is calculated based on the number of financing contracts reported to the amount of funds available.

### 2.1 The level of contracting of projects financed from European funds

In 31 December 2014 situation for the Regional Operational Programme 2007-2013 the authorities reported a total of 4.574 signed grant contracts, with an amount of 7.33 billion euros and the part financed by the European Regional Development Fund represents 4.55 billion euros (degree of contraction of 114.7%), thus registering an increase of approximately 10% compared with 2013 level.

The South Region, for which data were analyzed (fig. no. 1), has reached a maximum of 124% level of contracting.



**Figure 1. The level of contracting of EU funds on major areas of intervention South Region (%) in 2013 and 2014**

It is noted that there are certain areas of intervention where the level of contracting increased in 2014 compared to 2013. An example of this is educational infrastructure, for which additional funds were granted and reallocated from savings and energy efficiency as a result of subsequent introduction of this area of financing the program.

## 2.2 The expected result for projects financed from European funds

The indicator used to emphasize performance in implementation of investment projects financed from European funds in the final selection stage is reporting of results, respectively program indicators (creation of new jobs).

In the report on implementation of the Regional Operational Programme 2007-2013, on 31 December 2014, physical progress (table no. 2) regarding indicator creating new jobs was as follows:

**Table 2. Physical progress indicator reported for the creation of new jobs**

Creating new jobs (number)	Indicator proposed	2007	2008	2009	2010	2011	2012	2013	2014
Target	15.000 <sup>1</sup>								
Achieved	4.828	0	0	218	900	1.647	4.828	9.739	13.526

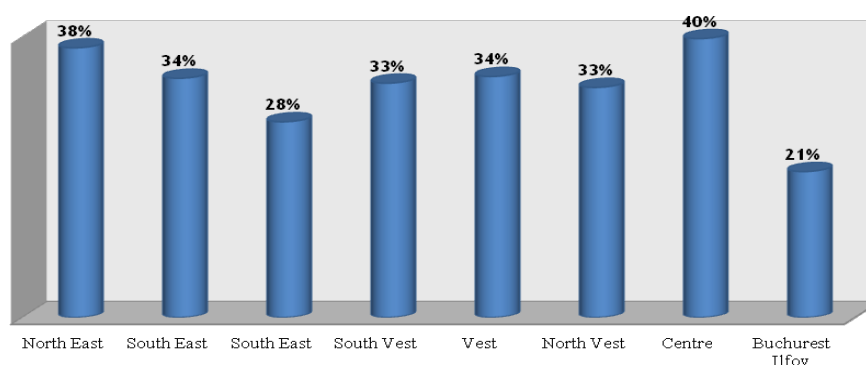
*Data source: Ministry of Regional Development and Public Administration, Regional Operational Programme 2007-2013, Annual Implementation Report 2014, July 2015, p. 7*

Analyzing the data above, it appears that by finalizing of 2,624 projects financed by the Regional Operational Programme 2007-2013 were created 13 526 jobs, representing 90% of total proposed target for this indicator program.

Values were reported annually accumulating, the null is normal for the first two years of implementation of the program, namely 2007 and 2008 as project contracting for major areas of intervention was realised mainly towards the end of 2008 and during 2009.

It can be seen that after 2008, the indicator for newly created jobs has doubled compared to the amount previously reported.

Regarding the number of projects completed in the Report on implementation of the Regional Operational Programme for year 2014, it appears that there are two regions (North East and Central), where there is a high rate of contracts finalized and two (South and Bucharest Ilfov) with a low rate of contracts terminated (fig. no. 2). The rate of completed projects is calculated by dividing the number of completed projects to financing total contracts signed.

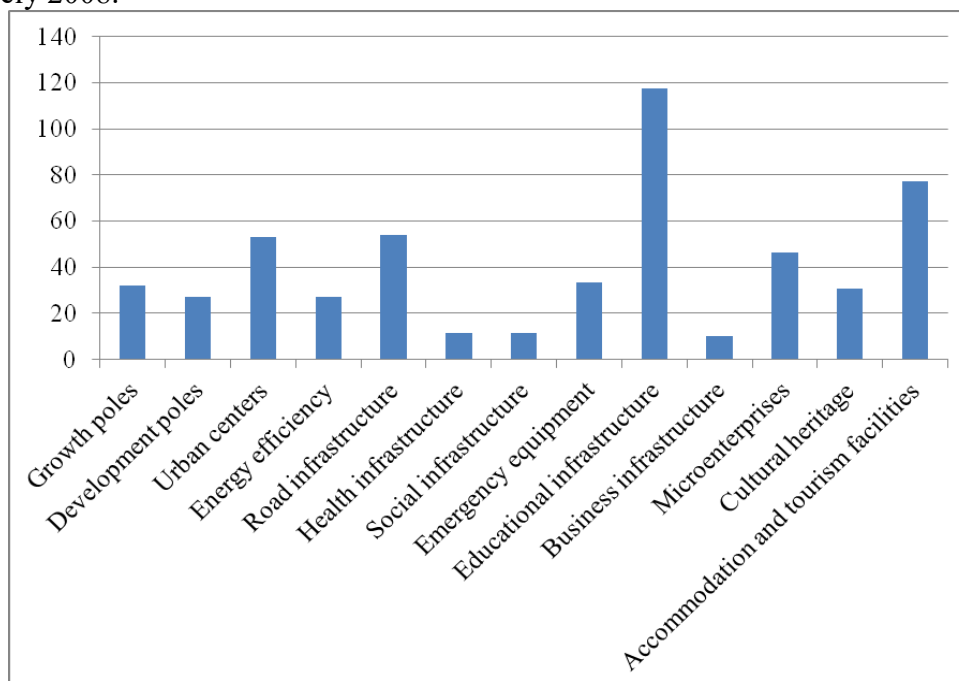


**Figure 2. The situation of finalized projects on intermediary bodies**

<sup>1</sup> Indicator proposed for Regional Operational Programme 2007-2013, benefiting from the n + 2 rule in expenditure, the implementation is completed at 31.12.2015

Other regions (South East, South West, West and North West) record similar values on 31 December 2014, approximately 30%.

In the South Region, for which data were analyzed (fig. no. 3) is observed a high degree of finalization for road infrastructure projects, which is explained by the fact that the launch of this call for proposals was made at the beginning of the programming period, respectively 2008.



**Figure 3. Situation of finalized projects for major intervention areas in the South Region**

Regarding other indicators of output, related on priority axes / areas of intervention, concrete results from the implementation of 2,624 projects completed until 31 December 2014, they were synthesized in Appendix 1.

### **Conclusion**

Analyzing the data on major areas of intervention, comparing to 2013, in 2014 were found were found significant increases in the level of contracting for energy efficiency - due to the subsequent introduction of this area of funding in the program, as well for the educational infrastructure - as following reallocation of a large part of the Regional Operational Programme amounts reallocated from Sectorial Operational Programme Transport and Sectorial Operational Programme Environment for this major area of intervention.

Regionally, compared to 2013 stands at 100% threshold level of contracting for all eight development regions and achieving a maximum degree of contraction of 124% in the South Region.

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**Annex 1. Physical progress reported for the output indicators of the Regional Operational Programme 2007-2013**

Priority Axis / Major Area of Intervention	Output Indicator	Expected contracts signed	Conducted by projects finalized	Target Regional Operational Programme 2007-2013	Degree of achievement through projects finalized
Urban development	Urban Development - PIDU accepted (No)	95	16	30	53%
	Urban development - urban infrastructure (No)	342	143	60	238%
	Urban Development - Infrastructure Business (No)	26	5	15	33%
	Urban development - social infrastructure (No)	158	82	25	328%
Energy efficiency	Apartments upgraded for increasing energy efficiency (No.)	26.397	0	46.920	0%
Road infrastructure	County Road rehabilitated (km)	2.497	1.358	1.080	126%
	Urban streets rehabilitated (km)	326	163	420	39%
	Beltway built (km)	87	37	219	17%
Health infrastructure	Medical rehabilitated units (No.)	105	42	62	68%
Social services infrastructure	Social centers rehabilitated (No)	232	138	270	51%
Emergency situations	Emergency mobile units equipped (No)	1.108	1.027	510	201%
Education infrastructure	Education units rehabilitated (No)	507	169	330	51%
Business infrastructure	Assisted business support structures (No)	84	42	17	247%
Industrial Sites	Industrial sites rehabilitated (ha)	92	0	75	0%
Micro-enterprises	Microenterprises assisted financially (No)	2.173	1.625	1.500	108%
Cultural heritage	Projects in tourism - cultural heritage (No)	98	27	100	27%

<b>Priority Axis / Major Area of Intervention</b>	<b>Output Indicator</b>	<b>Expected contracts signed</b>	<b>Conducted by projects finalized</b>	<b>Target Regional Operational Programme 2007-2013</b>	<b>Degree of achievement through projects finalized</b>
Tourism infrastructure	Projects in Tourism - Entertainment Travel (no)	138	68	300	23%
Tourism promoting	Campaigns to promote tourism brand (No)	74	0	10	0%
	National Centre for Information and Tourist Promotion (No)	47	3	100	3%

# THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ON HUMAN RESOURCE POLICY. STUDY ON TRANSNATIONAL CORPORATIONS

Cristina, Gănescu<sup>1</sup>

## Abstract:

*Often, transnational companies are accused of selfish human resource policies that focus on profit maximization without taking into account the needs of different stakeholders. This way, transnational companies are harmful both to employees in the country of origin, who lose their jobs, and employees from emerging countries, who carry out activities similar to those in developed countries, but in exchange for lower wages. Transnational companies bring many counterarguments, including: practicing fair human resource policies, ensuring higher salaries than average salaries in the countries where they operate, ensuring safe working conditions, employing fair recruitment and selection rules. This paper is based on the premise that corporate social responsibility supports the rethinking of human resource policies, as it favours the respect of ethics in human resource matters. The analysis we carried out showed a positive correlation between corporate social responsibility and corporate human resource policies. Organizations with a high level of corporate social responsibility are inclined to establish relevant and correct human resource policies.*

**Key words:** *corporate social responsibility, employment politics, human resource management, multinational companies.*

**JEL Classification:** *M14, O15, F23, E24.*

## 1. Introduction

The rise of CSR has significant implications for HRM practice. Ranging from ethical standards in dealing with important stakeholders through employment practices that attract employees to social involvement in the form of employee volunteering, the HRM role is awash with CSR-related tasks (Lockwood, 2004).

Scholarly literature states: “a strategic approach to CSR is increasingly important to the competitiveness of enterprises” (Kahreh, et al., 2014, p.667). In addition, involvement in corporate social responsibility actions leads to considerable benefits in terms of risk management, human resource management, customer relations and the ability to innovate.

This paper deals with a topic of interest to both scholars and companies. Researchers should examine the benefits of corporate social responsibility in terms of human resource management as organizations design their social responsibility strategy based on the intention to improve organizational processes and functions, such as the human resource policy.

This study starts with a review of scholarly literature on the concepts of CSR and HRM and continues with a description of the research methodology, a presentation of the objectives and of the research hypothesis. Finally, we test the hypothesis and present the findings.

## 2. Literature review

### 2.1. About corporate social responsibility

CSR is not a new concept; it has been debated in management literature for more than half a century (Kahreh, et al., 2014, p.665). Archie Carroll (1999) states: „the concept of CSR has had a long and diverse history in the literature”.

According to the EU (European Union, 2002), “CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. Also, CSR has been defined as

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„actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams and Siegel, 2001, p.117).

Sahlin-Anderson (2006) stated that CSR „as a global trend incorporating business corporations, states, international organizations and civil society organizations”. In Inyang’s vision (2004), business „owes society an obligation or debt - for taking something from the former it must give something in return to the latter, which would continue to provide the fertile ground for its (latter’s) continuous existence”.

CSR has two features (Kornfeldova, 2011, p.102):

- Responsible activities are carried out voluntarily – beyond the obligations arising from legislation;
- Active dialogue with stakeholders (involvement of stakeholders who have significant influence on the company).

CSR has three pillars: economic, social and environmental (Kornfeldova 2011, p.103). The substance of the economic pillar is related to the impact on local, national and the global economy. The social pillar consists of three elements: employment policy, education and human capital, employee benefits, equal opportunities and the balance between personal and professional life, the support to others.

Corporate social responsibility is the result of three factors (Vogel, 2005): the erosion of the power of national governments in relation to multinational companies, the increasing impact of environmental activities or the developing mobility of companies and the increasing importance of financial markets in business success.

Some researchers estimate that, overall, businesses respond to requests or pressure of various stakeholders such as customers, shareholders, employees, and NGOs (Willard, 2005). The stakeholder theory authored by Edward Freeman (1984) „replaced the principle according to which managers are accountable to shareholders for an innovative concept, and stated that managers develop relationships based on trust with a variety of stakeholders that are directly affected by the actions of the organisations they manage, while shareholders cease to be regarded as the sole beneficiaries of corporate activities” (Gangone, Gănescu, 2014, p.539).

Corporate social responsibility involves treating stakeholders in a responsible or ethical manner, while maintaining corporate profitability, and requires a specific attitude of the company towards society, in which success is achieved by observing the law, behaving in an ethical fashion, focusing on the environment and taking into account the needs and interests of all partners (Hopkins, 2004).

For Michael Hopkins (2004), the social responsibility of an organization involves treating stakeholders ethically or responsibly, while preserving the profitability of the organization, and involves a specific attitude of the company towards the society in which success is achieved by complying with the law, behaving ethically, paying special attention to the environment and taking into account the needs and interests of all partners.

Stakeholder theory becomes a necessary process in operationalising corporate social responsibility (Matten, Crane and Chapple, 2003, p.111).

Among stakeholders, employees have a strategic role. Their involvement in CSR initiatives exerts a significant impact on the performance of organizations (Inyang, Awa, Enuoh 2011, p.119).

## **2.2. Human resource management**

HR management is “the philosophy, policies, procedures and practices related to the management of an organization’s employees” (Sims, 2003, p.2).

The HR management function has a special importance as it deals with all those activities aimed at the development, motivation and maintenance of a high performance workforce, with a role in increasing the competitiveness of organizations.



HR management is a component of the organization's strategy. Strategic HR management integrates strategic HR objectives and creates added value and competitive advantage. Thus, we can identify the following arguments (Inyang, Awa, Enuoh 2011, p.121):

- HR professionals become strategic business partners;
- HR managers become partners in the execution of business strategy;
- Employees can become experts in the organization, execution, and optimization of operations, ensuring reduced costs and increased quality of products and services;
- Employees may become representatives of the interests of others;
- Employees could become agents of change.

Scholarly literature identifies the following dimensions of human resources that enable the effective application of a management system: recruitment, training, teamwork, organizational culture, organizational learning. These dimensions are directly related to the HR management model employed by the organization (Jabour, Santos, 2008, p.2153).

### **2.3. The relationship between corporate social responsibility and human resource management**

The question then arises: to whom are companies responsible? From a certain perspective, “effectiveness of CSR in generating improved employment relations in the current climate” (Cotton, 2010). According to a study published in 2012, organisations that are socially responsible and follow a strategic approach to HRM exhibit better performance outcomes, profitability in particular (Buciuniene, Kazlauskaite, 2012). The paper confirms the existence of a connection between human resource management, CSR, and performance. Based on statistical methods of analysis, it has been demonstrated that organizations with effective human resource management better develop CSR policies.

Regarding the internal aspect, CSR has focused on two main issues: adopting responsible procedures for employee relations, with problems referring to investment in human capital, work safety and security, change management; adopting best environmental practice, the main problem being environment and resource management employed in the operational system (Munteanu, Pantea, Stefi, 2007, p.76). The authors consider that these two concerns have created ways of reconciling social development with competitiveness.

The main areas related to the internal dimension of CSR (European Union, 2002) are: human resource management, work safety, change management, natural resources and environmental impact management. The main areas of the external dimension of CSR are: partnerships with the local and business partners, human rights, the global protection of the environment.

It is obvious that human resource management is an essential aspect of CSR actions. For many companies, developing human resources and attracting the best performing employees is an on-going concern. In this context, CSR can include actions such as: stimulating continuous learning, empowering employees (delegation and participative management), transparency and better communication throughout the company, a general and sustainable balance between work objectives/ tasks and family needs, equal payment and career opportunities for women and minorities, active promotion of employees in situations of inactivity due to illness and temporary or permanent handicaps. In the context of this dimension, special importance is given in Europe to recruitment procedures based on non-discriminatory practices, facilitating recruitment of ethnic or religious minorities, women, elderly or unemployed.

## **4. Research methodology**

The purpose of this paper is to assess the impact of corporate social responsibility on human resource management. We established the following objectives of the study:

- O1. Determine the evaluation model of corporate social responsibility.

O2. Assess human resource management by defining its metrics.

O3. Identify the degree of correlation between the index of corporate social responsibility and the index of human resource management using the Pearson correlation coefficient.

The hypothesis of the study is: "*There is a positive correlation between corporate social responsibility and human resource management.*"

#### **4.1. The assessment of corporate social responsibility and human resource management in multinationals**

To assess corporate social responsibility we designed an index based on three sub-indexes (Bonson, Bednarova, 2015, p.186):

- *the environmental reporting sub-index* was based on the following indicators: energy and water consumption, emissions, waste generation, waste processing;

- *the social reporting sub-index* was based on the following indicators: investment in human capital, investment in social capital;

- *the corporate governance reporting sub-index* was based on the following indicators: the independence of managers, executive committee, and audit committee.

The index was calculated using a scale of 0 to 10, depending on whether or not the information was included in reports published by companies.

To assess the human resource management we designed a second index, based on four sub-indexes:

- *the hiring practices sub index* refers to using non-discriminatory practices and includes the following indicators: non-discriminatory practices, employee gender diversity, gender diversity management;

- *the transparency sub-index* measures the length of information channels based on the following indicators: participatory management, feedback mechanisms;

- *the promotion policy sub-index* monitors the employment of personnel management policies and is based on three indicators: career planning, seniority, employee training;

- *the occupational safety and health sub-index* monitors compliance with regulations regarding work safety and the degree of application of these rules internally and voluntarily: quantification of absenteeism, work accidents, job stability.

This research used content analysis of reports published by multinational companies on their official sites. It used the 2014 Top of major companies conducted by Risco, a ranking which includes the first 20 major companies operating in Bucharest whose turnover had an important role in generating Romania's GDP.

Multinational companies in the energy, retail, tobacco and telecommunications industry occupy the first spots, followed by electronics or pharmaceutical companies (Table No. 1).

**Table no. 1. 2014 top of big companies**

Ranking	Company	Number of employees	2014 turnover (billion lei)	Ranking	Company	Number of employees	2014 turnover (billion lei)
1.	OMV Petrom	17866	16,5	11.	Electrica Furnizare	1219	4,01
2.	OMV Petrom Marketing	228	14,1	12.	Auchan	9344	3,7
3.	Romp petrol Downstream	1774	9,4	13.	OMV Petrom Gas	45	3,6
4.	Kaufland	12180	7,9	14.	Hidroelectrica	3973	3,4
5.	British American Tobacco Trading	654	6,9	15.	Vodafone	2729	3,1

Ranking	Company	Number of employees	2014 turnover (billion lei)	Ranking	Company	Number of employees	2014 turnover (billion lei)
6.	Lukoil	3013	5,8	16.	JT International	621	2,9
7.	Carrefour	7284	4,5	17.	Mega Image	7161	2,8
8.	GDF SUEZ Energy	554	4,5	18.	Samsung Electronics	138	2,7
9.	Metro Cash & Carry	5125	4,4	19.	Farmexpert DCI	745	2,6
10.	Orange	2653	4,3	20.	Cargill Agricultura	280	2,3

Source: *Risco, A top of major Bucharest companies*

We evaluated the top five companies. For these companies, we studied annual reports, CSR reports and/ or corporate sustainability reports published for 2014 (Table no. 2).

**Table no. 2. Top five companies based on results of the I<sub>CSR</sub> and I<sub>HRM</sub>**

Company	ERS (5 i)	SRS (2 i)	CGRS (3 i)	I <sub>CSR</sub>	HPS (3 i)	TS (2 i)	PPS (3 i)	OSHS (3 i)	I <sub>HRM</sub>
OMV Petrom	100% 5,00	50% 1,00	66% 1,98	7,98	100% 3,00	50% 1,00	100% 3,00	66% 1,98	8,98
OMV Petrom Marketing	60% 3,00	100% 2,00	66% 1,98	6,98	100% 3,00	50% 1,00	66% 1,98	66% 1,98	7,96
Rompetrol Downstream	60% 3,00	50% 1,00	33% 0,99	4,99	33% 0,99	50% 1,00	66% 1,98	33% 0,99	4,96
Kaufland	40% 2,00	50% 1,00	66% 1,98	4,98	66% 1,98	50% 1,00	66% 1,98	66% 1,98	6,94
British American Tobacco Trading	40% 2,00	100% 2,00	66% 1,98	5,98	100% 3,00	50% 1,00	100% 3,00	33% 0,99	7,99

Source: *created by author*

## 4.2. Hypothesis testing

To process data we introduced the values of I<sub>CSR</sub> and I<sub>HRM</sub> in Eviews 8 for 5 of the 20 companies in the sample. We studied the relationship between the two indexes using statistical correlation methods. The correlation coefficient of 0.8343 proves the existence of a direct, positive, great intensity connection between I<sub>CSR</sub> and I<sub>HRM</sub> (Table no. 3).

**Table no. 3. The matrix of the correlation between I<sub>CSR</sub> and I<sub>HRM</sub>**

	I <sub>CSR</sub>	I <sub>HRM</sub>
I <sub>CSR</sub>	1	0.8343
I <sub>HRM</sub>	0.8343	1

Therefore, the study's hypothesis that "*There is a positive correlation between corporate social responsibility and human resource management*" is valid.

## 5. Conclusions

Multinational companies are often accused of employing selfish HR policies that are oriented towards profit maximization without taking into account the needs of different stakeholders. In addition, many note differences between the official policies and practices adopted by companies in countries of origin and in countries with emerging economies.

Multinational companies are harmful to both employees in countries of origin, who lose their jobs, and employees from emerging countries providing activities similar to those in developed countries, in exchange for lower wages.

To mitigate these accusations, multinationals bring many counterarguments, including: practicing correct HR policies, providing wages above the average of countries where they operate, ensuring safe working conditions, employing fair rules of recruitment and selection.

This study highlights the impact of corporate social responsibility on human resource management in the sense of rethinking personnel policy, promoting the respect of ethics in human resources matters. The analysis conducted reveals that organizations characterized by a high level of corporate social responsibility tend to establish relevant and fair HR policies. We believe the study has some limitations, resulting from the research methodology and short time span of analysis.

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# ROMANIA'S CAPACITY TO CHANGE REFLECTED BY CHANGE READINESS INDEX

Iuliana, Talmaciu<sup>1</sup>

## **Abstract:**

*The changes that take place on the world stage affect people, companies, countries and continents alike. Numerous changes, significant for our century, can be economically, politically and socially identified, having major effects on a long term. In many cases, the change is inevitable and considered to bring risks and disadvantages, being much more difficult to identify the opportunities and advantages it can offer. In order to survive the changes and especially to benefit from them, a high level of adaptation is required.*

*The purpose of this article is to analyze a country's capacity to change adaptation, the complexity of this process and the factors influencing it. To identify Romania's level of adaptation to change, the research method we have used the content analysis of the latest three reports which examine the Change Readiness Index.*

**Keywords:** *Change, Change Readiness Index, capacity to change*

**JEL Classification:** *O1, O3*

## **Introducere**

In the context of the dynamics of the economic, political and social environment, the scientific and technical progress and increased competitiveness, change has become a highly debated issue intensively analyzed by theorists and practitioners. However, the failure rate in implementing changes remains high at organizational level and in certain countries.

As change is one of the laws of life, knowing the process of change is one of the factors that can ensure the competitiveness of organizations and national economies in a competitive environment.

Stanciu Ș. și Ionescu M.A. (2005, p. 85) believe that "change is a problematic issue with a broad audience in the history of knowledge. Change can be found in the texture of most areas of interest of social sciences: economics, sociology, political science, anthropology, psychology, etc."

Clarke L. (2002, p. 33) stated that "stability is an illusion. The pace of change has increased in the last decade... the rapid and appropriate identification of the environmental and market transformations is one of the secrets of survival and development. The change is continuous, there is no end point".

Gary Hamel (2012, p. 135), considered that "during our generation, the pace of change has sharply increased and the change has changed. People are surrounded by all kinds of things that change exponentially, from data storing to the the number of genes which have been sequenced, from the world energy consumption to self-knowledge".

The academician Mircea Malița stated that "the experience of global crisis constitutes an imperative of change" given that "the world stage is a whirling scene and the vision of the near future is unclear". (Malița M., Georgescu C., 2010: 23)

Romania must face major changes caused by the economic crisis, whose effects are still felt today. Given that these changes are inevitable; our country must be able to have a better capacity to adapt to the new requirements of the global economy. Călin Georgescu, executive director of the Institute of Projects for Innovation and Development (IPID) and the National Centre for Sustainable Development, believes that the main cause of many of the troubles we have faced in recent years is "the absence of a coherent and realistic vision on the future that we want and that we are able to build". (Malița M., Georgescu C., 2010: 10)

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The main objective of this paper is the analysis of the factors which determine the ability to adapt to change in Romania, taking into account the national and international political, economic and social environment.

The research method used is the analysis of Global Change Readiness Index for a period of three years, based on the specialized reports elaborated by relevant institutions at international level.

## **2. Setting the level of adaptability to change of a country using the Change Readiness Index**

In times of crisis (economic, political and social) and during the following periods, people, companies and countries face major challenges because changes become even harder to anticipate and plan. Change is natural, the weather and the times also change, our (economic, social, political) environment changes, attitudes and mentalities change. The last decades have been characterized by periods of unprecedented transformations in all areas of activity and no one is immune to the revolutions. The world is changing and change will happen with or without our will. (Ridderstrale, J.; Wilcox, M., 2010)

Clarke, L., (2002) believes that “change is the very essence of development: it is inevitable. It is strange to act stubbornly according to the misleading assumption that things will remain unchanged. Unfortunately, what was appropriate in the past will no longer bring results in the future – a very hard lesson to assimilate by successful companies and countries who believe in their own mythology.”

The literature is very rich in terms of models and methods of adaptation to change of organizations and individuals, but much poorer regarding a country’s ability to adapt to change. No government, business or society is immune to change. The way they prepare for and respond to sudden shocks or longer-term trends has a huge impact on the prosperity and welfare of citizens and institutions. Some examples of change are: shocks such as financial and social instability and natural disasters, political and economic opportunities and risks, growing populations demanding higher living standards, shifts in wealth distribution, climate change and new technologies.

Change readiness relates to the capability of a country – its government, private and public enterprises, people and wider civil society – to:

- Foresee, manage and respond to a wide range of change drivers:
  - Domestic and external change
  - Positive and negative change
  - Short and long-term change
  - Anticipated and unanticipated change
- ... Including by proactively exploiting any of the resulting positive opportunities and mitigating negative change drivers,
  - Leading to more sustainable and long-term economic growth and improvement in living standards for a majority of its citizens

Elaborated with KPMG International in partnership with Oxford Economics, Change Readiness Index is the only global study that can be used both in the public and in the private sector for este singurul studiu global, care poate fi utilizat atât de sectorul public cât și de cel privat for better policy making and investment. Thus the CRI started in 2012 and in 2015 is its third iteration. The 2015’s index features 127 countries and 97% of the global population is included in the latest index.

Through the Global Change Readiness Index we may measure how effectively a country’s government, private and public enterprises, people and wider civil society anticipate, prepare for, manage and respond to change and how capable they are to cultivate opportunities.

**The Change Readiness Index** is structured around three pillars:

- enterprise capability relates to broad capability of private and state-owned enterprises
- government capability relates to capability of governmental and public regulatory institutions
- people & civil society capability relates to individual, societal and cultural determinants of capability

Table no. 1

**Component indexes of Change Readiness Index**

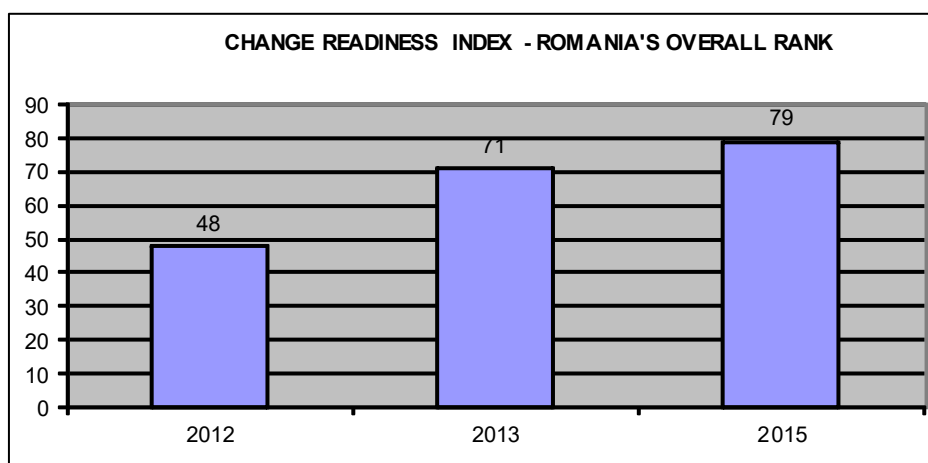
Enterprise capability	Government capability	People& civil society capability
Labor market	Macroeconomic framework	Human capital
Economic diversification	Public administration and state business relations	Entrepreneurship
Economic openness	Regulation	Civil society
Innovation and R&D	Fiscal and budgeting	Safety nets
Business environment	Rule of law	Technology use
Financial sector	Government strategic planning and horizon scanning	Gender
Infrastructure	Environment and climate change	Inclusiveness of growth
Informal sector	Food and energy security	Demographics
Technology infrastructure	Security	Health
	Land rights	Access to information

Source: <https://home.kpmg.com/xx/en/home/insights/2015/06/change-readiness-index-methodology.html>

The CRI study in 2015 offered some surprising results regarding the ability of the countries to adapt to change, particularly of smaller countries, less wealthy and with smaller resources but which adopted essential measures to adapt to change. According to Șerban Toader, Senior Partner, KPMG Romania, the explanation would be that “the welfare of a country is undoubtedly a major factor, but many countries compensate prosperity with robust governance, a solid social basis and business positive environment”.

The countries on the top of the ranking for adaptability to change: the CRI study was extended to 90 countries included in the 2013 ranking to 127 countries in 2015. In 2015, Singapore was ranked in 2013 as the first country, while the northern and western European countries dominate the first 20 places.

Graph no. 1

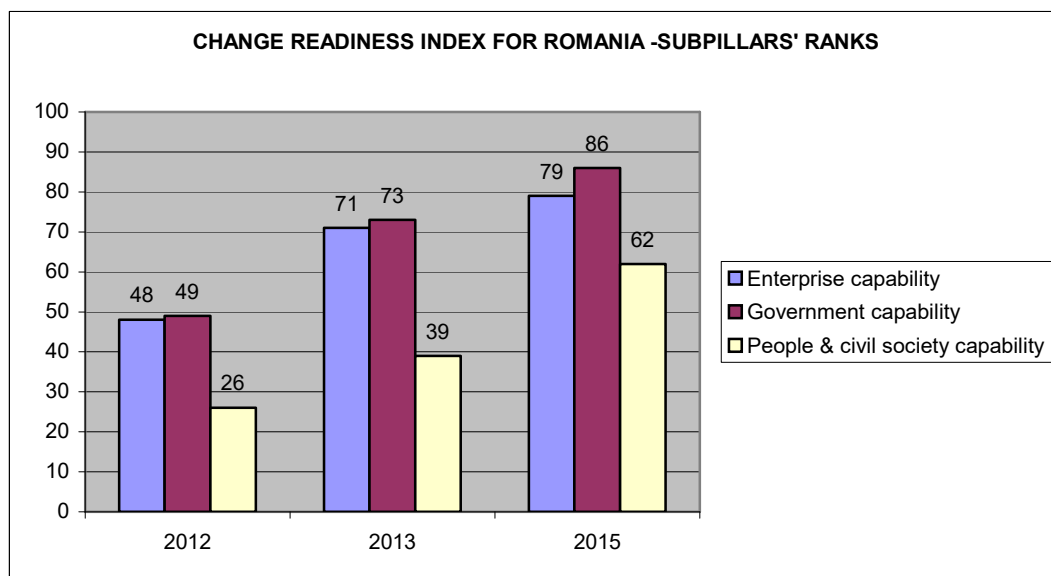


Source: made up by the author on the basis of the KPMG reports



Comparing the results with those obtained by our country in 2013 and 2012, we can see that Romania has improved its overall CRI score that highlights capabilities on three main pillars: business, government and civil society and people. Romania obtained the best score in the capabilities of people and civil society, although this is the only major category to which the country's score decreased when compared to the previous study.

Graph no. 2



Source: made up by the author on the basis of the KPMG reports

The 79th position occupied by Romania in the “business sector” reflects the robustness of corporate and entrepreneurial capabilities of a country. Romania has a better position in technological infrastructure (the 50th position), the degree of economic openness (the 51<sup>st</sup> position) and labor market flexibility (the 61<sup>st</sup> position). The subdivision of this category which is a cause for concern is the Innovation and Research & Development, where Romania was ranked on the 109<sup>th</sup> position. The reasons that led to the closure of our country were poor funding and cooperation among research institutes and businesses. Romania has also recorded a low score (number 95) regarding the difficulties in setting up a business, the level of regulation, the legislation on property rights and contracts, taxation and investor protection. Romania has not achieved a satisfactory score in the financial sector (ranked 93), the main indicator measuring the effectiveness of financing companies and entrepreneurs.

The CRI study in 2015 reveals that Romania’s weakest pillar in terms of adaptability to changing index is the government sector. The country ranks 86, especially because of poor strategic planning of government and tax administration and budget deficit. Another problem is the response of Romania’s climate and environmental change as well as on food security and energy security. The indicators that there have been signs of improvement compared to the previous study were bureaucracy, positive regulatory policies and a stable macroeconomic framework, where Romania was situated close to a middle position in the classification.

Although the score has decreased since the last survey, people and civil society represent the most robust capability of Romania, which is ranked 62 in the rankings. Accordingly, it should focus in more closely on the development of human capabilities, the more so as it takes a long time for the results to become visible in this direction. Romania's weakest link lies in demographic, which was ranked second to last (126 instead of 127), due to a falling birth rate and migration huge.

According to the analyzed report, Romania has deficiencies in terms of social protection and entrepreneurial capabilities due to reduced support from the state. Instead, Romania has a better rank in the use of technology, inclusive growth and health, with high life expectancy (74.6 years) and a low rate of infant mortality.

Table no. 2

**Romania's scores and ranks for the pillars of CRI - 2015**

<b>Enterprise Capability - sub-index</b>	<b>Score</b>	<b>Rank</b>
Labor market	0,56	61
Economic diversification	0,6	72
Economic openness	0,73	51
Innovation and R&D	0,21	109
Business environment	0,49	95
Financial sector	0,41	93
Infrastructure	0,38	68
Informal sector	n/a	n/a
Technology infrastructure	0,55	50
<b>Government capability - sub-index</b>		
Macroeconomic framework	0,63	65
Public administration and state/business relations	0,49	54
Regulation	0,51	54
Fiscal and budgeting	0,45	100
Rule of law	0,43	74
Government strategic planning and horizon scanning	0,25	113
Environment and climate change	0,39	96
Food and energy security	0,29	96
Security	0,55	64
Land rights	n/a	n/a
<b>People &amp; civil society capability - sub-index</b>		
Human capital	0,54	51
Entrepreneurship	0,39	87
Civil society	0,55	55
Safety nets	0,27	110
Technology use	0,53	38
Gender	0,6	64
Inclusiveness of growth	0,61	41
Demographics	0,14	126
Health	0,84	44
Access to information	0,6	45

Source: <https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/2015-change-readiness-index-v1.pdf>

**Conclusions**

Governments and investors can learn from the information offered by Change Readiness Index:

- governments may improve their policy by benchmarking national strengths and weaknesses and identifying areas in need of reform

- governments can identify best practices and see how they are stacking up to their peers. By understanding the states strengths and weaknesses the government can better engage investors
- investors can also use the CRI as a starting point when creating more comprehensive risk assessments for states for potential investment or states where investment is already occurring
- NGOs can also use the CRI to analyze potential candidates for aid by looking at the lower ranking nations. These development agencies can also look at CRI data to see what weakness they can help addresses
- build best practice by stimulating debate on change readiness and learning from higher-ranking countries

Another conclusion of the study is that “a relevant trend emerging from the CRI study this year is that countries that have achieved a higher score for economies favorable to the inclusion tend to have a better index of adaptability, while conversely, income inequality tends to be associated with a reduced level of adaptability to change”.

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# COORDINATES OF DEVELOPING THE BALNEARY TOURISM

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## Abstract:

*Health is not only the absence of the disease or infirmity, but a state of wellbeing as physical, mental and social. In this context, the acquisition and maintaining of physical and mental health is regarded as "a component of the quality of life".*

*Modern people, overwhelmed by professional and personal problems' solving, often neglect their own health, but for all of that there is a viable alternative, namely health tourism or balneary tourism.*

*Balneary segment belongs to the health tourism market, together with medical tourism, thalassotherapy, hydrotherapy, wellbeing/ spa and fitness. Balneary tourism is one of the forms with constant tourist traffic having a relatively stable clientele, and that contributes to increasing of the utilization coefficients of accommodation's capacity and to achieve greater average revenues per day / tourist.*

*Given the need to adapt the balneary resorts to the requirements of the tourists, this paper aims to highlight some aspects regarding the content and quiddity of the balneary tourism, but also about adopting the repositioning policies of balneary resorts and prospects for development of balneary tourism in Romania/ Valcea County.*

**Keywords:** *balneary tourism, health tourism, positioning, Romania*

**JEL Classification:** *L83,M31*

## 1. Introduction

Accelerated rithm of daily life as a result of urbanization and industrialization, pollution, stress, sedentary lifestyle, all these have induced various diseases to people: inflammatory and rheumatic, cardiovascular, metabolic, respiratory, decreased immunity, depression etc.

Modern man overwhelmed by personal and professional solving-problems often neglects his own health; but for all the health tourism is a viable alternative.

Romania has a multitude of natural therapeutic factors whose qualities are highly valued in the professional treatment centers across the country. Health holidays start becoming a more frequent choice for those who wish to preserve or improve health, relax actively and prevent illness.

Spa tourism stands out against the others types of tourism due to their many social and economic benefits as a result of the positive effects on physical and mental health of people, inclusive wellness.

## 2. Conceptual Framework

Even if the health tourism became a trendy subject, decidedly a less abundant literary production about it there is. Compared to other forms, in which the tourism is easier to be highlined, in the health system becomes more complicated to identify its touristic functions. In the literature the health tourism is defined by using natural healing factors through multiple terms depending on the type of resource or specific connotations of each country. Thus, health tourism is a comprehensive concept with many categories of activities (activities involving the "sunny" and fun, activities involving indirectly or even central health and care, wellness as sauna, massage and other activities referring on medical treatment), all with inflection points to other forms of tourism: leisure, adventure, sports, medical or care, wellness etc. (Hall 2013,

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p. 7). As a collective perception mainly aimed at physical healing through therapeutic waters and the spas, and fits into the concept of medical wellness (Smith & Puczko 2009, p. 24).

Water is the common denominator of health and tourism sectors and very often the sports sector as well. Water is used for different purposes in these sectors. Thus, it is distinguished (according to Masterplan tourism and spa, p.16):

- ✓ Water décor type: it must be pervasive in resorts: fountains, lakes, rivers. Baden Baden, Vichy or Karlovy Vary are perfect examples of "thermal cities";
- ✓ Water for comfort: heated pools, spas and thermal ludic centers;
- ✓ Curative water: water with specific properties which should be used according to a medical protocol;
- ✓ Playful water: water leisure par excellence, for amusement or aqua-parks. As americans say "No water no leisure".

Because health tourism has several connotations (depending on the resources of each country), its analysis is more complex compared to other forms that have a structure focused only on tourism. There are numerous published studies, but the definition of balneary tourism is currently not clear in literature reason for why several points of view are introduced in table no. 1.

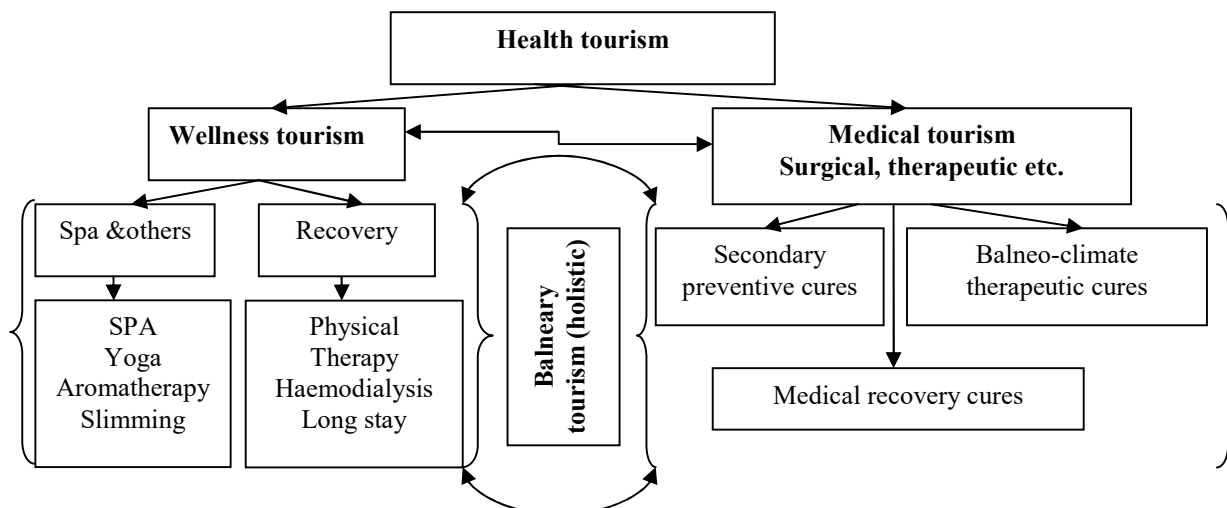
Table 1. The terms used to define treatments performed using water\*\*

Concept/ source	Definition
<b>Balneoclimatoterapie</b> , Berlescu E., 1982	Using a complex of natural factors: balneo and climate factors of a balneary area for prophylactic, curative or medical recovery purposes
<b>Balneo-terapy</b> , French experts	Usage of current water supply (other than mineral, thermal or sea ones) for therapeutic purposes
<b>Crenotherapy</b> , DEX, 1995	Which has hot springs of mineral water
<b>Cură balneo-medicală/ Curative medical spa</b> , Stăncioiu A. F. , 1999	Practiced by people who go to spa resorts for health care or prevention of disease
<b>Physiotherapy spa</b> , Whitehurst, M., 2012	Recovery programs offered by the spas
<b>Hydrotherapy</b> , Marland, H., Adams, J., 2009	Water use for therapeutic purposes
<b>Spa</b> , Eddy, M. D., 2010	Massage and hydrothermal procedures performed for different physiological needs and overall sense of well-being
<b>Thalassotherapy</b> (spa-coastal), France, Italy, Spain	Multitasking elements in a privileged marine area, under medical supervision, for preventive or curative.
<b>Termalism</b> , France, Italy, Spain	Therapeutic use of thermal mineral water straight from the source
<b>Termalismul</b> (crenotherapy), Stănciulescu G. et al, 2000	Overall activities related to valorisation and usage of the curative mineral warm waters in a thermal resort.
<b>Turism balnear/ Spa tourism</b> , Glăvan V., 2000	Pathway for ensuring the necessary thermal and mineral water for internal and external use.
<b>Health tourism</b> , Hall, 2013	Tourist activities in which water plays a special role in health restoring
<b>Health tourism</b> , UOTO, 1983	Health assurance based on mineral waters and climate.

\*\* elaborated by authors based on literature

As you can see, there is not a certain definition of health tourism based on natural treatment factors, but most experts accept that this term refers to travel being motivated by performing a medical procedure or activities based on using water in order to promote physical and psychical welfare.

Currently, the scope of health tourism gradually extends to medical and wellness tourism, balneary tourism being holistic represented at their interference (see graph no. 1).



Graph. no. 1. Interconnection between health tourism and spa tourism

In our country, the health concept requires a collective perception mainly of physical healing or medical one, through therapeutic waters and the spas that fits into the concept of medical wellness.

This belief is totally justified if is taken into account the full potential of the Romanian spa resorts, represented by the high quality of mineral and thermal waters. The whole system involves medical recovery cures, as secondary preventive and climate therapeutic cures, balneary cures, spa cures and beauty treatments, sports and fitness, primary preventive cures, yoga and meditation. For each of these potential tourism products, which can outline clearly an equivalent form of tourism is required a compatibility within the defining components of destination / tourism resorts, such as its natural and human resources, socio-cultural ones, infrastructure, tourist reception etc., all contributing to facilitation of specific activities.

Wellness tourism consists of a medical tourism segment that promotes a healthy lifestyle, and healthcare tourism focuses on maintaining the health state whilst the medical tourism in fact requires illness treatment through more complex procedures, which may implies surgery, chemotherapy etc. (see table 2)

Balneary segment is one of the products from the health tourism market, along with medical tourism, thalassotherapy, hydrotherapy, spa and fitness.

Balneary tourism ranks on second place in top of increasing medicalization. This segment uses natural mineral water as underground water or that comes from natural sources and has recognized curative effects (as chemical, thermal and mechanical ones). It is generally practiced in an adequate natural environment. Spa treatments are more increasingly regarded as preventive treatments.

Table 2. Market segmentation of health tourism

	Medical tourism	Balneary tourism	Thalassotherapy	Hydrotherapy	Wellbeing/spa	Fitness
Preventive		X	X	X	X	
Curative	X	X				
Recreation				X	X	X

Source: by authors

### 3. Specific features of the balneary tourism

Balneary tourism is a specific form of tourism that has been developed significant especially in recent decades, with increasing stress and those illnesses caused by the pace of modern life in large conurbations. It is characterized by a number of peculiarities arising from the content and complexity of its business, such as:

- Basic motivation is health care (the treatment) done daily, according to a timetable, using a variety of factors and applying different procedures (the prophylactic, therapeutic or recovering cures).

-It valorises completely natural resources and factors for balneary cure purpose that a country / area has. Spa tourism is also based on a permanent potential of high complexity, which is practically inexhaustible, redeem being independently of weather conditions.

- No significant seasonal concentration, being the only form of tourism which is based on a potential permanent of high complexity.

- Length of stay is higher, according to the medical advice. Current trends manifested worldwide (new motivations and vacation cuts) led to the reduction of stay, thus attracting many other customer segments.

- Intensification of urban functions of spa resorts by the appearance of many and various activities of production, trade and services specific to human settlements. Currently the specialists estimated that about 60% of resorts have become towns in the true sense, reason for what a balance between urban and their tourism functions requires a careful process management planning.

- It can be practiced anywhere, due to the wide spread of natural factors in all areas. In the mountain areas where predominate a he certain bioclimate, mineral waters, and sometimes therapeutic gases; on the hills and plateaus where they meet especially mineral waters, a salty bioclimate and treatment with sludges; and on the seaside where marine bioclimate, the treatment with sludge, the vast sun, sand and ionization are the main factors of course, spa tourism is present.

- Generates an improving of natural environment by setting up parks and gardens on surfaces that can reach up to hundreds of hectares (Vichy France) or afforestation in order to create a suitable climate for relaxation and recreation necessary in a balneary resort.

- Requires specific material resources with medical technology, pavilions, clinics, spas, different facilities and the presence of specialized medical staff, physicians specializing in physical medicine and recovery, physical therapists, assistants, etc. That is a defining feature of the balneary tourism.

And in terms of health tourism some peculiarities for clientele can be identified, namely:

- Diversified segments of tourists due to the high rate of disorders with attrition character, the emphasis on prophylactic treatments, and diversification of the resorts by so called "cures release form" (fitness).

Tourism products like "release form" (fitness), thalassotherapy are for tourists with high incomes, while the traditional spa products are designed to segments of tourists with lower incomes, because in this case some of the medical expenses are supported through health insurance.

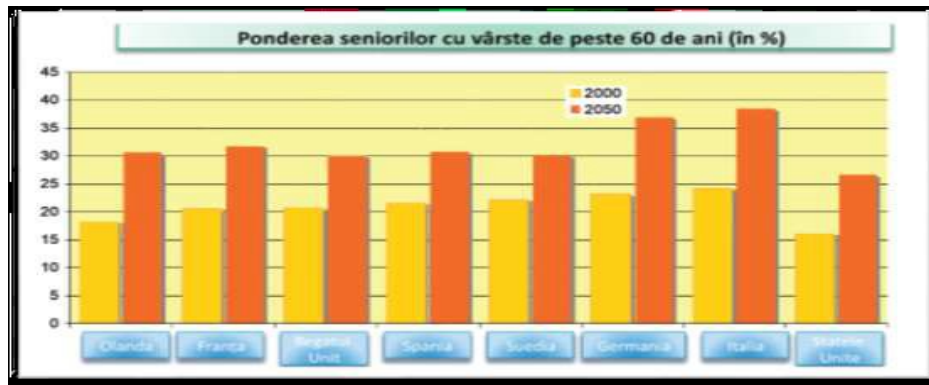
- Is subsidized more or less by the state, by country, through state health insurance or other social funds for ensuring the access for all population segments towards spa tourism.

- Higher fidelity than to other tourism forms, because the treatment requires a longer period and many times it should be repeated over several years or the treatment itself is conducted only to improve the medical condition and therefore it should be repeated twice yearly.

#### **4. Actually status of balneary tourism**

Balneary tourism is one of the constant forms of tourist movement with a relatively stable customer basis, which helps boost the capacity utilization coefficients for accommodation as well as increase the average revenue per day / tourist.

In Europe but also in Romania there is an accelerated process of demographic aging, the elderly being the most important target group for health tourism. Additionally the purchasing power of a person over 50 years old is nowadays higher with 30% than that corresponding to other age groups. The seniors hold 50% of the net income of households in Western Europe.



A qualitative balneary tourism can be developed in Romania, with approximately 8,500 mineral and thermal springs that hold it. Employers in Tourism Spa argue that Romania is the richest country in Europe in terms of resource spas, accounting for about a third of mineral and thermal springs in Europe, but only 10% of the springs are exploited because of the gaps in approach to scientific research.

There are 117 localities in Romania with natural therapeutic factors of which 29 are designated as balneary resorts of national importance and 32 as resorts with local importance; 80% of their assets belong to private owners and 20% is owned by the Ministry of Health and Public Service Retirements.

Value of the Romanian balneary fund is accentuated by the complexity of natural factors, namely existence of the main environment factors in the same resort along with a wide group of minerals with beneficial effects that can be used in a large range of spa treatments.

In Romania the spas' culture is still developed and it can be exploited through a suitable development of services within their diversification. However, balneary vacations remain a consequence of the Romanian social policies and the beneficiaries of these vacations, retirees and unions' members become a captive clientele, meaning that this market segment may disappear with reducing or eliminating social subsidies. Cohabitation of this market segment (social clientele) with ones that use unsubsidised cures has been become difficult. Many tourists younger and with higher incomes request more qualitative and various services, reason for what they focused nowadays on anything else, such as active vacations abroad.

Balneary tourism is the only form of tourism which is based on a permanent potential, highly complex, inexhaustible and relatively independent of weather conditions. Although health tourism can be practiced continuously, no matters the season, most resorts have limited their main activities for a specified period of April to December (when social programs are available).

As we mentioned, tourists targeted by Romanian health tourism are generally elderly people who regularly come to treatment cures. Length of stay in this tourism is high, between 12 and 16 days.

Domestic spa tourism is dependent on prices, and the experts assess that an increasing in prices with 20% can lead to a decrement of 40% in demand. Partly it is explained due to bigger period of staying in spas that makes consumers to spend more money (as total expenditure) in the health tourism than in other forms of tourism. Existence of the treatment vouchers (compensated tickets) for certain social categories of consumers on this market and the packages offered by tour-operators counterbalance this disadvantage; however, health tourism is practiced mainly by lower to middle-income social categories. In fact, in all European countries, demand is strongly influenced by the coverage of expenses related to balneary cures directly from social and health insurance budgets.

Over 95% of spa clients in our country are Romanians with a main tourists' category over 50 years old. There is also a small number of foreign tourists coming especially from Israel, Germany, Holland, France, Belgium, Italy, Hungary and Spain. Foreign tourists prefer



equally a general relaxation and curative items of various natural resources (mineral, thermal, mud etc.), opting for touristic structures of higher classification category, but the offer for this kind of spa tourism structures is extremely limited.

Spa tourism market can be seen as a continuum that reflects the needs and interests of its component segments.

Thus, the main segment consists of consumers with predominant purpose on recovery health services, satisfied with average quality standards of accommodation and treatment units, customers with subsidized tickets. Another segment consists of tourists looking for: high-quality facilities, healthy food, opportunities to ride in pristine natural settings, availability of gyms. But a niche segment consists of tourists seeking for spa facilities, fitness, anti-aging or cosmetics treatments, body purification.

Certain Romanian areas of health tourism were selected in order to be encouraged and support touristic product development; this selection is based in part on an assessment of what already exists in Romania (as resources) and on current and further trends on tourist market tastes and preferences.

The satisfaction with existing complementary facilities (especially in terms of opportunities for fun) is generally reduced.

Distribution of the treatment tickets is actually the engine that keeps alive most spas in Romania. However, many resorts cannot be restored or kept in good conditions and can be switched off at any time. Tariffs' level of subsidized tickets in this system is far below the rate at which it can provide reasonable facilities and quality services, to bring an adequate profit operators.

Given the current budgetary restrictions, there are no guarantees about maintaining widely subsidized tickets to this system, too.

## **5. Strategic directions for the development of spa tourism**

Although, according to statistics, tourism has not a high share in GDP, health tourism is likely to grow up in coming years because of its strong points: natural environment as cure factors, natural and anthropical potential, lack of seasonality and, not least, the services (especially medical ones) offered to tourists.

According with the Employers League in health tourism (OPTBR) - Recent research for developing of the national tourism brand indicates a high demand for health tourism, internally and externally, which ranked at 3-4 positions, ahead of other traditional segments proving that its potential as well as therapeutic efficacy of cures performed is known.

Since spa tourism product is extremely complex, and many tourists wish to engage themselves in many other activities (recreation, leisure etc.), it is necessary to consider the construction of diversified touristic products for different segments market, including many cultural and sports components. For instance, organising different kind of events can be a solution, which highlights the characteristics and potential of rural or urban area that belongs to respective health resort, with effect of strengthening the identity of the destination.

In fact, depending on type of resorts, there were created packages having cure factors positioned centrally; for instance: "One week of recovery" (a package of six nights- BB in hotels two and three stars plus medical advice and two treatment procedures daily, free of charge), "Let's bath spas!" (five nights FB, medical advice, two procedures daily, and five days of treatment), "10 days resort" (ten nights FB, minimum seven days of treatment, two procedures daily and a medical consultation, with accommodation, meals and treatment in hotels of two, three and four stars) and "wellness spa" (three nights, two days half board, a festive dinner, access to swimming pools, sauna, gym and two free procedures type wellness). However, the offer through such programs designed only based on length of stay and basic services, should define more clearly the profile of program and / or activities through

keywords / determinants in the decision making of consumers to purchase the "recovery", "wellness" etc., and to express their relation to such resources for those uses.

### ► **Concept development of thermal city**

Enrichment of tourist areas' offer with medical endorsement in terms of personalised medical services should be integrated as a distinct product into a global offer of the tourist destination. For instance, a public treatment center in the resort for tourists and customers from surrounding areas or hotels with their own healthcare equipments can be.

Ludic hydrotherapy equipment are also among the equipments fitted in a resort. This category may comprise thalassotherapy centers at the seaside. A thermal city should be at least equipped with hot springs, a qualitative heritage built, a spa park, with special care for the environment (promote clean means of transportation, avoid traveling by car ...), a constant animation (casino, cultural events, congresses ...) for an operating period of at least 6 months.

It can be supplemented by an offer of complementary products such as bottled mineral water and creating a range of cosmetics. There are national and international markets (especially Central Europe, Ukraine, Russia).

Priority mission of each area is to identify the health tourism products that can be included in the spas in different tourist regions of Romania with benefits for a touristic clientele national and / or international. For example, private investment for the creation of spas in existing hotels, for developing of private clinics (in urban areas), diversifying services in the regions which depend on a short season (coastal areas) - golf, boating pleasure cruises, thalassotherapy etc.

### ► **Specialization of the treatment stations/ units for aging preventing and anti-aging cures.**

These "cures" are addressed to seniors but persons wishing to pursue a "cure medicalized". In this regard Ana Aslan / Gerovital is certainly a good starting point ; it is a product of "medical tourism", therefore, necessarily with a « medicalized » purpose and expensive. It may be supplemented by a general medical examination, cosmetic surgery, diet, anti-smoking cures, cures against the alcohol abuse, cures against obesity etc.

In this particular case the product is offered through the clinical / treatment units together with the hotel equipment for thalassotherapy or thermal recognized cures.

The aging process has become a problem for all EU countries. Average age of life is over 70 years old. Romania could position itself as a pilot country as regards an "aging slow and beautiful" and fight against aging ; so, it could be created in Romania the first European CLUSTER ; product portofolio comprising a general medical examination till to treatment cure and production of cosmetics or other healthy goods.

It could be developed specialized resorts either at Snagov (close to Bucharest) or at the seaside (Mangalia), or in the countryside (Govora etc).

Western European population aging represents a tremendous growth potential for balneary resorts in Romania which would like to launch their touristic products on this market, especially those specialized in rheumatism cure.

In order to increase Romanian health tourism's attractiveness and thus to attract a new clientele, it is necessary to move from a position of resort, often focusing on rheumatism and asthma treatments (saline) towards the resort globally centered on fighting against aging through an opening to a younger clientele from 50 to 65 years old - which nowadays comes less in resorts - while continuing to support the fundamental component represented by the thermal water.

### ► **Traditional spa sector**

Traditional spa cures are those in which clientele's expenses are partly covered by health and retirement social systems, since this is an itself product, as social benefit. It

belongs to the social policy of our country and, in this regard, it can address rather to disadvantaged categories such as, for instance, retired seniors with small pensions/ incomes, families in economic difficulties and disability persons.

Market of the traditional spa sector, in its social form, corresponds to a real demand in Romania but many improvements should be done: comfort level increasing, cures to be restructured and benefits diversified.

Repositioning of the spa products goes through a period of profound adjustment because of the existing equipment, staff and services; as well as a new stage of engendering diagnostic equipment, care services and accommodation has started.

Restructuring the cure, taken into account the risks of further decline of spa sector traditionally in the next years - because of the economic crisis - and radicalization of policies of the retirement or health insurance systems, possible at any time; nowadays it is more important than ever to make decision correctly as regards with: developing cures without subsidized social benefits, developing health cures available at discounted price compared to spas, development of short-period cures.

Diversification of benefits, as differentiate factor in terms of product and image, by improving the current conditions of accommodation and treatment in order to keep traditional customers and in the same time, diversification of actual supply as regard creating cures specialized for specific customer segments (cures against smoking, for slimming, for young mothers) or offers to attract customers either proximity or a weekend clientele.

► **Getting in shape the customers in frame of spa units**, in particular for urban, female and young clientele, that means endowment hotels with jacuzzi equipment, gym and massages. These resorts should necessarily be located nearby urban markets as it works based on an hourly or daily schedule.

## **6. Conclusions**

Romania has a valuable spa potential, but balneary products also means know-how, natural resources, treatment units, accommodation, a suitable environment enabling for spending from 10 to 16 days without bored. Although the resorts are very good in terms of the natural resource, tourist attractiveness is negatively influenced by other components of the tourism offer, such as: faulty exploitation of resources, low level of knowledge of natural resources, lower aesthetic value of the natural environment, higher attrition rate of accommodation and treatment units, lower diversity of HoReCa, high density of buildings in public areas; improper quantity, quality and diversity of leisure structures in most resorts, inadequate general and specific trade, inappropriate quality of infrastructure facilities.

Strategy of partnership is, perhaps, in the current context, the key element for the development of health tourism in Romania. It is necessary to change the optic of supporters / operators involved in the sector in terms of health tourism development in Romania; success is conditioned by involving all decision makers at the macro and micro-economic levels.

Given the closely dramatic situation of spa destinations, despite the various plans for re-launch, modernization and adaptation elaborated over time by different institutions and organizations, the resorts remain unadapted to meet actual requirements. So, while natural balneary potential represents the most valuable assets of Romanian tourism ", it continues to lose ground to international competition, requiring inclusion of corresponding form of tourism in a planned system, with common objectives (without establishing the same specialized language before) to all its supporters, deadlines and actions based on each resort, depending on its specific, all kinds of resources it holds, but also which market to be targeted on.

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**STRATEGIC COHESION IN THE EDUCATION SYSTEM**

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**Abstract:**

*Educational policies are constantly put up for debate. Moreover, it becomes more and more difficult to be put into practice since it is hard to reach a common ground when deciding on how the education system should look like in a country. The aim of our paper is to analyze the role played by strategic cohesion in the education system generally and in Romania. The methodological approach is literature review.*

**Keywords:** coherence, strategy, educational, forces, means, actions, expertise

**JEL Classification:** I2

**Introduction**

Educational policies are generally very difficult to put into practice, since their proffered objectives vary, on the one hand, depending on the doctrines of the ruling parties, the demands established by the educational policy of the European Union and, needless to say, market demands. For this reason, it is most likely that the recurring reforms of the Romanian education systems appear to be patterns with no purpose whatsoever, rather than patterns showing continuity or completion. Even more so, quality standards in education - and especially in higher education - by which Romania has abided have not led to flux optimization, but rather to excessive bureaucratization and misuse. This paradox is due mostly to the lack of strategic coherence in educational policies and strategies, the main cause being the impossibility of generating a strategic expertise corresponding to a political decision with regard to education systems.

In this regard, we aim to discuss the concept of strategic coherence in educational strategies and policies, and therefore in educational systems. Strategic coherence will generate the strategic expertise of decisions within the Romanian education system. The debate will be both principled and algorithmic, as coherence - and particularly strategic coherence - cannot be generated and, above all, achieved with no intrinsic logic of the scientific approach upon which a true educational paradigm is based.

**Levels in the educational process**

Education is the only instrument of cognitive reproduction and intellectual transfer that ensures the perpetuation and development of our society. Its horizons are endless and, therefore, it is difficult to identify a particular route and decide which course would be the most effective. More often than not, the educational process, in all its forms and formulas, is extremely difficult and knows no hiatuses because the lack of coherence is incompatible with the means of generating and treasuring knowledge, and the fracturing of knowledge is incompatible with our society. Unfortunately - or perhaps fortunately - knowledge, as a form of existence of human society, as an ontology, gnoseology and logic - is an endogenous process and not an exogenous one (at least from we have learned so far), and therefore, its stimulation, conception and staging - as a continuous process, intrinsic role, and structural frame of human existence on earth - belongs to man himself. We do not know if it us who decided to be so or if such a decision belongs to a deity - at first there was the Word - but the

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sheer capacity to think this shows how great man's responsibility for ensuring this *modus vivendi* based on cognition of society is.

Sophists used to say that "Of all things the measure is Man, of the things that are, that they are, and of the things that are not, that they are not". This famous two-and-a-half millennia sentence is a postulation of axiology and has in fact generated one of the greatest paradoxes ever to create a rupture in social ontology: the demiurge man of our society and man as a product of society. And, as a result, the excessively social and, above all, socialist doctrine camp along with their never achieved variation, the communist one.

Of course, this dichotomy/division seems to have no relation to the educational process taking place in any society; however, it is these doctrines that will generate policies, namely political actions, that is, decisions that may sometimes appear shallow, and other times tortuous. These decisions intrude upon the clarity of the educational process, due to group interests, expressed by *de facto* majorities which are usually counterfeited. Whenever there is no corresponding strategic expertise, these types of interests, expressed by all kinds of doctrines that are found often in policy decisions regarding the educational processes, will foist on these processes directions that dissuade the education system from its basic principles - universality, consistency, value, usefulness and effectiveness - or translate these principles into narrow, fragmentary and circumstantial views. We say this because decisions concerning educational processes exist, in their essence, in democratic societies – in point of fact, in any society, even in authoritative political regimes.

Levels of educational process are basically the following:

- The decision (political level);
- The implementation of policy decisions and elaboration of strategic decision (strategic level)
- Creating and updating the structures and formulas of implementing the strategic decision (operational level)
- Taking concrete action within networks and educational institutions (tactical level)

*Decision-making level (political level)*

This level is particularly important in guiding the educational process, since it sets the goals and horizons of the process. Therefore, educational policies (understood in their capacity to take action and make decisions regarding the educational process) have to be designed after thorough analyses of the process and appropriate expertise developed by "the headquarters of the educational process ", that is, by the strategy experts' community. Note that educational policies cannot be changed every four years, as in the case of Romania, because neither the political cohesion nor the strategic one can be achieved, and the education system cannot maintain a level of required and effective educational cohesion.

The effects of this inconsistency are well known. The educational decision is expressed through the law and procedures for the allocation of forces, means and resources.

*Strategic level (the implementation of political decisions level)*

For the coherence and consistency of education, the strategic level - as a consistent level of training, merged into a uniform concept and using coherent and consistent forces, means, actions and resources within the education system - is a unitary system that engineers the educational process, such that it ensures education by all possible means - formal, informal and non-formal - so that everyone will benefit from this process, firms, public institutions, security and defense ones and, last but not least, all components of education (formal, non-formal and informal).

The strategic level is not only expressed, but also ensures by means of strategic planning of the educational process, by preparing, joining, using and merging all forces, means, actions and resources into the same concept, thus generating a corresponding strategic frame and ensuring an update based on feed-back connections and actual requirements of the

dynamics of international educational processes, of effective requirements, and national and universal patrimony.

The strategic level observes the entire educational process and its determination, analyzes them and based on that, operates the updates and enacts the principle of strategic coherence, and furthermore ensures the expertise need by policy makers by way of appropriate mechanisms and systems already existing in our country (committees within the Parliament corresponding structures in all other ministries and institutions in Romania).

*The operational level (level of implementation of the strategic decision)*

The strategic level ensures both the strategic coherence of educational processes and the identifying of horizons of waiting for the results and effects of those processes, however, setting clear goals on educational levels, years, stages, etc. In other words, the strategic level creates the strategic frame needed to achieve the strategic goal set by policy makers, materialized within the strategic objective, and the strategic planning required for the realization of this objective and purpose set by policy makers.

In reality, it is the operational level that ensures “the device” in order to make the strategic plan. The operational level will be found within each educational category (preschool, school, pre-university, undergraduate, postgraduate (masters), doctoral, postdoctoral, continuous professional development) and consists of systems that facilitate the realization of general and specific requirements of the law, by applying the requirements of the strategic plan so as to achieve all conditions, forces, means, actions and resources necessary in order for educational establishments within the corresponding category to operate at maximum capacity (limited to available resources at hand).

*The level of direct action (tactical level)*

It is the level of educational action itself. All upper levels have only one purpose: to ensure the necessary conditions for the direct action to work properly, coherently and effectively. It is neither separated from the other levels, nor entirely different, even though it has direct competences in the basic, superior and continuous forming of the intellectual potential of the country and therefore the planet, as well as in providing access to cognition.

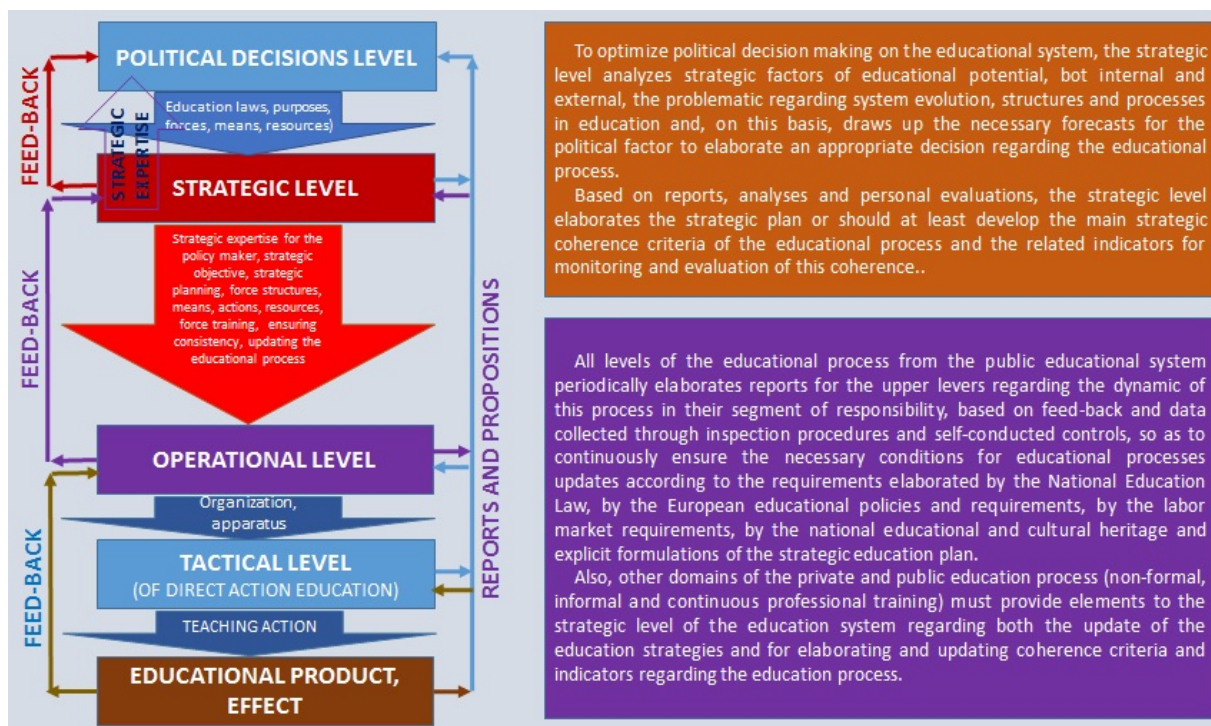
Hence, illiteracy is one of the worst injustices that occur in human society. And, it is due especially to political decisions and lack of consistency and strategic coherence in education systems.

Philosophy and network physiognomy of educational processes do not change the competences of these processes, but rather bestows upon them a handful of duties and functions that connect these levels, thus facilitating direct communication and removing the restrictive and overly bureaucratic effect that any hierarchy will generate. Nevertheless, it will preserve the rigor and strict algorithms which ensure compliance with the competences and a clear indication of the mission of each level.

The network is perhaps that element that will favor strategic cohesion, even though such a consistency is first and foremost related to a concept that is to be found within this level.

We believe that only the strategic level of the educational process is able to generate and operate such consistency, as it possesses all the competences related to the strategic surveillance of the educational decision, the creation, structuring, planning and modernizing of the forces (limited to the amount fixed by policy makers, though surveyed by the strategic level), as well as to the rigorous planning of forces, means and resources (after the strategic expertise has been done) and to the strategic planning of actions within the entire educational system.

A representation of these levels and the main interactions among them is shown as follows (Scheme No. 1.):



**Scheme No. 1. Levels of education and the principle relationships among them**

Source: Conception of the authors

Note that the strategic expertise of policy makers on educational problems precedes the political decision concluded in the law concerning education, but does not stop with the advent of the law and the implementation of the methodology. It continues throughout all educational cycles so that policy makers will be aware of the strategic dynamics of the whole educational processing and, if necessary, be able to apply the correctives required. Without a coherent and consistent expertise made by the policy makers, that is, the government, parliament and the presidency, an effective strategic coherence and consistency will not be possible. Such a strategic expertise cannot be achieved unless there is a significant amount of strategic scientific research within public and private educational institutions, together with the scientific research and its results in all other areas. Consistency means collaboration, interoperability, real-time accessible database [by which we promote a holistic technology effect approach, one in which technology is part of the process, interacts with other elements and supports the system and is not regarded as a separate factor (Istance, D., Kools, M., OECD)], integrated, well secured and thoroughly equipped functional network.

### **The need of strategic cohesion**

In order to prevent unnecessary and misguided effort and its harmful effects (unfortunately present in the last decades) it is necessary that we consider a much better approach to this process, especially at the strategic level. Unfortunately, the National Education Law does not state this explicitly, and even the little information it offers is rather vague. First, the educational strategy means the science, culture, skills, experience, method and art of putting into practice a political decision regarding the educational process in order to establish the aim set by the policy makers, within the limits of the amount of forces, means and resources established, and according to the principles of compatibility, performance, quality and consistency. Furthermore, the educational system of a nation, along with health care, security and defense, has a very special strategic importance and is related to a vital strategic interest - that of educating and training people, and making them ready to live in a society, serve it and ennoble it. This vital strategic interest and the special strategic importance are closely related to



the very essence of existence, the inherent development and security and to the generation of economical, social, cultural and moral creation of prosperity, security and defense. It is here that the need for strategic cohesion within the educational process commences. We say educational process and not educational processes, because we refer to the unity of this process, regardless of its form and objectives. The strategic coherence of the educational process deals with the merging of all forms, formulas, stages, partial goals, objectives, forces, means and resources in order to ensure a high-quality educational product – the educated man - thoroughly prepared, able to continuously improve and produce, together with the other educated men, all of which happens within a social, economic and culturally appropriate framework, one of cognition, prosperity, freedom and security, and owing to the fact that the world is and always will be conflictual. It is, however, difficult to put together such a large diversity of educational processes that the requirements of the educational market, the need for preserving new values created by the educated man, and his qualities and abilities generate.

Creation involves intellectual freedom, while the exaggerated rigor and especially the excessive formalities might repress man's state of freedom. Man is constantly undergoing an educational process (throughout his entire life). Hence, his efficiency, which highly affects the potential in all its forms, is repressed as well.

Strategic coherence, however, requires certain constraints, more specifically, certain requirements, and these may (or may not) have inhibitory effects within an educational process that is too repressed, and where the university autonomy or the relationship with the labor market, for instance, are excessively conditioned. Therefore, if the labor market demands for electronics engineers, the educational system should focus on training and improving electronics engineers, putting aside the other components of the educational process that are not solicited by the labor market, but which are, however, essential to social and cultural life of the community. Requirements of the labor market within the educational process are to be thoroughly analyzed, evaluated and, most importantly, reported, due to the fact that they all have different effects on the educational process. Today's requirements are typically available today, those of tomorrow - to be taken into account particularly in higher and trade education – are also available today, for these forms of education and not only. Because school is preparing today tomorrow's professionals. Consequently, today's educational requirements aim at training graduates for the labor market of tomorrow, and their identifying, assessing and forecasting is a challenging task. With the time button, the strategic coherence principle requires the strategic domain within the education system to possess a pre-emptive capability, based on a good scientific forecasting of both the labor market requirements and the curriculum. We must also take into consideration the possibility of investing in tomorrow's professionals and risk losing them to other systems; e.g. "student departure" (Hovdhaugen, E., Frolich, N., Aamodt, P.O, *Informing Institutional Management: institutional strategies and student retention*). To this is added the assessment of the evolutionary process of the cognitive culture (which has already been universalized), the national culture which retains its essential systems of values, the organizational culture and the professional one.

*The integrated concept of strategic coherence of the educational process*

Cognitive culture is that culture which, without removing the differences between cultures, is turned into a new type of culture, and relies on knowledge and facilitates the globalization of information and almost everyone's access to nearly all the existing databases in the world. Together with the great cultures and the national ones, it represents the structural frame of any and all educational processes and the point of departure. It assures the cognitive stability of society's product, as well as the product of the family and school, that is, of the educated man (and all people are a product of the educational process, otherwise there would be no people). Great cultures (as a support of great civilizations) and national cultures (as a support of civilizational entities represented by states) speak today, more than they did

yesterday, through this cognitive culture that virtually operationalizes them. Together with this cognitive culture they represent the structural frame of human beings on planet Earth and its support in comprehending the depths of the universe. Moreover, these great cultures symbolize the foundation of the strategic coherence of the educational process, the starting point and the universal receiver of the efforts made by the educated man. The other products of strategic coherence are the organizational culture and professional or vocational culture. Only this fundamental strategic framework consisting of four types of cultures could be established and effectively materialized by the strategic level of an educational system, a concept of strategic coherence of the educational process. Even though cultures are generally differentiated, they are merged into a single unit by the cognitive culture that universalizes their value systems. This cohesion becomes the integrated support of the consistency within the educational process.

#### *Strategic coherence function of the educational process*

The main function of strategic coherence of the educational process is to ensure the quality of all components by avoiding unnecessary overlapping, breaks and disturbing redundancies. Strategic coherence does not hinder the freedom of educational institutions, nor does it stimulate bureaucratic, harmful and time-consuming rigor, but helps them to get out of such traps, providing criteria of consistency and sets of indicators necessary for monitoring the implementation and effects of this principle. ([www.assistancescolaire.com](http://www.assistancescolaire.com))

#### *Strategic planning of the educational process - the most effective tool for achieving strategic coherence*

The main instrument of the strategy of an educational process is, most assuredly, the strategic plan. This tool (which we call The Strategic Plan of the educational process) hinges on the merging into single concept with concrete objectives, themes, issues, forces, means, steps, timelines, actions and resources, in a certain strategic vision which aims to achieve a very precise educational purpose and which is set by policy makers. The strategic plan is the main instrument of strategic coherence, without which education would become, if not chaotic, then fragmented with many random events that could not put into practice an educational policy, be it long-term, or short-term.

#### *The possible effects of strategic coherence*

The possible effects of strategic coherence are numerous. They express its place and role regarding the proper functioning of the process and the attainment of performance.

Among the most important strategic effects of the strategic coherence of the educational process are the following:

- continuity of educational processes at the quality, architecture and intensity required and imposed by complex systems, regardless of political regimes, governing systems, goals and objectives formulated by policy makers, existing conjunctures and requirements made by educational partnerships:
- generating a highly educated human potential able to cope with social, economic, political, cultural, cognitive, military, etc. requirements;
- generating and improving educational support needed in order to avoid educational loops;
- maintaining the nation at a high level of intellectual, technical, creative and innovative performance so as to ensure a rich cognitive heritage, prosperity, freedom, health and security, prestige and respect;
  - avoiding excessive bureaucracy and unnecessary effort;
  - minimizing costs;
  - increasing efficiency.

Strategic coherence is, of course, an attribute of the strategic level of the educational process, but every school is engaged, by complying with the regulations and educational

methodologies recommended, and by planning the educational process on an operational and tactical level, thus ensuring the internal coherence of the educational process and that of inter-institutions and inter-levels in the area of the entire assembly.

For instance, if there is no interruption within the educational process and if we consider the Romanian educational system nowadays (before school and after graduation we still have access to certain elements of the informal system of education and they are not always as useful and positive as they should be) we could define strategic coherence as follows (table 1):

	1	2	3	4	5	6	7	8	9	10	11	12	13
1													
2													
3													
4													
A													
B													
C													
5													
6													
7													
8													
9													
10													
11													
12													
I													
II													
III													
13													

1. Preschool
2. Primary school
3. Gymnasium
4. High school (Theoretical, technological and vocational branch)
5. Technological and vocational
6. Military school
7. Postgraduate
8. Education for persons belonging to minorities
9. Special education
10. Education for children and youngsters capable of high performance
11. The "School after school" programme
12. Higher education (cycle 1 – Bachelor, cycle 2 – Masters, cycle 3 – Phd)
13. Lifelong learning

**Table 1. Strategic coherence levels**

Source: Conception of the authors

In this scheme, the light brown color which complements the horizontal continuation of the educational process after graduating from school is actually an element and a criterion of strategic coherence. It can be evaluated based on a few markers of participation of the individual to the extension of his education.

The sepia color represents the continuous, intensive learning, usually by formal institutionalized education. This may be an ideal and linear form of strategic coherence of the educational process. Unfortunately, we are far from achieving this ideal because of the many disturbing factors that make it almost impossible to achieve a strategic coherence beneficial to the educational process, and this can no longer continue as it may seriously affect the efficiency of the educational process, which has already encountered difficulties and the effects are not easy to repair. Obviously, the criteria of coherence are established by the strategic level, in cooperation with all other levels, including that of political decision. It is the planning process that ensures the criteria of coherence by means of controlling and ensuring quality, but especially by using the network and the evaluation and optimization programs of coherence. Such programs will become functional only after they have been developed, approved and standardized.

Only then can we really talk about coherence criteria and indicators, and real-time evaluation systems of strategic coherence of educational processes.

## Conclusions

In any system of education and educational process the principle of strategic coherence is essential. The implementation of this principle ensures the strategic level of the educational process and, of course, with the participation of all system components.

Strategic Coherence is not simply framing strict principles and the rule of law, but it appears both as a bridge between levels and between parts of the education system and process. Consistency is not only a state of security of the educational system, but also a health parameter, a function of the dynamics and its resources, and above all, a condition of performance and efficiency.

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# ERASMUS FOR UNIVERSITY STUDENTS OPPORTUNITY CONSTANTIN BRÂNCOVEANU

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Mădălin, Govoreanu<sup>3</sup>

## **Abstract:**

*This paper is the result of research conducted during the summer in the Higher Institute of Accounting and Administration of Porto. The question that motivated is "How appropriate is an International student mobility for our students?". To answer this question we conducted a questionnaire clear evidence that we apply of young students who participated in an internship or practical studies at a partner university abroad. As such, I used as a method of research, quantitative research. This case study of the whole picture made by us based on research in the field on the benefits and opportunities of Erasmus.*

**Keywords:** *international mobility, Erasmus program, international student, international culture, opportunities.*

**JEL Clasification:** *I23*

## **Introduction**

In the present research we start from this program, which was named after the Dutch philosopher Desiderius Erasmus of Rotterdam, known as an opponent of dogmatism, who lived and has pursued the activity in several places in Europe.

ERASMUS is a backronym, meaning being action Scheme for the mobility of students in the european space.

Thus, "the motivation for starting the Erasmus programme starts at 10% of the reason that young Europeans should have the possibility to benefit from annual cultural exchange and study in another EU country (than theirs)" (Mary, 2010, pp. 41-59).

During the period 1981-1986, the European Commission has supported exchanges of students that marked the period pilot intro. Although, it has been formally adopted only shortly before the start of the 1987-1988 academic year, was nevertheless possible for students to attend 3244 Erasmus in the first year.

Erasmus is an european University program, whose goal is to provide students the intercomunitar Exchange .

In 2006, over 150,000 students ", or almost 1% of the European population of students, took part in this program. The proportion is higher among academics, Erasmus teaching staff mobility because it represents 1,9% of the total number of teachers in Europe, or people "20877 (www.la-croix.com).

In the last twenty years, over two million students have benefited from Erasmus, and the European Commission intends to reach a total of 3 million by 2012.

At present, we can say that less than 2% of the students caught up in the system of european higher education through Erasmus. Basically, the program has generated among friends, countries and universities.

Of these, 200,000 were studied in European Community countries only during the period 2008-2009.

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A reproach that i bring the Erasmus programme is that it "caused, indirectly, an increase in migration from the South to the north drain and from the East to the West" (www.la-croix.com).

In all these years of existence of the programme, already 2 million students were given the opportunity to use this chance.

Erasmus, Erasmus or Plus, is a new program that combines all the current EU schemes for education, training, youth and sport, which was started in January 2014.

Education, training, youth and sport can contribute to major mutual socio-economic changes, key changes in Europe will become much lighter up to the end of the Decade and will support the implementation of the Europe 2020 strategy to increase the number of jobs, equity and social inclusion. Many young people leave school too early, thus raising the risk of them becoming unemployed and being marginalized by society. Fight to save young people from the clutches of the macroeconomic imbalance, namely unemployment is an urgent measure to Governments at EU level.

Are subject to the same risk and many poorly qualified adults from professional point of view.

Typically, operating in the way society evolves and we must ensure that young people are continually perfecting. Affairs of the European Union need to become much better success fee for talent and innovation. Thus, the efficiency of education and through the use of practical activities in the system in the labour market will become more advanced.

Other changes in share capital development in recounts, as regards young people, young people's knowledge and their skills to participate actively in society. This program encourages young people to have a democratic participation of European life.

The Erasmus programme is designed with the goal of "supporting the efforts of countries participating in the programme, to effectively use human talent and capital of Europe, confirming at the same time the principle of lifelong learning by linking support for formal learning, non-formal and informal learning in the fields of education, training and youth. The program also enhances the possibilities for cooperation and mobility with partner countries, in particular in the fields of higher education and youth. According to one of the elements introduced in the Lisbon Treaty, Erasmus supports activities aimed at developing the European dimension in sport, by promoting cooperation between bodies responsible for sports. The program promotes the creation and development of European networks, providing opportunities for cooperation between the parties concerned and for Exchange and transfer of knowledge and know-how in different areas relating to sport and physical activity. The enhanced cooperation will have positive effects, in particular, in the development of the potential of human capital in Europe and thereby contributing to reducing social and economic costs of physical inactivity".

Overall, the programme shall support cooperation actions and instruments consistent with the objectives of the Europe 2020 strategy and its flagship initiatives, such as "youth in motion" and "Agenda for new skills and jobs".

The program also contributes to achieving through open methods of coordination of the objectives of the strategic framework in the field of education and training and the EU strategy for youth.

In Romania, the new EU funding programme for education, training, youth and sport, Erasmus will provide scholarships for 120,000 Romanians who want to study or to attend training courses abroad, volunteering times Romania will receive this year's 52 million euros.

This program has already changed the lives of three million people and although the EU budget has been reduced for the first time, Erasmus has increased, to show the importance of formal education and informal learning.

"Human capital is the one that will support the growth of Europe both socially and economically. Investment in education must continue even if they were operating budgets. World Education is becoming ever more global and all actors must be involved. For the young it requires adequate support according to their specific needs. «Soul» deals with mobility program Erasmus because it is a window to the world and, in particular, to the surrounding countries. Even if mobility can not solve all the problems, represents an important tool for developing skills. (...) Erasmus open minds and changing lives ".

Androulla Vassiliou, European Commissioner believes that "the unemployment rate among young people in Romania is very worrying, as in all European countries and represent a waste of human capabilities".

"Our new programme Erasmus grant support of the most vulnerable young people, including young people who are not employed professional and does not follow an educational program or training. Providing mobility opportunities for non-formal learning, for example through the European voluntary service, youth Erasmus will allow to strengthen their self-confidence, will help them to find their way in life and, most important, you will reinforce the powers ".

**The research methodology** consists in comparative analysis of systemic and comprehensive approach of the theme researched, depending on goals and objectives. This research is based on various kinds of databases, and use various methods in an attempt to provide an explanation of the problems to be, from the point of view of theoretical, persuasive. Research of economic phenomena may have resonance, if only we use mathematical and statistical tools, and these are accompanied at all times by a logical, analytical and deductive.

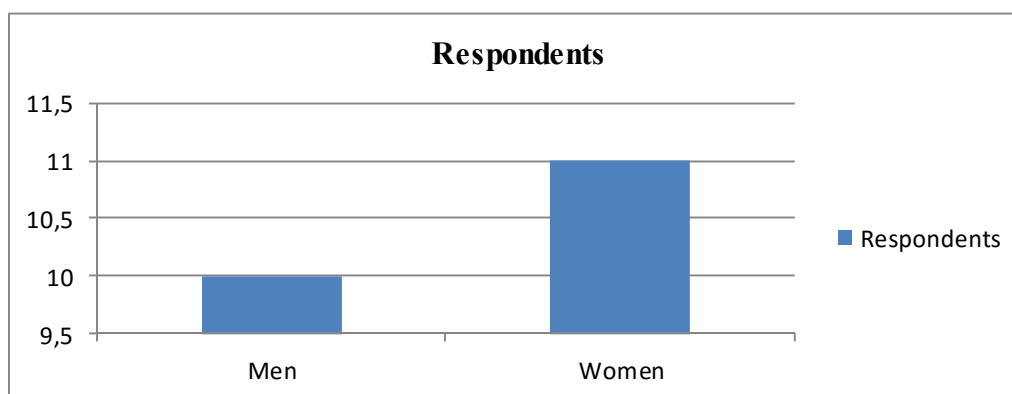
However, the character is the preferred research quantitatively. This layout is given by using the graphs used frequently as in quantitative research methods, their main advantage being that are easy to interpret and understand.

During the research I used the combined techniques of documentary, from the study of literature in the field, the analysis of the legal framework and the different public institutions involved reports.

I created a questionnaire that I applied a number of 21 respondents, all beneficiaries of the Erasmus exchanges in Porto.

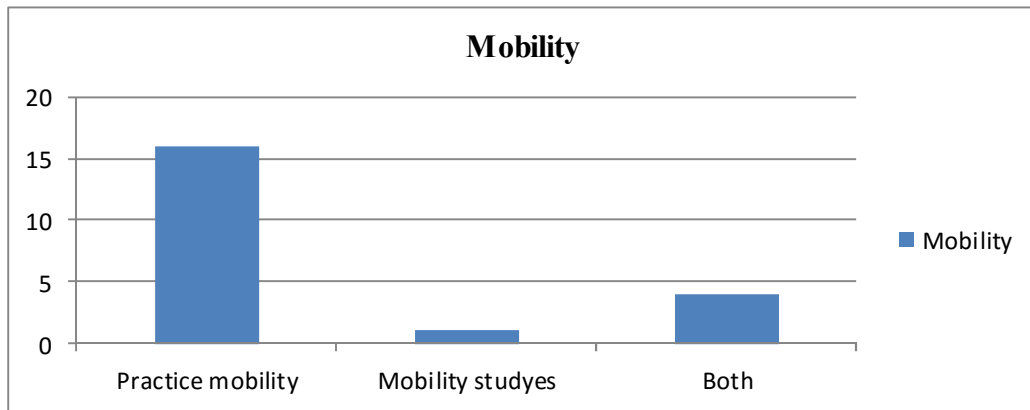
Research results are presented in the following rows.

**Research results** as can be seen in the following chart we had 21 respondents, of whom 11 were female and 10 male.



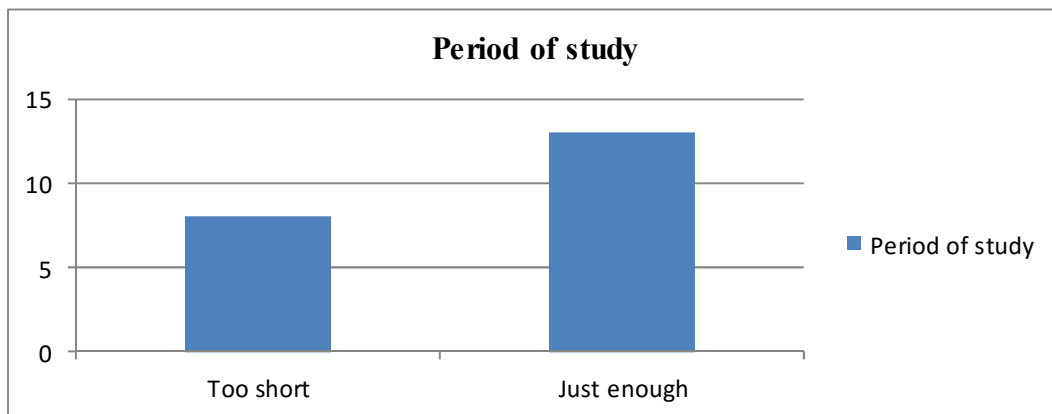
**Graph no 1**

Another question in the framework of the questionnaire was about the type of mobility which it applied, so we note that about 80% of those polled were at practice, as can observe in the following chart:



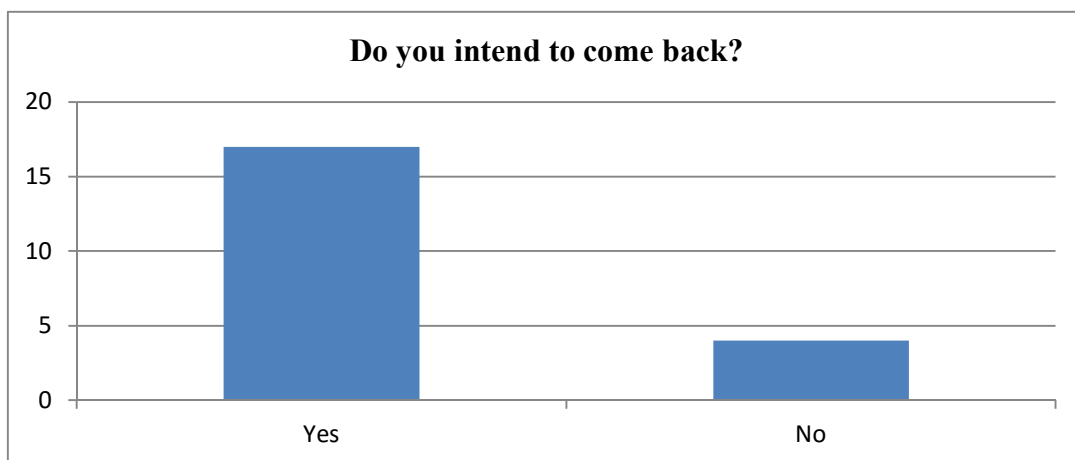
**Graph no 2**

All those to whom we applied the questionnaire were in Porto at ISCAP. As regards the period of mobility, I noticed that most of those polled had conducted a three-month internship.



**Graph no 3**

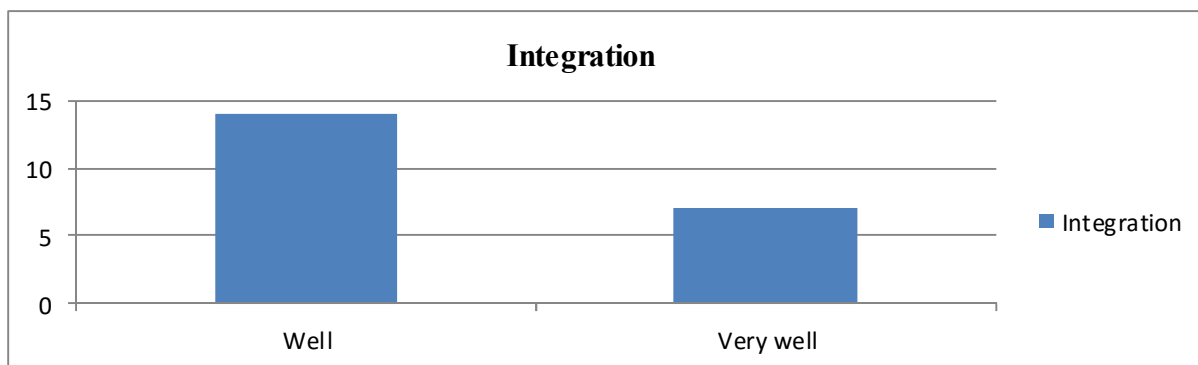
As can be seen in the chart above are students who believes that the internship was too short, are students who want to repeat the experience. This we can observe in the graph below:



**Graph no 4**

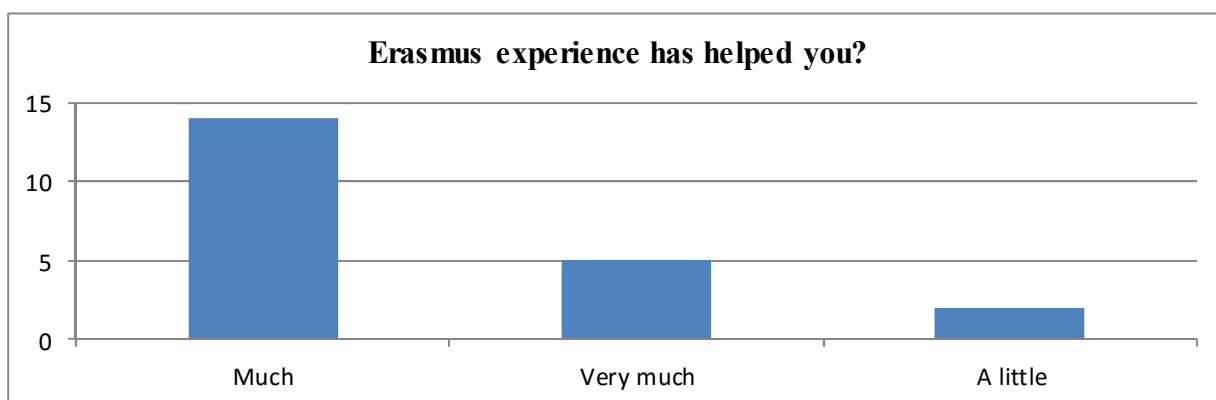
Note also that the integration of the partner University students was done very well.





**Graph no 5**

We cannot omit the fact that the Erasmus experience helps young people in easier integration in the labour market. As can be seen in the following graph.



**Graph no 6**

The results of the experience for young people comes down to following phrases: "I learned new things, I met people I interacted with new people, we visited beautiful places", "Details very well developed. Information mode. The program easily within the mobility ", "the fact that I was independent, I had the opportunity to learn new things and to work in a new medium, "" nothing particularly bearing in mind that I've been two years ago. Portugal are normal and I feel at home. However kept to mention that I also liked people, as civilization ", "the teachers trained, sympathetic .... ", "experience in and of itself I liked it very much, "" City, culture of these people, the atmosphere created by these sections, in a Word, you really need to get into this wonderful place, Porto ".

- The students have enjoyed from the stage of practice:-deepening a foreign language;
- the opportunity to travel in a European country;
  - total support of the University;
  - the opportunity to make new friends;
  - the opportunity to study up a notch as well as networking with students of different nationalities;
  - the opportunity to learn the Portuguese language;
  - ability to interact with people from different cultures and to achieve a beautiful collaboration;
  - cultural diversity;
  - the discovery of a new style is totally different from life, at.

## Conclusions

As I mentioned above, Erasmus is a full schedule of benefits in the first place that you get, European studies, secondly that visit new countries, know different cultures and people, in the third you rich level of foreign language knowledge, and, last but not least, you learn to overcome your own limits.

Erasmus experience opens new horizons for youth knowledge of foreign cultures, countries no longer are unknown, people know us, link, etc.

The most important thing is that the program, under the auspices of the European experience incredible offers a grant to complete maintenance expenses in another country. This means that not always the sum of money received covers entirely the expenditure during the period of the traineeship and that the personal contribution is mandatory (for download, dorm room or host, daily expenses and travels along with the other Erasmus students).

ERASMUS mobility Plus is the chance any student of European space to study in another European University.

Such an experience so positive evolution marked academic and professional alike, especially personal.

Among the benefits we can mention: ERASMUS-the financial support received from the ERASMUS programme is close enough to a student for a decent living in a European country;

- a large part of the partner universities offer accommodation to foreign students in university campuses, at convenient rates;

- International Relations Offices of the partner universities offer permanent communication and support to those who opt for such scholarship;

- formalities for traveling abroad are significantly simplified after Romania's entry into the EU;

- young people have the opportunity to travel to countries which may not have never seen;

- young new crops may have had knowledge, new people, friends, he can tie the refine language, have the opportunity to participate in conferences, symposia and other activities; have the opportunity to learn another foreign language, etc.

Apart from the benefits that I've mentioned above is sure there are a lot of young beneficiaries of the project that you can complete those presented by me.

I believe that every couple must capitalize on all the opportunities and will see that later will reap the fruits of his labor.

ERASMUS is more than an academic experience. Is a possibility of looking at the world with different eyes, to feel and to discover new emotions. Erasmus scholarships are among the best known worldwide, representing international mobility programmes, whereby a student, master or doctor can learn at a University abroad, receiving a monthly allowance in euros, subject to your chosen destination.

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# BLOOM'S TAXONOMY AND INTERROGATIVE SCHOLARLY DISCOURSE

Constantin-Georgel, Stoica<sup>1</sup>

## **Abstract:**

*Our communication is a linguistic and pragmatic analysis that we realize, having as support the interrogative structures extracted from alternative textbooks related to the subject "Romanian language and literature" at high school level. Our intention is to evaluate the effectiveness of the language used in these auxiliary materials and therefore, we analyze the raw material through a series of grids, watching the way in which the interrogative scholarly discourse is used from a lexical, morphological and syntactic perspective, but especially a pragmatic one. Literature obliges us to take into account Bloom's Taxonomy, which proposes to conduct the educational process in stages considering the cognitive processes that are ordered themselves from simple to complex.*

**Keywords:** *the interrogative structures, interrogative scholarly discourse, Bloom's Taxonomy, education, pedagogical, pedagogy*

## **JEL Classification:** A2

1. The interrogation study within the structure of didactic communication is meant to form a certain type of thinking and behaviour in society. The study aims to analyze the effectiveness of interrogation in written didactic discourse especially since a great importance has been attached lately to studying the utterances that have to do with what we call interrogative logic, a new discipline, that has become a science, being called erotetics. We believe that the didactic discourse has been and will remain a point of interest for educators and researchers in the field of education, as well as language sciences, because achieving the educational desideratum depends on the way it is carried out. Thus, the didactic discourse is a very important factor in forming the new generation of students, and we, the people involved in this field of activity, should make it as effective as possible.

Taking into account the fact that the didactic discourse is part of the communication concept, the starting point of this present study is that, even though there are numberless studies that deal with communication effectiveness, the auxiliary tools used in education, especially the textbooks, do not always choose the best way to communicate, to make the contents accessible, to ease information transfer, and more importantly to support teaching specific skills. Thus we feel that analysing the didactic discourse should be paid more attention, that is identifying and eliminating the mistake sources.

We should start from the idea that nowadays the young generation do not ask questions as much as they should given the open society they live in or considering their age. This shortcoming is due to a deficient education and instruction in school, family or society. Experience has taught us that the first step towards knowledge, towards integrating into society and achieving our goals is by asking questions.

The study has as a starting point a set of educational texts, in order to be able to realise an interrogation typology and classification. The assumption we start with is that in our education and training system the closed questions (monosyllabic yes/no questions) and the identifying questions, which force students to a reproductive learning (Who/What is?) are in a greater number than the analyse-oriented open questions.

Considering all these, our suggestion is that the textbooks should be modified in such a manner to help the students develop their ability to ask and answer questions, make associations and interdisciplinary connections, make speculations, using their own logic and inventivity. The central idea is far more important than the logic and linguistic purpose of this study; the citizen of tomorrow should be a person who knows how to ask a question and expect a correct answer.

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We believe that this study is very important because it aims at a field almost unexplored and the results-well disseminated- could greatly contribute to an enhancement of the teaching techniques of the young generation. We also think that the results of this study would be of a great interest for all the parties involved in the teaching process: the teachers, the parents, those in charge with the formative system at a national and international level. This study addresses the problem of interrogation not only from a didactic point of view, but also from a linguistic one, so its finalities are of importance in the field of both didactics and applied linguistics.

2. Bloom's taxonomy (Bloom, 1956) is probably best known to teachers, as well as wanna-be teachers, because since 1956 when it was published, until today, psychopedagogy and didactics relate to it, even though since the 90's Lorin Anderson one of Bloom's students has been of the opinion that it should be revised.

As we all know, Bloom issued the theory according to which the learning process should be progressive establishing seven cognitive stages: a). *knowledge* (getting into contact with information); b). *comprehension* (developing the ability to understand and interpret the information); c). *application* (developing the skill to putting information into practice); d). *analysis* (getting to the level where understanding and applying the knowledge make possible knowing the details by studying parts of the whole); e). *synthesis* (the combination of components or elements to form a connected whole); f). *evaluation* (making of a judgement about the amount, number, or value of something);

The revision that Lorin Anderson (2001) brings to Bloom's taxonomy is, in fact, a new perspective of the same stages. There are three changes made by Anderson. The first one renames the first initial stage by using the verb *remember* seen as an update of the relevant knowledge from our long-term memory. A second change transforms the nouns, which give name to the next three stages into verbs, focusing on the active aspect of the concepts - *understanding*, *applying*, *analyzing*, while the last two stages' positions are reversed. In that way, the 5th stage becomes *evaluation*, while *synthesis* is seen as being the creative level and thus was named *creating*.

3. The present paper is just a part of the linguistic, pragmatic and didactic analysis we have made, having as a starting point a collection of texts extracted from the *Romanian Language and Literature* textbooks (highschool level). Our goal was to evaluate the efficiency of the language used in these textbooks and having that in mind, we applied a series of grid analysis to these texts, in our effort to analyze the interrogative didactic discourse from a lexical, morphological, syntactical, and especially pragmatic point of view.

Inevitably, studying the bibliography led us to Bloom's taxonomy, which, as we have seen, understands the didactic process in stages according to the cognitive processes which are ordered from simple to complex. We have encountered a similar approach to the interrogative didactic discourse in an article (Sfârlea, 2004, pp. 27-29) signed by Lenuța Sfârlea who has made a case study together with her 6th grade students. Even if the discourse analysis of the textbook was a brief one – hymn as a literary species, the results of this study were surprisingly alarming. The project coordinator discovered that "the questions are randomly asked with no criteria" (*Ibidem*, p. 29).

Having Ms. Sfârlea's study as a starting point, we have tried to see whether her conclusions are the same for the *Romanian Language and Literature* textbooks for highschool. Obviously, it is not our intention to make an exhaustive presentation of our analysis here, but we can bring to your attention some of our conclusions. Our conclusions have been reached analyzing textbooks for an entire school cycle. We have analysed the phenomenon vertically (textbooks edited by a singular publishing house for a whole school cycle) as well as horizontally (four textbooks edited by different publishing houses for the same level), seven textbooks approved by the Ministry of Education and Scientific Research (for the academic year 2014-2015) to show from a pragmatic and statistic point of view the presence and frequency of some types of questions related to Bloom's taxonomy.

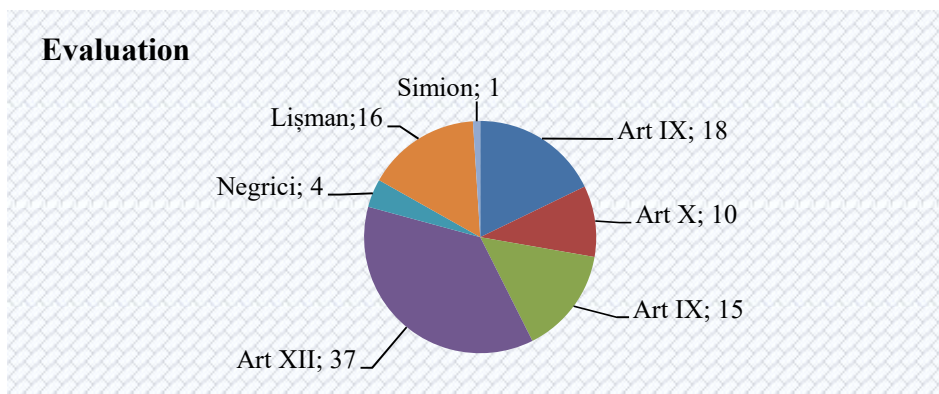
First of all, we have to mention the fact that we have identified and extracted, for our study a number of 639 exercises representing explicit interrogative structures, or contain such structures; the textbooks have 200 pages on average, which leads to a first obvious conclusion: the exercises where we could find a the slightest sign of an interrogative aspect have a frequency of less than ... one in two pages! It is also true that their occurrence during the didactic endeavour is not near the statistic numbers, the interrogative structures being often grouped, resulting in clusters of 3-6 on one page. This, raises another issue: the presence within the written didactic endeavour of a great number of pages where the interrogative structures are not present which reduces the students' chances of developping an analytical and critical thinking skills.

4. A very important aspect that we find in reviewing the 639 exercises, we mentioned above, is the recurrence of the interrogative structures corresponding to the six cognitive levels of Bloom suggested. Their arrangement is surprising both in terms of vertical analysis of the textbooks issued by a single publishing house (the textbooks proposed for high school level by "Art" publishing house) and horizontal analysis of the 12th grade textbook versions issued by the four publishers considered (in addition to the "Art" publishing house we had in mind as mentioned in the bibliography section, "ALL Educational" "Niculescu ABC" and "Corint") or even the entire selected corpus.

The extremely significant differences between the recurrence of the interrogative structures that can be classified into the six cognitive levels mentioned by Bloom's taxonomy should become, at least, the wake-up call for a possible review of the concerned editions, if not a starting point for a new analysis or debate on this, when the criteria for evaluation and accreditation of the publishers will be reviewed.

Returning to our analysis, we can say that it has brought some unexpected results. When studying the textbook issued by "Art" publishing house we could notice a small representation of interrogative structured exercises aimed at questioning the appropriate cognitive level synthesis / creating in Bloom's Taxonomy, with only 12 occurrences. Regarding the other three publishers where only the 12th grade textbooks were elected, we discovered that they are deficient in what concerns the low representation of the interrogative structures targeting the first cognitive level. Two of the three 12th grade above-mentioned textbooks, have an equally poor distribution of the interrogative structures aiming evaluation and the third remains within the average identified recurrences.

Although probably most would have expected the evaluation exercises to have the most occurrences, with only 101 occurrences, they are only on the third place, which arouses curiosity and concern especially because of the fact that some textbooks have very few occurrences, as can be seen in Figure 1. Our overall assessment is that, while some textbooks mainly use some type of interrogative structures, others, it is precisely these they neglect.



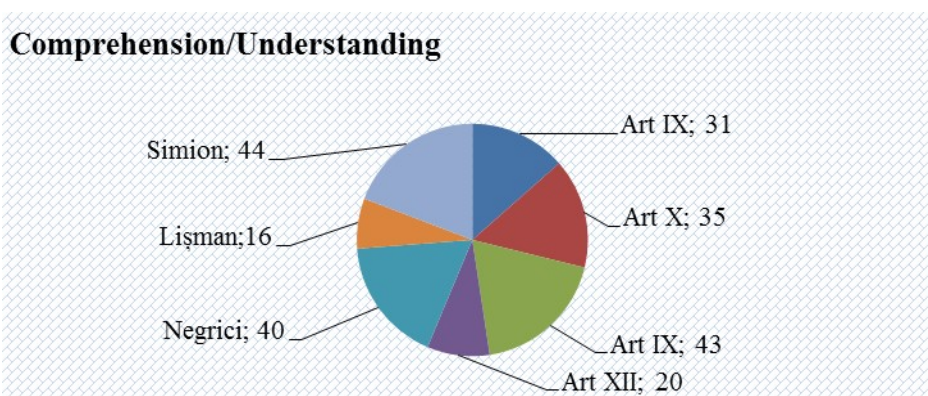
**Chart 1: The recurrence of the interrogative structures related to the cognitive assessment level**

As we can see in Table 1, the largest recurrence, with a total of 237 appearances, over a third of the entire case, is of the exercises that are composed of interrogative structures corresponding to the second cognitive level proposed by Bloom's taxonomy - comprehension / understanding.

		Art IX	Art X	Art IX	Art XII	Negrici	Lişman	Simion
1	Knowledge	21	10	6	30	2	3	3
2	Comprehension	31	35	43	20	40	16	44
3	Application	10	16	21	3	41	17	18
4	Analysis	7	10	5	13	16	5	12
5	Synthesis	3	2	4	3	10	5	13
6	Evaluation	18	10	15	37	4	16	1

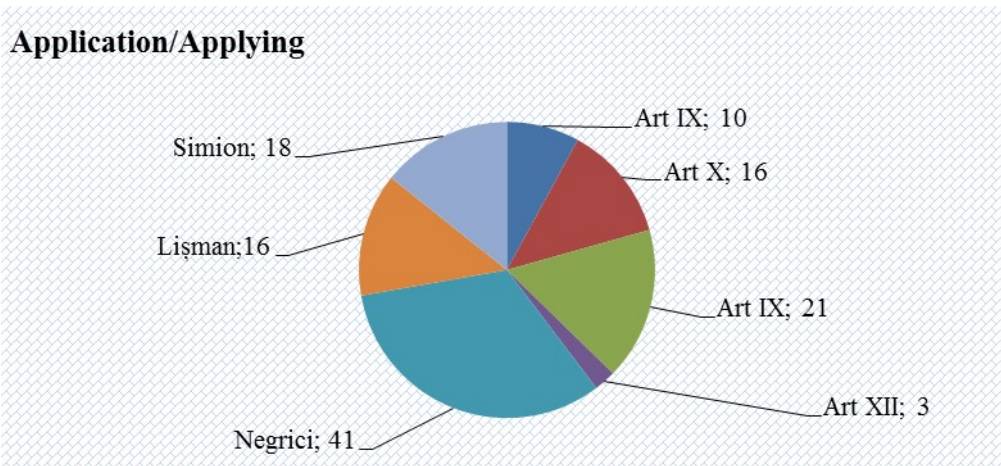
**Table 1: The recurrence of the interrogative structured exercises throughout the corpus of texts, according to the cognitive levels of Bloom's taxonomy**

The above-mentioned note is meant to soften the slightly bitter taste caused by the one before it; what is to be appreciated here is the recurrence of the interrogative structures aimed at the cognitive level of comprehension / understanding is an extremely important one and, more than that, their distribution in the seven textbooks from which we extracted the corpus of texts is relatively balanced, as can be seen in Chart 2.



**Chart 2: The recurrence of the interrogative structures related to the cognitive comprehension/understanding level**

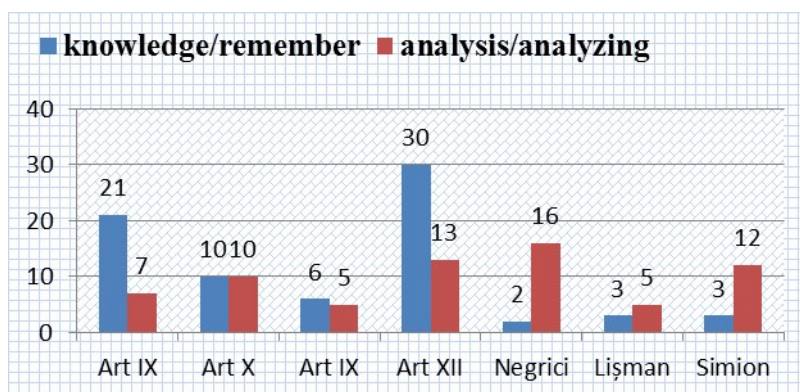
Analyzing further, if we were to make a hierarchy, we can see right after the cognitive comprehension/understanding level, as can be seen in Table 1, the cognitive exercises corresponding to third cognitive level - application / applying, with only 126 appearances. If the difference from the other level compared with wouldn't be that great and if a number of reasonable recurrences could be found in relation to the whole sample, that is if their number were not just over the number of exercises that could be equally distributed to the six cognitive Bloom levels, the number of the interrogative structured exercises that match the application / applying would still be a plus, but just as a percentage. We say this because, for example, as can be seen from Figure 3 in the textbook for the 12<sup>th</sup> grade, issued by "Art" publishing house, we are presented with a very low number of recurrences - only three of them, while in the textbook issued by "Niculescu ABC" publishing house (named after its manager "Negrici") we have identified 41 recurrences.



**Chart 3: The recurrence of the interrogative structures related to the cognitive application/applying level**

At the first glance, these observations may seem insignificant, but read carefully, we realize that any changes to be made to the structure of the exercises proposed by the textbooks as working methods in the learning and formative process, should be a priority to be taken seriously if we want the direct beneficiaries and also the rest of us to have the future emphasized by the curriculum and syllabus as a final goal, that of having a well-trained young generation.

To emphasize these textbooks' deficiencies, we continue by saying that we have found an almost identical distribution of the *knowledge/remember* interrogative exercises and analysis / analyzing, with an almost halved number of appearances compared to the number of recurrences of the appropriate cognitive exercises ranked last.



**Chart 4: The recurrence of the interrogative structures related to the cognitive knowledge/remember and analysis/analyzing levels**

The only fact meeting our expectation is that the number of exercises corresponding to the synthesis / creating cognitive level are in last place with 40 recurrences. However, we shall see that their distribution in the seven textbooks is very different, with a minimum of two appearances (Art X) and a maximum of 13 (Simon XII) so that recurrences of the interrogative structures in only two textbooks exceed half of the total we have mentioned, while all four of the "Art" publisher's textbooks accumulate only 12 recurrences.

5. In order to further emphasize the above-mentioned observations we had as a starting point a textbook for the 12th grade (Art XII) and having classified the 106 interrogative structures we have identified, we discovered a small recurrence of the exercises that according to Bloom's taxonomy put information into practice (Table 2). There are only three of them!

The same number of occurrences (three) we could find for the interrogative structures that targeted synthesis, and thirteen that targeted analysis. Unsurprisingly the highest occurrence, were the interrogative structures of evaluation - 37, followed by the ones that involve memorising by refreshing the information previously studied, or by asking the students to access knowledge from other fields. The other occurrences this means 20, were the interrogative structures that targeted the second level - understanding and interpreting information.

**Table 2: Interrogative structures distribution according to Bloom's taxonomy**

1	Knowledge	30
2	Comprehension	20
3	Application	3
4	Analysis	13
5	Synthesis	3
6	Evaluation	37

While the low occurrence of some interrogative structures compared to the other types and to the number of the pages arouses concern with regard to achieving some psychopedagogical goals, the way they are used raises even more questions, as we shall see. Thus, of the 106 exercises, in only 10 situations they are distributed according to Bloom's taxonomy, and this happens only from a statistic point of view, when we extract from the book all the interrogative structures; in the whole textbook we were able to identify only two cases in which in consecutive exercises we can find interrogations targeting consecutive cognitive levels.

The first case we find is on page 13 of the textbook, where the authors offer an exercise with regard to the symbolism of the poem "Sonnet" by G. Bacovia - *Discreet chromaticism* subpoint:

1) *Extract from the first two stanzas the words / structures that constitute visual images. ("Sonnet" by G. Bacovia - Discreet chromaticism subpoint. Ex. 1, p. 13)*

2) *"Sonnet" does not have the strong chromaticism of "Lead" or other texts "Decor", or Yet, Bacovian spaces are always subject to a stylized color, the color gray being the most common. It is a color that expresses the moods of a psychic subjected to a permanent erosion, the idea or an endless feeling of doom and thus the chromaticism even when it is not obvious, it is a palpable presence. Can we discuss in this text about the presence of grey? Motivate your choice. ("Sonnet" by G. Bacovia - Discreet chromaticism subpoint. Ex. 2, p. 13)*

The two consecutive exercises aim Synthesis and Analysis levels. The first example of exercise looks at first glance, to be a non-interrogative structure, but from a logical perspective, at a cognitive level, it translates into a question: "What are the words / structures that suggest visual images?"

Obviously, to solve this exercise, the student must make some logical operations. First of all, he needs to update the information about the concept of "visual image" - the knowledge level of Bloom's Taxonomy - and then try to identify them. But identification is not a simple act of choosing from a number of elements, it requires an understanding of the context and an interpretation of the meaning word / structure, which requires a cognitive process specific of the second level of Bloom's Taxonomy – interpretation. Choosing the right item that fit the word / concept structure required by the literary typology of "visual image", requires a call to an algorithm previously learned. So switching to the next stage of the cognitive process, the third in Bloom's Taxonomy - application.

Because all these steps are completed for the student to form a critical view of a part of G. Bacovia's sonnet and only from a stylistic perspective, we obviously fit exercise into



those hiding an interrogation, which involves an analysis in the style of Bacovian poetic text. Therefore, this is an exercise involving the fourth level of Bloom's taxonomy - analysis.

The first example of exercise calls for a synthesis, because being able to solve it the student needs to know a broader range of constituent elements of Bacovian lyrical universe. That is, besides knowing the issues related to the chromatism” Sonnet”, the student must make a chromatic analysis of the poems “Lead”, (“Decor”, or ”Purple Twilight” and he must put together the information from the previous years and relate to the text of the sonnet in question.

The other pair of consecutive exercises, following the hierarchy of cognitive processes, according to Bloom's Taxonomy, is found on page 17. They aim at understanding the poem “Testament” by Tudor Arghezi. The subtopic the authors of the textbook proposed as the title of this set of exercises is Spiritual Heritage, thus offering the students a suggestion on the lexical interpretation Arghezian text:

3) *Speaking directly to the reader, the poet considers the book as a step. What do you think it symbolizes? Can you explain starting from the choices below:*

- *a path of knowledge;*
- *an upward path;*
- *the idea of perfection.* (“Testament” by T. Arghezi. Paragraph: Spiritual Heritage, ex. 5, p. 17)

4) *Just as O. Goga in his poem “Prayer”, Arghezi considers himself to be Testament, a keeper of his ancestors` experience. What are the lyrics that suggest this idea?* (Testament by T. Arghezi. Paragraph: Spiritual Heritage, ex. 6, p. 17)

If we take a look at the other consecutive exercises that contain interrogative structures we note that they do not take into account the cognitive processes and Bloom's Taxonomy. Thus we identify nine cases of such misconduct. In the first case, in consecutive exercises, we note a shifting from the evaluation to the interpretation level (from the 6th 2nd level); for the next two exercises - a transition from assessment to knowledge / recall; the fourth and the fifth situations are the most surprising: a) assessment - interpretation - evaluation; b) assessment - interpretation - knowledge / recall; and lastly we note ascending shifts from the first level, respectively the second one, to the last cognitive level.

6. The conclusions that can be drawn from this analysis are that in writing the textbooks submitted to our analysis, the interrogative-structured exercises do not observe the gradual progression of the learning process, of gaining the language skills required to achieve the educational – formative progress according to the curriculum and syllabus. The exercises targeting the first level of Bloom's taxonomy are neglected by some publishers, as well as other collections of evaluative exercise books or those aiming to publish a selection of exercises.

Therefore, it is very important, before proposing any new issues or new assessment scales of such auxiliaries, to put in debate the issue of developing teaching tools consistent with the cognitive levels, as proposed by Bloom's Taxonomy, so that the textbooks may be a real tool to support teachers and students in achieving educational desiderata, and not obstacles in achieving them, as we have seen it happen in many cases.

#### **Acknowledgement:**

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# ROMANIA'S ECONOMY IN ITS CURRENT FUNCTIONALITY

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***Abstract:** This paper is part of the specialists' engagement to help deepen economic knowledge and empower people in their double function: that of shareholders and direct beneficiaries of the optimal functioning of the economy. We consider the undeniable reality that the economy is always a complex human activity, organically framed in our society. The research was conducted on the basis of four defining coordinates: understanding the economic phenomena as permanent social phenomena; the gradual tension between the limited economic resources and the unlimited human needs; the complex functioning mechanism of the economy; matching Romania's economy functioning with the demands of the European integrated economic model. The conclusions of this paper can be used for elaborating and implementing various policies to improve the Romanians' quality of life in the context of international integration.*

**Keywords:** human economicity, economic libertarianism, economic adjustment, market economy

**JEL classification:** E00, A20, I25

## 1. The epistemology of the functioning of the current human economy

We aim, through the content and methodology of the epistemology of the economy functioning, to extend the knowledge of the dynamics of the economy, in relationship to the requirements of the temporal and spatial systemic efficiency. The epistemic background initiated involves the entwining of the general laws action of human coexistence with the real economic action while emphasising the creative and responsible attitudes of the work in the judicious management of the economic-financial and material resources at all levels of economic aggregation, for the satisfaction of the human needs.

We must take into account that the human economy is a dialectic **permanent movement** from simple to complex, and we can delineate several steps, starting from the first one, **the primary step or the first wave economy**, up to the current one, that of **sustainable, long-lasting economy**. This is in fact the capitalist market economy, having competitive and functional performance. (Toffler, 1995)

The term *Economicity* has currently appeared in some writings meant to consistently bring at the forefront of the economic knowledge the principles of rationality in managing the limited financial resources. (Dinu, 2014)

The economy of the present and of the future is changing in relation to people's ability to govern themselves intelligently. Thus, through the epistemology of the functioning of the economy we come to understand all the dynamic correlations that are achieved between the components of the economic system.

The functioning of the national economy is conditioned by several key drivers:

- Fair and relational competition with equal opportunities operators for the economic agents;
- Easy access for operators to markets, information and transparency of such processes;
- Efficient and real functioning of all markets.

Nowadays, the functionality of the economy is achieved through big processes that define the economic reform: economic macro-stabilisation, carrying out the structural and institutional reforms, economic liberalisation.

Romania is part of the European Union and the **economic adjustment**, in the general sense, means learning the new terms of international economy in a certain context of time and

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space. In our analysis we take into account that economic adjustment does not represent a simple copying, but we point out that adjustment is a complex process of deep economic compatibility.

The adjustment of the Romanian economy functioning with the integrated European economic model is based on the nominal and real, economic and monetary convergence, through numerical convergence indicators. The performance of these indicators would mean greater efforts, also taking into account the economic disparities that already exist between countries. A new re-division of the world, of the areas of influence could make the integration swing between the tendencies and actions with supranational nature and the legitimate desire of the states to respect their aspirations and interests. (Gjuvara, 2014)

Adjustment, as complex process, acquires great significance since there have appeared ideas according to which Romania would have become a colony specific to the world globalisation under conditions of modernity, fitting into the concept of neo-colonialism. (Șerbănescu, 2014) Neo-colonialism preserves the type, the structures and the principles of social division of labour that favour the dependence of the underdeveloped on the developed, of those from the periphery on those from the centre.

Such a division includes aspects as the following: conditioned foreign loans and export of capital; consumption without production; hypermarkets without factories; banks without real economy; reduction of the national control on large areas such as: the exploitation of oil and gas, electricity distribution, cash flow, correlating the Romanian capital investment and the foreign capital, the serious inequality between labour and capital. (Piketty, 2014)

We do not insist on this, but we consider that Romania's path is that of the Euro-Atlantic integration and of globalisation targeting at the economic and social development, poverty and differences eradication, favouring the welfare. (Dinu, Brateș, 2013)

The state of the functioning of the Romanian economy is also directly influenced by **the general and economic education of the population**. Education, as a form of social consciousness, acts in the sense of bipolarity, namely as a premise and effect in the relation with the functioning of the economy. (Miron, 2009) In this context, the economic education appears as a new factor of production or as a new aspect of the human capital. The educational process remains open in time, and the future can bring us something better, that is a better economy and society or it can bring something worse if the economic education will be superficial.

Let's not overlook the negative influence of the lack of education or of poor education because a people without education is ineffective in the economic action and it is easily manipulated, in disagreement with its own interest and the national one.

The economic education, starting from the individual and from microeconomics becomes an essential component of the **economic culture**, consistent with a performant functional economy.

Economic culture generates major effects, such as:

- Development of the capacity of deep knowledge and sound understanding of the economic and financial phenomena;
- Creation and permanent manifestation of a lofty economic behaviour;
- The correct perception and democratic (not through coercion) acceptance of the role and obligations of each of us to society;
- Awareness of the organic relationship between freedom, discipline, responsibility, in order not to confuse democracy with disorder and chaos in economy;
- Modernisation and civilization of the state, with its status of policymaker, as well as of the citizen as beneficiary and contributor of the efficient functioning of the economy.

The economic culture is becoming increasingly important and necessary in a difficult period. In the context of the economic international adjustment, the economic culture fosters

the national solidarity, through acknowledging the significance of the integration and globalisation of the world. It stimulates the optimal functioning of the economy based on the genuine sustainable growth, being found in a greater extent of prosperity for the population.

Understanding correctly the content and the causality relationships in the functioning of the economy, the state authorities must take account of the distinctiveness of the phenomena specific to the peripheral capitalism from the Romanian actuality, the trend of the requirements of the European economic model.

## 2. The current economic training of the Romanian population

Strengthening the functioning of our economy involves reviewing some aspects of the economic language of communication. Currently there are certain theoretical and methodological confusions which affect negatively, more and more visibly, the normal and efficient advancement of the economy.

We refer only to some expressions that affect the content of the economic reform processes, such as: confusing *the country with a political regime*, forgetting the fact that regimes come and go, while the country remains. We also mention the confusion between *work and labour force*, between *the flow of demand and the flow of labour supply*.

We must act firmly in the economic theory and practice for the accuracy of the concepts, notions, economic language, triggering a new practical and efficient behaviour for the interests of all people. This behaviour should be placed consistently on the general understanding that true, wise, socially useful work is the engine of everybody's life. It must be understood with common sense and always materialise in useful effects for the individual and the community.

Thus, education, in particular economic education, provides the basis of the functioning of the Romanian economy. In our country the number of graduates in Economics is declining, following the trend seen in the whole higher education system.

**Table no. 1. The number of graduates in Economics in the higher education system**

Groups of majors	Years			
	2010	2011	2012	2013
<b>ECONOMICS</b>	62685	34415	25724	21922
<b>TOTAL MAJORS</b>	186900	136671	111028	95022

Source: <http://statistici.insse.ro>

If in 2010 there were 62,685 graduates in Economics, in 2013 their number decreased drastically, reaching 21,922. This decrease is also reflected in the number of graduates in the total majors because in 2010 there were 186,900 graduates, and in 2013 there were 95,022 graduates of higher education.

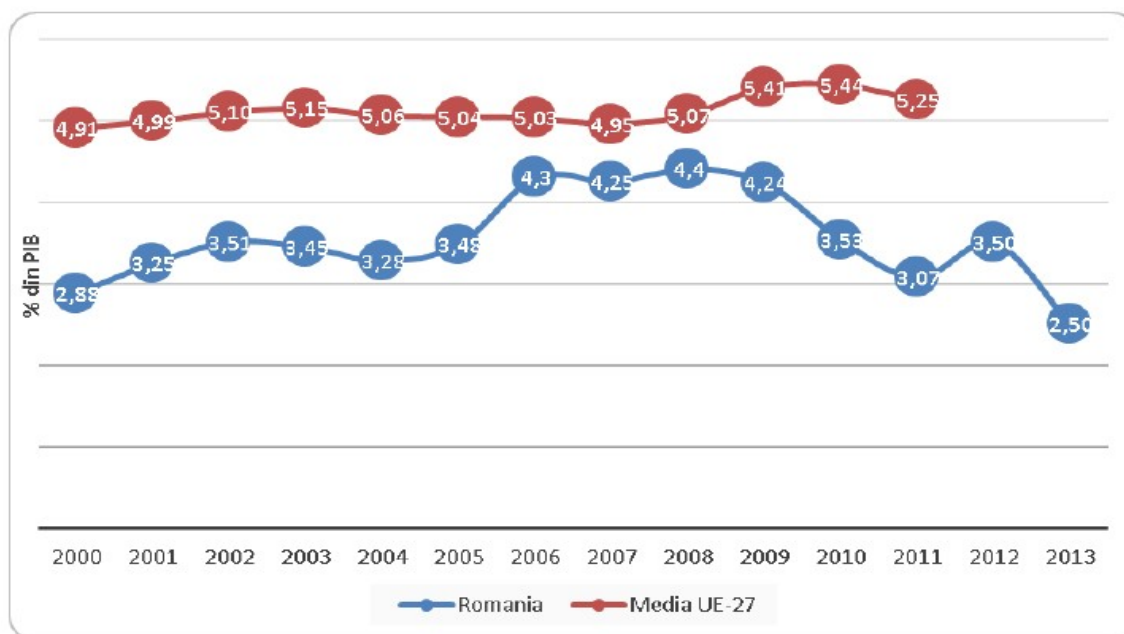
**Table no. 2. Share of graduates in Economics in the higher education system in the total of graduates (%)**

Field	Years			
	2010	2011	2012	2013
<b>ECONOMICS</b>	33,5	25,2	23,2	23

Source: <http://statistici.insse.ro>, calculations made by the authors

The share of the graduates in economics in the higher education system in the total of graduates reveals the reduction recorded in this area. In 2010, 33.5% of the graduates studied economics; in 2013 the percentage reached 23. After 1990 the percentage of the people enrolled in the higher education system increased, including the field of economics, so that at present, this reduction of graduates in this field can be influenced by:

- Low birth rate;
- Reduction of the number of students who pass the baccalaureate exam;
- Reduction of the number of people enrolled in the higher education system;
- Super saturation of the labour market in the field of economics, etc.



**Chart no. 1. The share of education expenditure in GDP**

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

The steady decrease in the number of graduates in economics is influenced by the factors previously discussed, but also by the importance given to the Romanian education, strictly speaking about the share of the expenditure on education in the GDP. The percentages recorded in our country do not reach those recorded in the European Union, except the period 2006-2008.

**Table no. 3. The rate of young people who abandoned education prematurely in 2014 (%)**

	Total	Men	Women
<b>EU(28)</b>	11,2	12,8	9,6
<b>Romania</b>	18,1	19,5	16,7

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

The importance of education, not only of the economic one, should be a priority in every state. In Romania the share of young people who dropped out of school prematurely was of 18.1% in 2014 compared to 11.2% in the European Union. Males are the ones who leave school, 19.5% comparing with 16.7% females. This trend can be noticed at European level too.

**Table no. 4. The share of the population aged 30-34 with tertiary education level in 2014 (%)**

	Total	Men	Women
<b>EU(28)</b>	37,9	33,6	42,3
<b>Romania</b>	25	22,9	27,2

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

The share of the population aged 30-34 with tertiary level of education in Romania is below the EU average. In 2014, in our country 25% of the population aged 30-34 had higher education studies, compared to 37.9% at European level. For this indicator the higher share is recorded for females both in our country and in the European Union.

### 3. Conclusions

The problems in the educational field are known, but they should be overcome. The findings of the study called “The Costs of Underinvestment in Education in Romania” must be known by each individual, so that the decisions regarding our future are taken knowingly. Romania is on the antepenultimate place in the EU regarding the share of education in the total of the government spending (8.1%), a lower share was recorded only in Greece (7.6%) and Italy (8%).

An extra year of school increases the revenue by 8-9%, reduces the risk of becoming unemployed by 8% and that of having serious health problems by 8.2%. The personal income increases proportionally with the level of education. Thus, the upper secondary education graduates earn 25% -31% more than those who completed the primary and secondary education levels. The gains obtained by the people who graduate a college exceed by nearly 67% those of the students who drop out of school after secondary education.

The correlation between the level of education and functioning of the economy is highlighted by the following conclusion. The increase of the proportion of college graduates to 19% in 2025 would increase the GDP by about 3.6%. Even a slight increase in the number of secondary school graduates (to 59.7% in 2025) would lead to an increase of 0.52% of the GDP.

If the spending on education gradually increased up to 6% of the GDP, the economic growth could reach a level of 2.7 to 2.95% in the period from 2015 to 2025 instead of 2%.

Of the total consumption expenditure of a household in Romania only 0.5% turns to education, the data aims to 2014.

Therefore, we consider that action must be taken for paying more attention to education. The functioning of the Romanian economy must be made based on trained and competent workforce. We do not exclude any of the other factors that influence the functioning of an economy, but the economic culture, the knowledge and the use of the economic concepts accurately represent the scaffold of any national economy.

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# MARKOV CHAINS METHOD- FORECASTING TOOL OF THE STRUCTURE OF HIGHER EDUCATION GRADUATES BY GROUPS OF SPECIALIZATIONS

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## Abstract:

*The number of graduates in higher education has seen a downward trend in recent years, with significant declines in economic sciences specialization group. The choice of specialization group by future graduates should be made depending on whether the labor market has the requested specialized jobs, this choice showing, in fact, the supersaturation of certain areas. This paper uses the theory of Markov chains to forecast the share of graduates in higher education by groups of specialties. Knowing future trends allow an appropriate educational strategy based on reality and the requirements of the labor market.*

**Keywords:** number of higher education graduates, probability, Markov chains theory, labor market

**JEL Code:** C1, I2, J2

## 1. Introduction

Our country's economy has led to significant changes in the labor market over the last 25 years. The changes in this market went reflected the occurrence of the Romanian market economy.

"The role of education in providing access to the labor market is reflected by increased employment opportunities for the educated population. People with high levels of education have better opportunities in the labor market, resulting in higher rates of employment. " (Serban, 2012) The average rate of employment among persons of higher education graduates is that of 82.1% in the European Union and 82.5% in Romania.

Unemployment affects to a lesser extent people with higher education, however this phenomenon strongly influences young people. Reducing youth unemployment is a key objective in the developed or developing countries. Moreover, the existence of youth unemployment means loss of human capital. (Zamfir, 2013)

At the European Union level has been established as target for 2020 a rate of 40% of university graduates, age group 30-34 years. In 2014, this indicator showed a value of 37.9% , with a different participation which varied by sex, 42.3% females and 33.6% males. In our country, the rate of university graduates age group 30-34 years was that of 25% in 2014, structured as follows: 27.2% females and 22.9% males.

At the same time the demand for labor causes universities to become more flexible and responsive to labor market needs. (Vasile et al, 2007) In this context, the paper aims to use the theory of Markov chains to predict the structure of higher education graduates and to sense if there are changes in the group structure of specializations.

## 2. Markov Processes - category of stochastic processes

The general theory of stochastic processes has its origins in the work of mathematicians A. N. Kolmogorov, W. Feller and A.Y. Khinchin in the early 30's, outstanding studies, subsequent, belonging to K.Itô, M.Rosenblatt, I.Karatzas, S.Shreve, A.Skorokhod, G.Ciucu, O.Onicescu, M.Iosifescu, etc. Stochastic processes represent an

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important branch of probability theory, with applications in both mathematics and physics, economics, finance, biology, medicine, engineering, etc.

Definition 1: A stochastic process is a **parametrized** collection of random variables  $\{X_t\}_{t \in T}$  defined on the in the completely additive probability field  $(\Omega, K, P)$  with values in  $R^n$ .

Usually, as a set of T parameters it is considered to be the whole straight line  $T = (-\infty, \infty)$  or only the positive semiaxis  $T = (0, \infty)$  or  $T = [0, \infty)$  or a finite segment, usually  $[0,1]$ . In all these cases, we say that we are dealing with a process with continuous time. When T is a countable set, we are talking about a stochastic process with discrete time.

An important category of stochastic processes is the Markov processes. The study of these processes has been initiated by the Russian mathematician A.A.Markov (1856-1922), founder of a new branch of probability theory.

In 1923 Norbert Wiener rigorously treated for the first time the continuous Markov processes. The basis of a general theory was provided during the 30s by A.Kolmogorov, the general notion of Markov process being defined by J.L.Doob in the paper "Stochastic Processes" (1953).

“Conceptually, a Markov process is the probabilistic analog of processes in classical mechanics, where future development is completely determined by the present state and it is independent of how developed the present state is”. [1]

If we consider as set of parameters  $T = N$  in Definition 1, instead of using process we use the term chain.

Definition 2: It is called a Markov chain of random variables, the string of random variables  $(f_n)_{n \in N}$  satisfying the conditions:  $(\forall) 0 \leq t_1 \leq \dots \leq t_n, n \geq 2$  and  $(\forall) i_1, \dots, i_n \in I$ , with  $I =$  set of process conditions, we have:

$$P(f_{t_n}(\xi) = i_n \mid f_{t_{n-1}}(\xi) = i_{n-1}, \dots, f_{t_1}(\xi) = i_1) = P(f_{t_n}(\xi) = i_n \mid f_{t_{n-1}}(\xi) = i_{n-1}) \quad (1)$$

whenever the left part is defined.

The equality (1) it is called Markov's property and it is equivalent to the equality:

$$P(f_n(\xi) = i_n \mid f_{n-1}(\xi) = i_{n-1}, \dots, f_1(\xi) = i_1) = P(f_n(\xi) = i_n \mid f_{n-1}(\xi) = i_{n-1}), (\forall) n \in N^* \quad (2)$$

Definition 3: The probabilities  $P(f_t(\xi) = i_t \mid f_{t-1}(\xi) = i_{t-1})$  are called transition probabilities for Markov chain of random variables, and they are denoted by  $p(t; i_{t-1}, i_t), t = \overline{1, n}$

The significance for  $p(t; i_{t-1}, i_t)$  is that of the probability of transition from the state  $i_{t-1}$  at the t-1 moment to the state  $i_t$  at the t moment.

Definition 4: Markov chain of random variables is uniform if:

$$p(t; i_{t-1}, i_t) = p_{i_{t-1} i_t} \quad (3)$$

In other words, the likelihood of the occurrence of the  $i_t$  state at the t moment subject to the occurrence of  $i_{t-1}$  state at moment t-1 does not depend on t explicitly. And therefore

$$P(f_t(\xi) = j \mid f_{t-1} = i) = p_{ij} \quad (4)$$

do not depend on the moments of time corresponding to states, but on the distance in time between states.

$$\text{Obviously } \sum_{j \in I} p_{ij} = 1, p_{ij} \geq 0, i, j \in I \quad (5)$$

Definition 5: The matrix whose elements are the probabilities of transition it is called transition matrix and it is denoted by  $\Pi = (p_{ij})_{i, j \in I}$ .

Markov processes are subject to practical uses in areas such as: economics (projections of some economic activities), genetics, psychology, etc.

### 3. Economic Study

Using the theory of Markov chains, we aim to realize a prediction of structure of the number of graduates in higher education for the years 2014 and 2015 by group of specializations.

The starting point is the data provided by the National Institute of Statistics on the number of higher education graduates in the 2010-2013 period, for 10 groups of specializations, as follows:

**Table 1. Number of graduates in higher education by groups of specializations**

Groups of specializations	Years (Number of persons)			
	2010	2011	2012	2013
G1. INDUSTRY	20138	21190	19878	17820
G2. TRANSPORT AND TELECOMMUNICATIONS	958	1007	797	875
G3. ARCHITECTURE AND CONSTRUCTION	4397	4993	4642	3797
G4. AGRICULTURE	1776	1919	1819	1660
G5 FORESTRY	677	580	577	516
G6. MEDICAL	9729	9434	9437	9250
G7. ECONOMICS	62685	34415	25724	21922
G8. LAW SCIENCE	26404	19215	12521	10388
G9. UNIVERSITY - PEDAGOGY	57589	41604	33492	26893
G10. ARTISTIC	2547	2314	2141	1901
TOTAL	186900	136671	111028	95022

Source: <http://statistici.insse.ro/shop/index.jsp?page=tempo3&lang=ro&ind=SCL109H>

From (Table 1) one can observe a decrease in the number of higher education graduates during the analyzed period. If in 2010 we had a total of 186900 graduates of higher education, in 2011 registering a total of 136671, and in the last year analyzed (2013) are 95022 graduates of higher education.

The number of graduates in higher education is structured quite similar in the four years analyzed. In 2010, most graduates were registered in the G7 group, followed by G9 and G8 group. In 2011 most graduates were registered at G9 group, followed by those in the G7 and G1. In the next two years 2012 and 2013, ranking the first three groups remains the same as in 2011, only the values being on decline. The trend in the number of graduates in higher education both on the whole and at the level of the 10 groups is declining, with a few exceptions:

- In 2011, the number of graduates in groups G1, G2, G3 and G4 increased compared to the number of the previous year;

- In 2012, group G6 increased the number of graduates compared to the number in the previous year, but with an almost insignificant amount (- 3 graduates).

It should be noted the drastic reduction recorded in the G7 group between 2010 and 2011, when the number of graduates has nearly halved. This is the strongest regression of the analyzed indicator between 2010-2013.

In the first stage we realize a prediction regarding the structure of the number of graduates in higher education for 2014 by group of specializations, the data being used in projections for 2015.

The steps to go through are:

Step 1: Determining the share of graduates by groups of specializations (%)

**Table 2. The share of higher education graduates by groups of specializations (%)**

Groups of specializations	Years (%)			
	2010	2011	2012	2013
G1. INDUSTRY	10.775	15.504	17.904	18.754
G2. TRANSPORT AND TELECOMMUNICATIONS	0.513	0.737	0.718	0.921
G3. ARCHITECTURE AND CONSTRUCTION	2.353	3.653	4.181	3.996
G4. AGRICULTURE	0.950	1.404	1.638	1.747
G5 FORESTRY	0.362	0.424	0.520	0.543
G6. MEDICAL	5.205	6.903	8.500	9.735
G7. ECONOMICS	33.539	25.181	23.169	23.070
G8. LAW SCIENCE	14.127	14.059	11.277	10.932
G9. UNIVERSITY - PEDAGOGY	30.813	30.441	30.165	28.302
G10. ARTISTIC	1.363	1.693	1.928	2.001
TOTAL	100	100	100	100

Source: Made by the authors

(Table 2) provides the opportunity to observe the share of graduates in higher education by groups of specializations. In 2010 the group G7 held a share of 33.5%, followed by 30.8% of the group G9 and the group G8 of 14.1%. In 2011 the first position with 30.4% was that of group G9, followed by the group G7 with 25.1% and the group G1 with 15.5%. In the next two years, the top three remain the same, only the related shares changes. In 2012 group G9 held a share of 30.1%, followed by the group G7 with 23.1% and the group G1 with 17.9%. In 2013 the group G9 held a share of 28.3%, followed by the group G7 with 23% and group G1 with 18.7%.

Step 2: For each pair of consecutive periods of time  $(t-1/t) = (2010/2011, 2011/2012, 2012/2013, 2013/2014)$ , is calculated the partial matrices of transition.

These are square matrices (10x10) denoted by :  $G^{t-1/t} = (g_{ij}^{t-1/t})_{i,j=\overline{1,10}}$ .

We denote  $A = (a_{ij})_{i=1,4, j=\overline{1,10}}$  the matrix whose elements are the values in (Table 2).

The matrix elements  $G^{2010/2011} = (g_{ij}^{2010/2011})_{i,j=\overline{1,10}}$  is determined as follows:

- for  $i = j$  :  $(g_{ij}^{2010/2011})_{i,j=\overline{1,10}} = \min(a_{i1}^{2010}, a_{i2}^{2011})$

The differences  $(a_{i1}^{2010} - g_{ii}^{2010/2011})_{i=\overline{1,10}}$  are called negative deviations (ND) and

$(a_{i2}^{2010} - g_{ii}^{2010/2011})_{i=\overline{1,10}}$  are called positive deviations (PD).

- for  $i \neq j$  :

$(g_{ij}^{2010/2011})_{i,j=\overline{1,10}} = (a_{i1}^{2010} - g_{ii}^{2010/2011}) \cdot (a_{i2}^{2010} - g_{ii}^{2010/2011}) / \sum \text{positive deviations}$

**Table 3. Partial matrix of transition from 2010 to 2011**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	ND
G1.	10.775	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
G2.	0.000	0.513	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
G3.	0.000	0.000	2.353	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
G4.	0.000	0.000	0.000	0.950	0.000	0.000	0.000	0.000	0.000	0.000	

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	ND
<b>G5.</b>	0.000	0.000	0.000	0.000	0.362	0.000	0.000	0.000	0.000	0.000	
<b>G6.</b>	0.000	0.000	0.000	0.000	0.000	5.205	0.000	0.000	0.000	0.000	
<b>G7.</b>	4.493	0.213	1.236	0.431	0.059	1.612	25.181	0.000	0.000	0.314	<b>8.358</b>
<b>G8.</b>	0.037	0.002	0.010	0.004	0.000	0.013	0.000	14.059	0.000	0.003	<b>0.068</b>
<b>G9.</b>	0.200	0.009	0.055	0.019	0.003	0.072	0.000	0.000	30.441	0.014	<b>0.372</b>
<b>G10.</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.363	
<b>PD</b>	<b>4.730</b>	<b>0.224</b>	<b>1.301</b>	<b>0.454</b>	<b>0.062</b>	<b>1.697</b>				<b>0.330</b>	8.798

Source: Made by the authors

$\Rightarrow G^{2010/2011}$  is the matrix whose elements are the values in (Table 3).

Therefore, in 2011 compared to 2010, the groups who lost percentages are: group 7 (Economics - 8.358 percentages), group 8 (Law Science -0.068 percentages) and group 9 (University - Pedagogy - 0.372 percentages). Other groups have won percentage, the first being group 1 (Industry) with 4.73 percentage earned by transfer from groups G7 (4.493), G8 (0.037) and G9 (0.20), followed by Group 6 (Medical) with 1.697 percentage.

Proceeding analog, the following transition matrices are obtained:

➤  $G^{2011/2012}$  whose elements are the values in (Table 4).

**Table 4. Partial transition matrix from 2011 to 2012**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	ND
<b>G1.</b>	15.504	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
<b>G2.</b>	0.009	0.718	0.002	0.001	0.000	0.006	0.000	0.000	0.000	0.001	<b>0.019</b>
<b>G3.</b>	0.000	0.000	3.653	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
<b>G4.</b>	0.000	0.000	0.000	1.404	0.000	0.000	0.000	0.000	0.000	0.000	
<b>G5.</b>	0.000	0.000	0.000	0.000	0.424	0.000	0.000	0.000	0.000	0.000	
<b>G6.</b>	0.000	0.000	0.000	0.000	0.000	6.903	0.000	0.000	0.000	0.000	
<b>G7.</b>	0.949	0.000	0.209	0.093	0.038	0.631	23.169	0.000	0.000	0.093	<b>2.012</b>
<b>G8.</b>	1.312	0.000	0.288	0.128	0.052	0.873	0.000	11.277	0.000	0.129	<b>2.782</b>
<b>G9.</b>	0.130	0.000	0.029	0.013	0.005	0.087	0.000	0.000	30.165	0.013	<b>0.276</b>
<b>G10.</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.693	
<b>PD</b>	<b>2.399</b>		<b>0.528</b>	<b>0.234</b>	<b>0.095</b>	<b>1.597</b>				<b>0.235</b>	5.089

Source: Made by the authors

The significance of this result is that in the year 2012 compared to 2011, most percentages were gained by Group 1 (Industry) – 2.399, obtained by transfer from groups G2 (0.009), G7 (0.949), G8 (1.312) and G9 (0.13). Group 8 (Law Science) has transferred most percentages (2.782) as follows: G1 group (1.312), G3 (0.288), G4 (0.128), G5 (0.052), G6 (0.873) and G10 (0.129).

➤  $G^{2012/2013}$  whose elements are the values in (Table 5) .

**Table 5. Partial transition matrix from 2012 to 2013**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	ND
<b>G1.</b>	17.904	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
<b>G2.</b>	0.000	0.718	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
<b>G3.</b>	0.063	0.015	3.996	0.008	0.002	0.092	0.000	0.000	0.000	0.005	<b>0.185</b>
<b>G4.</b>	0.000	0.000	0.000	1.638	0.000	0.000	0.000	0.000	0.000	0.000	
<b>G5.</b>	0.000	0.000	0.000	0.000	0.520	0.000	0.000	0.000	0.000	0.000	

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	ND
G6.	0.000	0.000	0.000	0.000	0.000	8.500	0.000	0.000	0.000	0.000	
G7.	0.034	0.008	0.000	0.004	0.001	0.049	23.070	0.000	0.000	0.003	<b>0.098</b>
G8.	0.118	0.028	0.000	0.015	0.003	0.171	0.000	10.932	0.000	0.010	<b>0.345</b>
G9.	0.636	0.152	0.000	0.081	0.017	0.923	0.000	0.000	28.302	0.054	<b>1.864</b>
G10.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.928	
PD	<b>0.850</b>	<b>0.203</b>		<b>0.109</b>	<b>0.023</b>	<b>1.235</b>				<b>0.072</b>	2.492

Source: Made by the authors

Compared to year 2012, in 2013 there were transferred to the medical field 1.235 percentages, the biggest loss being of 1.864 percentages, recorded by Group 9 (University - Pedagogy).

Step 3: It is calculated the total matrix of transition for 2010-2013 by summing the three partial matrices obtained previously.

Thus,  $G^{2010-2013}$  it is the matrix whose elements are the values in (Table 6).

**Table 6. Total matrix of transition for the period 2010-2013**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	TOTAL
G1.	44.183	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	44.183
G2.	0.009	1.948	0.002	0.001	0.000	0.006	0.000	0.000	0.000	0.001	1.967
G3.	0.063	0.015	10.002	0.008	0.002	0.092	0.000	0.000	0.000	0.005	10.187
G4.	0.000	0.000	0.000	3.993	0.000	0.000	0.000	0.000	0.000	0.000	3.993
G5.	0.000	0.000	0.000	0.000	1.306	0.000	0.000	0.000	0.000	0.000	1.306
G6.	0.000	0.000	0.000	0.000	0.000	20.608	0.000	0.000	0.000	0.000	20.608
G7.	5.475	0.221	1.444	0.528	0.098	2.293	71.420	0.000	0.000	0.410	81.889
G8.	1.466	0.030	0.299	0.147	0.056	1.057	0.000	36.269	0.000	0.141	39.464
G9.	0.965	0.161	0.084	0.113	0.025	1.082	0.000	0.000	88.908	0.081	91.419
G10.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4.984	4.984
TOTAL	52.162	2.375	11.830	4.789	1.487	25.137	71.420	36.269	88.908	5.622	300.000

Source: Made by the authors

Step 4: It is calculated the predicted structure for the year 2014. Based on matrix  $G^{2010-2013}$  it is calculated the probability of transition matrix, by dividing each element of the matrix  $G^{2010-2013}$  at the sum of the line on which that item is.

We obtain the matrix denoted by  $GP^{2010-2013} = (gp_{ij}^{2010-2013})_{i,j=1,10}$ , whose elements are the values in (Table 7).

**Table 7. Probability of transition matrix**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10
G1.	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
G2.	0.005	0.990	0.001	0.000	0.000	0.003	0.000	0.000	0.000	0.000
G3.	0.006	0.001	0.982	0.001	0.000	0.009	0.000	0.000	0.000	0.001
G4.	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000
G5.	0.000	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000
G6.	0.000	0.000	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000
G7.	0.067	0.003	0.018	0.006	0.001	0.028	0.872	0.000	0.000	0.005

	<b>G1</b>	<b>G2</b>	<b>G3</b>	<b>G4</b>	<b>G5</b>	<b>G6</b>	<b>G7</b>	<b>G8</b>	<b>G9</b>	<b>G10</b>
<b>G8.</b>	0.037	0.001	0.008	0.004	0.001	0.027	0.000	0.919	0.000	0.004
<b>G9.</b>	0.011	0.002	0.001	0.001	0.000	0.012	0.000	0.000	0.973	0.001
<b>G10.</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.000

Source: Made by the authors

Being probabilities, the sum of the elements on each line is equal to 1.

The structure predicted for the year 2014 it is calculated as product between matrix

transpose  $GP^{2010-2013}$  and the vector

$$\begin{pmatrix} 18.754 \\ 0.921 \\ 3.996 \\ 1.747 \\ 0.543 \\ 9.735 \\ 23.070 \\ 10.932 \\ 28.302 \\ 2.001 \end{pmatrix}$$

representing the number of graduates on

groups of specializations.

Therefore, the projected structure of the number of graduates in higher education for 2014, by groups of specialization is:

**Table 8. Projected structure of the number of graduates in higher education for 2014 (%)**

Groups of specializations	2014
G1. INDUSTRY	21.032
G2. TRANSPORT AND TELECOMMUNICATIONS	1.040
G3. ARCHITECTURE AND CONSTRUCTION	4.439
G4. AGRICULTURE	1.973
G5 FORESTRY	0.596
G6. MEDICAL	11.046
G7. ECONOMICS	20.122
G8. LAW SCIENCE	10.047
G9. UNIVERSITY - PEDAGOGY	27.524
G10. ARTISTIC	2.183

Source: Made by the authors

Therefore, for 2014 is anticipated an increase in the number of graduates in higher education for groups of specializations G1-G6 and G10. The other majors groups (G7- G9) will show a decrease in the number of graduates.

Step 5: Based on data obtained in step 4, it is determined the partial matrix of transition for 2013/2014 and the total matrix of transition for the period 2010-2014.

Thus,  $G^{2013/2014}$  have as elements the values in (Table 9).

**Tabelul 9. Partial matrix of transition from 2013 to 2014**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	ND
<b>G1.</b>	18.754	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
<b>G2.</b>	0.000	0.921	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	ND
G3.	0.000	0.000	3.996	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
G4.	0.000	0.000	0.000	1.747	0.000	0.000	0.000	0.000	0.000	0.000	
G5.	0.000	0.000	0.000	0.000	0.543	0.000	0.000	0.000	0.000	0.000	
G6.	0.000	0.000	0.000	0.000	0.000	9.735	0.000	0.000	0.000	0.000	
G7.	1.456	0.076	0.283	0.144	0.034	0.838	20.122	0.000	0.000	0.117	<b>2.948</b>
G8.	0.437	0.023	0.085	0.043	0.010	0.252	0.000	10.047	0.000	0.035	<b>0.886</b>
G9.	0.384	0.020	0.075	0.038	0.009	0.221	0.000	0.000	27.524	0.031	<b>0.778</b>
G10.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	2.001	
PD	<b>2.278</b>	<b>0.119</b>	<b>0.443</b>	<b>0.226</b>	<b>0.052</b>	<b>1.312</b>				<b>0.183</b>	4.612

Source: Made by the authors

Therefore, in 2014 compared to 2013, the groups who lost percentages are G7 (2.948), G8 (0.886) and G9 (0.778), achieving transfer of percentage for groups G1-G6 and G10.

The total matrix of transition for the period 2010-2014,  $G^{2010-2014}$  has as elements the values in (Table 10).

**Table 10. The total matrix of transition for the period 2010-2014**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	TOTAL
G1.	62.936	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	62.936
G2.	0.009	2.869	0.002	0.001	0.000	0.006	0.000	0.000	0.000	0.001	2.888
G3.	0.063	0.015	13.998	0.008	0.002	0.092	0.000	0.000	0.000	0.005	14.183
G4.	0.000	0.000	0.000	5.740	0.000	0.000	0.000	0.000	0.000	0.000	5.740
G5.	0.000	0.000	0.000	0.000	1.849	0.000	0.000	0.000	0.000	0.000	1.849
G6.	0.000	0.000	0.000	0.000	0.000	30.342	0.000	0.000	0.000	0.000	30.342
G7.	6.932	0.297	1.727	0.672	0.131	3.131	91.542	0.000	0.000	0.526	104.959
G8.	1.903	0.053	0.384	0.190	0.066	1.309	0.000	46.316	0.000	0.176	50.396
G9.	1.350	0.181	0.158	0.151	0.034	1.303	0.000	0.000	116.432	0.112	119.721
G10.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	6.985	6.985
TOTAL	73.193	3.415	16.269	6.762	2.083	36.183	91.542	46.316	116.432	7.805	400.000

Source: Made by the authors

Step 6: It is calculated the predicted structure for the year 2015. The matrix of transition probabilities  $GP^{2010-2014}$  has as elements the values in (Table 11).

**Table 11. The matrix of transition probabilities**

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10
G1.	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
G2.	0.003	0.993	0.001	0.000	0.000	0.002	0.000	0.000	0.000	0.000
G3.	0.004	0.001	0.987	0.001	0.000	0.006	0.000	0.000	0.000	0.000
G4.	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000
G5.	0.000	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000
G6.	0.000	0.000	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000
G7.	0.066	0.003	0.016	0.006	0.001	0.030	0.872	0.000	0.000	0.005
G8.	0.038	0.001	0.008	0.004	0.001	0.026	0.000	0.919	0.000	0.003
G9.	0.011	0.002	0.001	0.001	0.000	0.011	0.000	0.000	0.973	0.001
G10.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.000

Source: Made by the authors

Therefore, the projected structure of the number of graduates in higher education for the year 2015, on groups of specialization is:

**Table 12. Projected structure of the number of graduates in higher education for the year 2015 (%)**

Groups of specializations	2015
G1. INDUSTRY	25.790
G2. TRANSPORT AND TELECOMMUNICATIONS	1.163
G3. ARCHITECTURE AND CONSTRUCTION	4.812
G4. AGRICULTURE	2.165
G5 FORESTRY	0.626
G6. MEDICAL	12.243
G7. ECONOMICS	17.546
G8. LAW SCIENCE	9.233
G9. UNIVERSITY - PEDAGOGY	26.780
G10. ARTISTIC	2.341

Source: Made by the authors

Therefore, for the year 2015 it is anticipated an increase in the number of graduates in higher education for groups of specializations G1-G6 and G10.

The other groups (G7- G9) will show a decrease in the number of graduates.

#### 4. Conclusions

The downward trend in the number of higher education graduates during the analyzed period is revealed by official figures provided by the National Statistics Institute. A number of factors have led to the reality of the last few years regarding the number of graduates in higher education. Unfortunately, the official figures stop at the year 2013 so that the paper aims to predict the years 2014 and 2015, a period when we should have known real data at present time. However, until the publication of this information by the National Institute of Statistics, the prediction made using Markov chain theory provides us with information regarding the percentage of higher education graduates by groups of specializations.

If between 2011-2013 the top three in terms of the percentage of graduates were occupied by groups G9, G7 and G1, in 2014, the ranking consists of group G9 with 27.5%, followed by group G1 with 21% and group G7 with 20.1%. It is projected an increase in the number of graduates in higher education for groups G1-G6 and G10 and a decrease in the number of graduates for other groups

At the level of the year 2015, the ranking consists of group G9 with 26.7% followed by group G1 with 25.7% and group G7 with 17.5%. The prediction for the year 2015 highlights similar increases to those in 2014.

One can see a shift in preferences for existing specializations in higher education. Supersaturation of the labor market with graduates of the groups G7-G9 is evidenced by choosing other specializations than those which until recently occupied the top places in the ranking of the number of graduates.

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# SCHOOL-COMMUNITY PARTNERSHIP

Magdalena, Tudor<sup>1</sup>

## Abstract

*The school is an institution which functions at a community level. When a true partnership between school, family and community exists, teachers can develop more effective ways of guiding students towards higher academic standards. Parents and family need to discuss with the teachers their children's behaviour, according to the standards imposed, in order to help them both in school and at home. This way, students will strive for achieving new standards in their studied disciplines (mathematics, sciences and language) and they will also be well-equipped to continue their studies in universities (here or abroad) in order to start a career with a bright future.*

*Schools and community improve the training, evaluation and professional development of teachers, the development of managerial skills of the principals and the involvement of parents and businessmen, in order for each aspect of education to work as a part of a whole system, which support students to achieve their goals.*

**Keywords:** school, community, family, partnership

**JEL Classification:** I2

## 1. Introduction

Given the context of globalization and other large phenomena, as well as the affiliation to the European Union, Romania has encountered a series of changes, both on the economic and social level.

In this fast-moving world, pressured by competition at all levels, parents, teachers, businessmen, local communities, states and governments, all work together to encourage the improvement of education, which helps children grow and develop. The school is one of the most important institutions of a community. However, schools cannot function or evolve without taking into consideration the specific features of the community. One of the means by which this goal can be attained, is the involvement of family in education.

Families need to be involved in their children's learning, both at home and in school, if we want them to be well-educated. Families can improve home-learning by taking interest in the activities offered by the schools, encouraging their children to actively participate in classes and arousing their interest towards exciting disciplines, along with broadening their own abilities, as parents.

Students must learn that society is driven by certain rules, which he needs to know, apply and respect in his behaviour, according to his age, and also by social values and moral attitudes, which lead to the consolidation and progress of the community. This can be attained by encouraging the emotional and active implication of the student in the school environment.

The role of school is to form and train individuals capable of using a large information basis, to make them adapt to new environments and conditions, to make them work effectively in a team, and to help them develop an empathetic attitude towards other groups or cultures which helps them act responsibly to new challenges and destructive influences.

No matter how well-trained a student is, he will never adapt to social life, unless he develops some kind of civic behaviour (active, responsible, open, tolerant, communicative, reflexive and self-evaluative) and certain moral attitudes and values (honesty, honor, sincerity, respect towards parents, friends, people, school and labour).

One of the most important requirements of proper educational activities, is the assurance of a unity between all educational agents: school, family, community. If we admit

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that schools have an overwhelming impact on the formation of the human personality, we must admit that proper education cannot be attained without recognising the role of the family in this relationship. School and family are both institutions which need one another.

## **2. Conceptual delimitations. School-community partnership**

The school is an institution which functions at a community level. When a true partnership between school, family and community exists, teachers can develop more effective ways of guiding students towards higher academic standards. Parents and family need to discuss with the teachers their children's behaviour, according to the standards imposed, in order to help them both in school and at home. This way, students will strive for achieving new standards in their studied disciplines (mathematics, sciences and language) and they will also be well-equipped to continue their studies in universities (here or abroad) in order to start a career with a bright future.

Each school becomes "a community of those who learn", following its own plan of constant development of teaching, studying and discipline (Băran-Pescaru, 2004, p.70). All students strive to make progress in attaining the established standards, with the support of their parents, teachers and other partners.

Schools and community improve the training, evaluation and professional development of teachers, the development of managerial skills of the principals and the involvement of parents and businessmen, in order for each aspect of education to work as a part of a whole system, which supports students to achieve their goals.

Under these conditions, education is the creation of the social being (Langa C., 2013, p.30). Education, through its characteristics, helps individuals develop other subjective qualities, than the genetic ones.

Society, as a whole, is targeted towards attaining its purpose of contributing to the development and education of the student.

The education system refers to all the institutions of a society, involved in the education of people, in a certain time period (Langa C., 2013, p.36).

The school is a formal organization whose purpose is to supply social service in education, in order to form, socialize and professionalize young generations (Stăiculescu C., 2012, p.14). Schools function within a local community and they are directly influenced by everything that takes place in the social environment. Schools deliver information, develop abilities, rules and values. At the same time, schools have their own logical development, reproducing their own values, rules and organizational system.

Schools function within a community which is composed of many educational agents: family, local authorities, police, sanitary institutions, church, economic agents and NGOs with their own educational offers. Schools and other educational institutions are constantly under the pressure of other factors such as ideological groups which act at a local level, political systems, economic conditions and social trends. In other words, schools depend on the environment in which they function in order to obtain material, human, financial and informational resources.

The school functions within a social context, in a local community which provides for students, but which also has to respond to a set of expectations. The social context of the community can influence the school as part of the civil society, capable of defending its interests, not only by institutional means, but also by exerting social pressure directly upon the educational institutions.

The school also functions within a larger social context, at a national level which comprises:  
- local communities, social groups, social organization forms and legal aspects;  
- elements of social life: language, culture, values and traditions (Stăiculescu C., 2012, p.10).

The school is an organization which develops a pedagogical activity within an institutionalized environment, with social regulations and roles which involve both micro and macrostructural parts of the educational process (Langa C., 2013, p.58). The school is a formal organization which functions within a local community with its own rules and which also conveys social values. At the same time, schools produce "the human material" in the community, the students and the teaching staff.

The concept of "community" has a long evolution over time.

Synthesizing different approaches of the concept, we can establish the following characteristics of a community:

- a community is a social global entity in which relationships between its members are very close, and the feeling of ingroup is very strong, with roots in traditions;

- a community is a supra-individual entity, which has priority over the individual, in virtue of its transcendence of ethic and political order;

- a community represents a common well-being, it is an element of moral reference for the individual, promoting basic values (through rules and traditions) to the individuals (Stăiculescu C., 2012, p.15).

In Romania, the concept of community has mainly a geographical connotation, as a physically determined area. Even if lately there has been much debate over the development and involvement of the community in solving local problems, human relationships based on mutual support are only at the beginning of conceptual approach.

The concept of partnership imposes an approach from different perspectives and has many connotations.

Juridically, a partnership is defined as a legal understanding in which partners define together, a general objective of the partnership. Authentic partnership implies, in theory, a strong collaboration and a combination of certain advantages for both partners.

From the perspective of benefits, a partnership is defined as an efficient manner of management, either by changing managerial practice, or by changing the modality of approaching public issues, in order to solve them through a partnership.

The partnership can be a means of allocation and usage of local resources, or of attracting external resources for solving local problems. In many communities, certain local services, profit or nonprofit, have developed in order to solve different issues.

The partnership between school and community has to be based on the principle of the complementarity of the social services offered by different organizations in the community.

A partnership is based on the idea that the ones involved have more to win if they act together, rather than acting alone. However, the intention of cooperation cannot guarantee success. For that, there needs to be a coordination of activities and decisions between the partners, and also a good management of the process of collaboration. The success of a partnership is determined by the common adherence to the rules established.

The formation of a partnership is a deliberate process which implies certain attitudes, strategies and knowledge, which the partners need to know and use.

A partnership determines the adoption of a management based on collaboration and change, communication and acknowledgment of diversity.

In a partnership, each partner must define his/hers expectations, objective and limits. A partnership is based on trust and it determines a certain responsibility and implication of the partners. It has to be a means of obtaining good results efficiently, a change for the good.

Over the last years, the concept of partnership has been defined in many ways within the majority of academic resources, regarding education. The term determines an opening towards the environment and the context. This way, a partnership becomes an element of the school opening towards the social environment in which it functions.

A partnership can take many different shapes and it directly influenced by the decision-making system of the community or country.

Within an educational system which is excessively centralized, a partnership could make parents actively participate in the decision-making process of the institution. In a centralized system, families or even local communities are rarely invited to participate in the debate over educational issues.

However, in a hierarchical educational system, a partnership can refer to a new spread of power and also some sort of communication between school principals, teachers, parent's representatives and even students.

Within a decentralized administration, the responsibilities are assigned, and the involvement of the community is institutionalized and immediate. Here, a partnership refers to the opening of the educational institution, towards the social and economical environment. However, if this kind of partnership could work at a high-school and college level (non-mandatory education), for primary and secondary schools, it would not work this well. Even so, it has been noticed that the opening of schools towards the economical system has been developed by different political parties.

The tendency of schools opening towards the community is common in most western countries. Given the fact that the resources for education are fewer and fewer, a partnership could be another way of handling local resources, or a new way of attracting funds for schools and valuing its resources in the benefit of the community.

Accepting a partnership in education implies a change in the roles of educational institutions and local agencies or organizations. Etymologically, the concept of partnership implies notions of sharing, separation and division of responsibilities and duties (Stăiculescu C., 2012, p.29). Social agents would play a more active role in the public service of the educational system.

The problem comes with the identity and the ones involved in the partnership. Resistance can come from the side of the teachers, who can choose not to collaborate with organizations outside the school, especially if they have to put up with more effort for which they will not be rewarded. The process of education is considered most of the time to be a private practice, and teachers are rarely open to sharing their roles and knowledge. A partnership involves team-work. Therefore, the less competences the ones involved have, the less functional will the partnership be.

Another problem we encounter is the change in the school's role in the partnership. Schools have a very well-defined purpose and vision, and the opening towards the social environment could be an issue. Schools not only have the mission of responding to the needs of the community, but they are also involved in a larger educational process, at a national level, which outstands the local one. This way, schools are institutions which promote a national character with national social tendencies, and not local.

Given the social context, Romania's national policy on education is established on decentralization, a process which involves a partnership between social agents which have different roles and responsibilities at a local level. At the same time, students need a unitary and balanced interpretation, which can only be achieved through a partnership of all the social and educational agents. Therefore, a systematic collaboration between educational institutions and different social partners facilitates the schools' adaptation to reality.

In a community there are a lot of organizations with many different activities. The school-community partnership at a local level, refers to the cooperation of all the institutions and social agents interested in supporting education and its problems.

The success of the partnership is based on the permanent and constant link between community agents and school representatives (Stăiculescu C., 2012, p.20).

Schools are organizations involved in the community. Their status, social functions and competences of human resources, make schools the promoter of communitarian partnership. The school is an organization which learns and produces learning. What makes it similar to the other organizations is its ability to learn, and what makes it different is its ability to produce learning (Langa C., 2013, p.59).

The schools and the community need to assume certain types of relationships, without giving up their defining elements. The initiation, support and development of a partnership with the community which focuses on the student as a member of the community, can bring benefits both to the school and the community.

The principle which stands at the basis of this partnership is represented by the fact that the education needs of students are points of interest of any educational partnership.

Schools could solve many of the problems they are facing by collaborating with institutional or non-institutional local agents, which benefit from the services offered by educational institutions, whose activity depends on the quality of the education of the people they collaborate with.

For a true partnership to take place in education, there needs to be a change in the values, attitudes, principles, rules and behaviours of the decisional agents, the human resources, the representatives of the local institutions, the parents and the students. All of these agents need to make a partnership in order to stabilize the lives of the students (students receive a lot of messages of different environments which can confuse them in their integration in the community), because children are not only educated in schools, schools need to adapt to reality and apply the principle of decentralization (from which all the responsibilities of the local agents come).

In education, the partnership of the social agents need to be based on a set of values, accepted by all its members, such as democracy, civilism, humanism, diversity, tolerance, communication, common good, mutual respect and liberty.

This attitudinal change can be achieved by the formation of the human resources in the spirit of collaboration, active participation, elaboration of projects, the promotion of collaboration between all actors of the community interested in the development of education, adopting an active management style, active participation of parents in school programmes, establishing a balance between the educational offer and the educational need of the community, adopting an appropriate programme in consensus with the community's needs.

However, in this partnership there can interfere certain barriers, such as:

- different values of the members
- different interests and opinions of the members
- not respecting the contractual relationship
- different motivations of the members
- poor management of time, duties and responsibilities, activities
- inappropriate activities in relation to the duties of the members
- a poorly-defined policy of the school's relationship with the community
- the parents' carelessness
- lack of educational values
- the level of poverty of the population
- not identifying the advantages and the outcome

Each local partner has specific interests. In Romania's current social context, schools need to take the initiative in making a partnership. Being dependent of the resources of the community (material, financial and human resources), the schools need to constantly adapt. Changes need to take into consideration:

- permanent connection to the social and economical changes
- assuming and promoting the local values
- establishing the application of these values in practice

- the creation of an educational environment capable of facilitating the development and the integration of the young generation

- assuming an active role in the community

- assuming and practicing the role of the initiator and supporter of the educational partnership

Changes in schools are major and they involve:

- the adoption of an active management

- a change in the mentality of the school's members

- adapting the programme to the students' and the community's needs

- improvement of educational offers

- improvement of extra-curricular activities

- involvement of the students, parents and representatives of local institutions in the process of the school's development.

Schools have the duty of forming good citizens, future members of a community, and they have an essential role in the promotion of the community's spirit. Schools have to take initiative in the formation of the partnership with the community.

Schools have been financed more and more by local funds. Sometimes, local authorities invoke the lack of funds for schools. Under these conditions, schools need to make efforts in order to function and sometimes they even turn to other sources such as: sponsorships, parents' contributions, establishing partnerships with NGOs, accessing other funding lines, offering services for a fee.

Schools need to modify their educational offer. Some of the ways in which schools help the development of student in the local spirit are: adoption of new disciplines regarding community spirit, training teachers to teach these disciplines, the association with other organizations which offer educational programmes, initiation of new educational programmes, participation of local agents in elaborating the programmes.

The endeavour of schools in the partnership needs to be well-planned. Schools need to open up to the community through different actions which support the partnership and the collaboration with the local agents. Schools need to attract and involve local partners, with common interest in the partnership.

The benefits to the community are many. Communities form future active citizens. The community's programmes adopted by the schools can contribute to the growth of the quality of life and promote values such as: responsibility, cooperation, participation, transparency and communication.

The schools, as an organization, in order to attain its objectives, needs a proper managerial system, with specific functions, such as: projecting, decision-making, organization, coordination and evaluation (Stăiculescu C., 2012, p.35).

The management of the partnership is based on the human resources. And because of this, there is a need for the training of the persons involved. Not only the training of the faculty, but also of the parents, local authorities representatives, local economical agents, church representatives and local NGOs. People need to be prepared to work together, as a team, to assume their role in the local development and to identify the long-term advantages of the partnership.

The management team of the school, based on the local community, includes, besides the teaching staff, the principals, the parents, the students, members of the community, representatives of local businessmen and representatives of different organizations interested in education.

The majority of the schools in Romania try to attract in their managerial team, representatives of the local community which can participate actively to the solving of problems, to empower different community representatives and to attract material and financial support from them. Supporting the interests of a certain school in the local council, by a local councilor, can bring additional resources, as opposed to a school which doesn't have this kind of support.

The initiative for the involvement of community agents in educational issues must come from the schools, for they are the main institution which manages educational problems, given its main responsibility of educating the young generation. The community's agents must also acknowledge their role in the educational process and also the benefits that come from a good collaboration with the schools.

However, school management based on a relationship with the community can encounter many problems, beginning with the time allocated for meetings, the stimulation of involvement and the lack of clarity in both the content of the partnership and the method of support from the partners.

Therefore, if schools need to be the ones who initiate the partnership, then we can admit that an efficient school manager is the one that:

- contributes to the identification of new outcomes of the partnership, helping the group establish clear objectives;

- identifies real problems and initiates discussions at the right moment;

- makes sure that the process of decision-making does not have a formal character;

- initiates an agenda which allows people to get involved;

- knows all the institutions concerned with educational problems and the people he needs to contact;

- has abilities and qualities which allow him to involve in partnerships: adopts an active management style, delegates responsibilities, knows the legislation, knows the community and its problems, is sociable and communicative, has initiative and can take on responsibilities.

All in all, a good school manager expresses clear and difficult educational problems which the schools are facing, and also the possible solutions which can come from the partnership.

### 3. Conclusion

At this time, a school-community partnership is a true necessity. The partnership can be initiated by the schools and it can only function properly if community members involve in school activities, after seeing the educational offers which satisfy their needs.

A functional community is the one which has a good collaboration between all social institutions, and which considers the school to be an important part in a system that promotes the education of its members and cooperates with diverse organizations to provide people with educational, cultural and leisure services.

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