



THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

**Performance and Risks in the European Economy**

**The Shift of the Demand for  
Air Transport Services when Prices Change**

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**Abstract:** The decrease of the charge/unit price determines the extension of demand, as well as the increase of the amount of a product/service required on the market. The relationship between the evolution of charge/unit price (the independent variable) and the market demand of a good/service (the dependent variable) can be illustrated in a table, a function or a graph. The causal relationships between the change of the charge/unit price of a good/service and the change of the amount required represent the essence of the general law of demand. This law is not fully valid when it comes to services. There are situations which apparently contradict the general law of demand: there are buyers who mostly use the services of a company even if this asks for higher prices on the grounds of saving time, which reflects the relationship between the price and the quality of the service offered. Price increase can be accompanied by the increase of the quantity required when the difference in price can be compensated for by the growth in quality. The increase or decrease of demand can be determined, at a certain offer, by the change of the charge/unit price of a good/service. The following paper deals with the limits of the demand shift under the conditions of a price change. The direct competition between the airlines offering full services (classical companies) and those that do not offer any auxiliary services (low cost) is increasing in the entire world.

**Keywords:** full services carriers; low cost airlines; pessimistic criterion; the criterion of equiprobability; the optimistic criterion

## 1 Introduction

The American or European companies which offer full services have lost a great part of their passengers to the low cost companies and this situation is happening now on the Romanian market. This paper is attempting to find the answer to the questions:

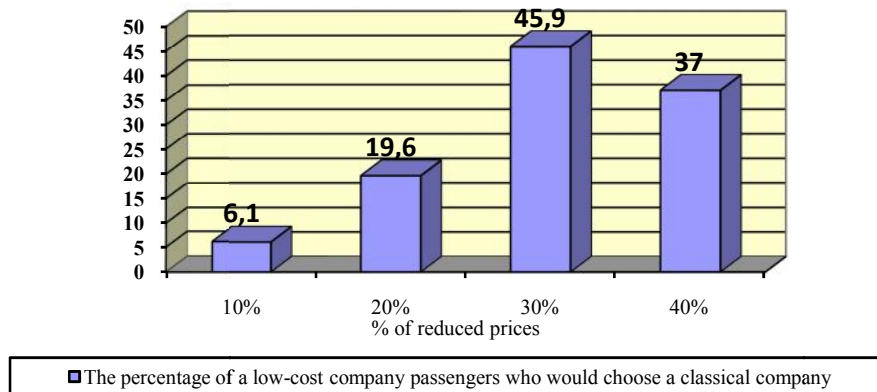
- What is the percentage of the passengers carried by low cost companies that shift to the national airline when the latter gradually decreases prices?
- How could a national airline offering more services encourage passengers and regain the share of the internal market lost to the benefit of a low cost company?

## 2 The Case Study

The parameter of using the airplanes' capacity is directly influenced by the on spot price, this being the main way of selecting the services of a company. However, it is obvious that a great number of

passengers who use the classical airlines is also influenced by other factors in addition to the price they pay.

An attempt has been made (O'Connell & Williams, 2005) in order to evaluate the flexibility of demand in classical and low cost airlines. Chart 1.11. offers data about the percentage of a low-cost company passengers who would choose a classical company if this reduced its prices by 10%, 20%, 30% or 40%.



**Figure 1. The percentage of a low-cost company passengers who would choose a classical company if this reduced its prices**

*Source: John F. O'Connell, George Williams, Passengers' perceptions of low cost airlines and full service carriers - A case study*

Results show that if a classical company reduced its prices by 10%, then an average of 6.1% of the passengers of a low-cost company would choose the classical company. A larger discount – 20% – would convince 19.6% of the passengers, 30% would convince 45.9%, and a 40% discount would make 37% of the passengers stay with the low-cost company.

This is due to a combination of factors, such as brand development, prices, timetables, simplified website, holiday packages, etc.

This information offers an indication of the amount of flexibility of the price offered by classical airlines and it identifies the moment when passengers would start to switch airlines for a low-cost one. Given the fact that classical airlines offer full services, including the connection with other airlines, the servicing of big airports, business class, loyalty promotions etc, some passengers are willing to pay more for these benefits.

The consequences of these discounts would be the maximum values presented as following:

- C1 – if the classical company reduced its prices by 10%, then an average of 6.1% of the passengers of a low- cost company would choose it.
- C2 - if the classical company reduced its prices by 20%, then an average of 19.6% of the passengers of a low- cost company would choose it.
- C3 - if the classical company reduced its prices by 30%, then an average of 45.9% of the passengers of a low- cost company would choose it.

C4 - if the classical company reduced its prices by 40%, then an average of 37% of the passengers of a low- cost company would choose it.

The situations presented before are average data of the consequences.

The possible situations that can be predicted for the Romanian market are interesting under the conditions of the decrease/increase with one percent out of the average of the average of the percentage of low cost company passengers who would choose a classical company according to the consequences presented above.

The research is structured in the following table:

**Table 1.1. Combinations against the average consequences (S2) under the conditions of a decrease/increase with one percent of a low-cost company (Blue Air) passengers who would choose a classical company (Tarom). Decision situations.**

stages	S1	S2	S3	S4
options	The low-cost company passenger decrease by % out of the total number of passengers carried in 2009			
C1 -10%	7,1 %	<b>6,1 %</b>	4,1%	3,1%
C2 -20%	20,6 %	<b>19,6 %</b>	17,6 %	16,6,%
C3 -30%	46,9 %	<b>45,9 %</b>	43,9 %	42,9 %
C4 -40%.	38 %	<b>37 %</b>	35 %	34 %

Source: processed by author

The decision situations result from the multiplication of the percents with the number of passengers carried in 2009 by the low-cost company (Blue Air – 1.7 million passengers carried in 2009 and 145 million euro turnover), the results being presented in the following table.

**Table 1.2. Determination of decision situations**

stages options	S1	S2 medium consequences	S3	S4
C1 10%	0,12141	<b>0,10431</b>	0,07011	0,05301
C2 20%	0,35226	<b>0,33516</b>	0,30096	0,28386
C3 30%	0,80199	<b>0,78489</b>	0,75069	0,73359
C4 40%.	0,6498	<b>0,6327</b>	0,5985	0,5814

Source: processed by author

The economical combinations expected for each combination are identified. In order to determine the decisions under these circumstances, we use the following criteria.

**2.1. Pessimistic Criterion (Wald criterion)**

It is the one maximizing the “minimum gain”, and it guarantees minimum losses. The performance function is:

$$(1) \quad F = \max_j \{V_{\min}^c\}$$

Where:  $V_{\min}^c$  – column vector of the minimum values from the estimated losses matrix of player “j”.

$$(2) \quad F = \max_j \min_i a_{ij}$$

So, applying this criterion means excessive caution. For Tarom, if it reduced prices, the criterion would lead to the values in the following table:

**Table 1.3. The consequences of decreasing ticket price by Tarom, determined by Wald criterion**

stages options	S1	S2 medium consequences	S3	S4
C1 10%	0,12141	<b>0,10431</b>	0,07011	0,05301
C2 20%	0,35226	<b>0,33516</b>	0,30096	0,28386
C3 30%	0,80199	<b>0,78489</b>	0,75069	0,73359
C4 40%	0,6498	<b>0,6327</b>	0,5985	0,5814

*Source: processed by author*

As we can see, Tarom can choose the course of action which would allow it to obtain a maximum and certain result without taking into account the decrease of ticket price. Applying this method consciously limits the possibility of obtaining superior results, which are given up for the desire to obtain complete safety.

In this situation option C3 is chosen – the decrease of prices by 30%, which corresponds to 73,359% of the total number of passengers carried by Blue Air, which would represent 1.254.438,9 extra passengers for Tarom. The market share of Tarom increased from 18, 92 % to 32, 7% (in 2009 the number of passengers carried by Tarom was 1.72 million out of a 9.09 million in total).

**2.2. Laplace – Bayes criterion** (the criterion of equiprobability – the criterion of maximum indeterminacy)

It is applied when the event’s probability of occurrence is not known. The best solution is considered to be the one which ensures an average maximum gain, starting from the hypothesis that the economical environment (nature) is neutral and indifferent, each of its states being possible with the same probability.



$$(3) \quad F = \max_j \left\{ \frac{1}{n} \sum_{i=1}^m a_j \right\}$$

where  $n = 4$ , and  $\sum C1 = 0,31464$ ;  $\sum C2 = 1,23804$ ;

$\sum C3 = 3,03696$ ;  $\sum C4 = 2,4282$ ;

option 1 =  $\frac{0,31464}{4} = 0,07866$ ; option 2 =  $\frac{1,23804}{4} = 0,30951$ ; option 3 =  $\frac{3,03696}{4} = 0,75924$ ; option 4 =  $\frac{2,42826}{4} = 0,60705$ ;

$$F = \max \begin{pmatrix} 0,07866 \\ 0,30951 \\ 0,75924 \\ 0,60705 \end{pmatrix} = 0,75924, \text{ that means option C3, to decrease prices by 30\%, this}$$

proportion being translated into the number of passengers who give up Blue Air company for Tarom, that is 1.298.300,4 passengers. Comparing the two values, we can reach the conclusion that under conditions of risk, on a market whose share is decreasing, the criterion of maximum indeterminacy ensures an average maximum gain if Tarom airline decreases prices by 30%. Its total market share is 33,2%.

### 2.3. Hurwicz criterion (the optimistic criterion – max. Max related to a strategy)

It is applied when the optimism of the person making decisions can be represented by a rate (K), normalized to a scale (0, 1) and whose value offers information regarding the attitude to risk:

$K \rightarrow 1$ : the person making decisions is willing to take risks (accepts the risk),

$K \rightarrow 0$ : the person making decisions objects to risk,

For  $K = 1$  the optimism is total, and for  $K = 0$  caution is excessive.

For maximum criteria:

$$(4) \quad F = \max \tilde{x}_j \quad \text{where : } \{ \tilde{x}_j \} = K \cdot a_{\max} + (1 - K) \cdot a_{\min}$$

We assume two situations: one when the person making decisions accepts the risk, and then  $K = 0,3$ , and the second when the person making decisions objects to risk, and then  $K = 0,7$ .

#### Case 1. The person making decisions objects to risk $K = 0,3$

$$\tilde{X}1 = (0,3) 0,12141 + (0,7) 0,05301 = 0,036423 + 0,037107 = 0,07353$$

$$\tilde{X}2 = (0,3) 0,35226 + (0,7) 0,28386 = 0,105678 + 0,198702 = 0,30438$$

$$\tilde{X}3 = (0,3) 0,80199 + (0,7) 0,73359 = 0,240597 + 0,513513 = 0,75411$$

$$\tilde{X}4 = (0,3) 0,6498 + (0,7) 0,5814 = 0,19494 + 0,40698 = 0,60192$$

$$F = \max \begin{pmatrix} 0,07353 \\ 0,30438 \\ 0,75411 \\ 0,60192 \end{pmatrix} = 0,75411$$

**Case 2. The person making decisions accepts the risk  $K= 0,7$**

$$\ddot{X}1 = (0,7) 0,12141 - (0,3) 0,05301 = 0,12141 + 0,015903 = 0,137313$$

$$\ddot{X}2 = (0,7) 0,35226 - (0,3) 0,28386 = 0,246582 + 0,085158 = 0,33174$$

$$\ddot{X}3 = (0,7) 0,80199 - (0,3) 0,73359 = 0,561393 + 0,220077 = 0,78147$$

$$\ddot{X}4 = (0,7) 0,6498 - (0,3) 0,5814 = 0,45486 + 0,17442 = 0,62928$$

$$F = \max \begin{pmatrix} 0,137313 \\ 0,33174 \\ 0,78147 \\ 0,62928 \end{pmatrix} = 0,78147$$

In this case two alternatives were presented related to choosing a decision about the way of transferring a part of the transport demand of a low cost company to a classical company, while the latter accepts the risk of decreasing more or less the price of tickets. The criterion of the equal optimist or the rule of Hurwicz balances the consequences of the two values.

The risk mentioned earlier represents the probability of gaining more passengers, between 75,411%, when Tarom objects to risk, and 78,147%, when it accepts the risk. Both values represent the gain of Tarom from Blue Air's market share. If the rate (K) has extreme values, the conclusions are reduced to the values related to one of the two methods presented earlier.

In a paper written (Proussaloglou & Koppelman, 1995) in 1995 on the demand of air traffic services, the conclusion was reached that the selection of the carrier is based on a combination of factors, among which the presence of the air company on the market, low prices, punctuality, reliability, flexible timetable, connection with other flights, safety and the policy of the company of making their customers loyal.

One of the main reasons for choosing an airline is the range of available services. Taking into account these conclusions, we can estimate that the main motivation for shifting from one company to another under the conditions of price decrease is the complexity of services offered.

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## **Financing Opportunities and Performance Improvement in Times of Economic Crisis. Case Study: the Romanian Local Public Administration**

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**Abstract:** The objectives targeted by this research paper refer to the analysis of the new economic context at the level of the local public administration in the Romanian regions. The paper will identify the existence and extent of structural changes occurred at the level of the local public administration, as well as efforts it made in substituting traditional funding means with European funds. The paper at hand is a continuation of the author's prior work on the topic of regional differences in Romania and on the effects of European funding on local economic development in our country. The main methods used in the paper are: the comparative analysis performed at the regional level and the empirical study of the involvement of regional local authorities in accessing European funds. The implications of the research results are valuable both to theoreticians and practitioners, since they indicate the willingness of local public administration to become flexible, pro-active and involved in enhancing its development. Also, conclusions can be drawn regarding the administrative capacity of the regions. The value of the research results resides in the fact that the analysis approach is new and the data combination used provides a fresh perspective on the matter.

**Keywords:** public sector; economic crisis; financing

### **1. Introduction**

The global economic crisis that took over most of the world in the past few years had a severe, although delayed, impact on the Romanian economy. The public sector was particularly significantly impaired, due to the increasing budgetary deficit and the additional pressure on the state and local budgets.

In Romania, the economic crisis brought about an important decline of all economic sectors, a strong increase of unemployment and several austerity measures for the public sector, meant to decrease public expenditure.

However, opportunities can also be found in times of economic crisis, reflected especially in the restructuring of public and private organizations, in an enhanced competitiveness of all organizations and in a strive for creativity and innovation, as tools for gaining a competitive edge or for improving performance.

For the public sector, the economic crisis brought to light the opportunity to discover alternative financing means, apart from the state budget, mainly the access to European funds. The absorption rate of European funding prior to the economic crisis was very low in Romania, reaching merely 10%.

The paper at hand will perform a comparative analysis, at the level of the local public administration in Romania, attempting to reveal if in times of crisis, the administration's ability to attract European funds has increased and, as a consequence, if its performance has improved. The case study will illustrate the situation of the eight regions in Romania, prior to the economic crisis and today, in terms of number of projects written and submitted for approval, number of projects actually approved, and amount of money involved.

Also, we will emphasize the possible structural changes brought about by the crisis, which influenced the administration's flexibility and its adaptation to the changing environment.

Our working hypothesis is that, facing the lack of financing from the state budget, the local public administrations tried to increase their level of European funding. We expect to find both an increase in the number of projects written and accepted, and a change in the structure of the organization, in terms of number of persons/specialized compartments/departments/services assigned to access European funds, thus compensating the poor domestic economic environment.

## 2. Impact of the Global Economic Crisis on the Romanian Economy

The Romanian economy felt the global economic crisis on several levels: first of all, the decrease of economic activities, of exports, production and consumption; then, the increase of the unemployment rate and the severe drop of wages, more obvious in the public sector, where the budgetary cuts reduced public sector workers' salaries by 25%, for a period of six months (July-December 2010). Starting with January 2011, the wages of public employees increased by 15%, still much lower than prior to the implementation of the austerity measures.

The unemployment phenomenon affected both the public and the private sector. The overall evolution of the average number of employees throughout the Romanian economy can be seen in the figure below:

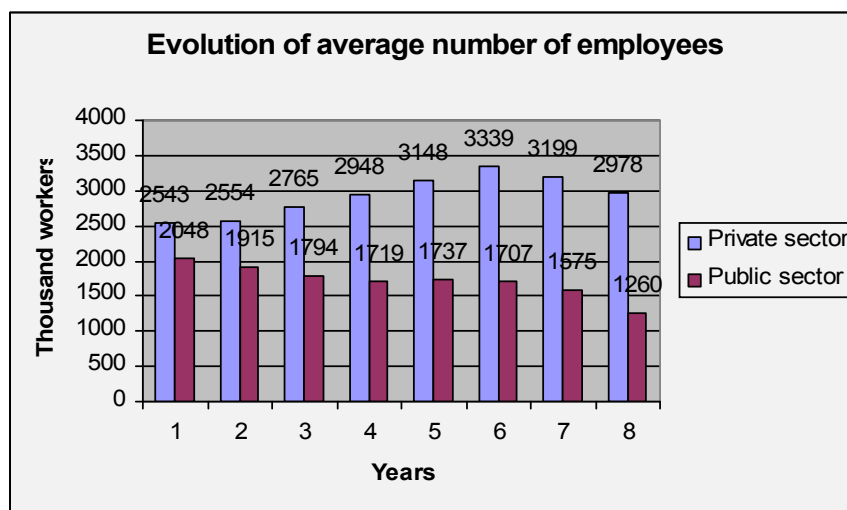


Figure 1. Evolution of the average number of employees (2003-2010)

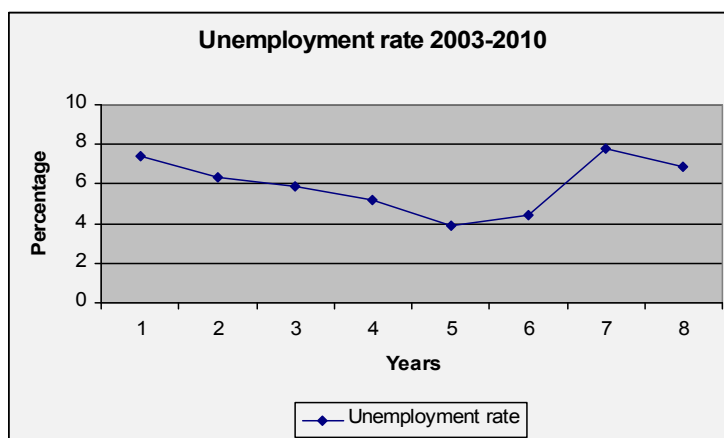
Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute

From a total average number of 4,591,000 employees in 2003, in the conditions of economic development and in the light of Romania's preparation for accession to the European Union, during

year 2006-2008 the number of employees increased constantly, reaching, respectively 4,667,000, 4,885,000 and 5,046,000 persons. Year 2009, the first year when the economic crisis was significantly felt in our country, the total average number of employees decreased by 6% (reaching the level of 4,774,000 persons), only to experience further reduction during year 2010. At the end of 2010 the average number of employees in Romania was of 4,238,000 persons, almost 20% less than two years before.

In parallel with the increase of the unemployment rate, beginning with year 2008, the public sector experiences severe personnel reductions. The total public employees in 2010 represented only 61.5% of the number of persons working in the public sector in 2003. In the private sector, although unemployment exists, the total number of persons working in 2010 represents 121.4% of the number employed in private enterprises at the level of year 2003.

The unemployment rate which decreased constantly between 2003 (7.4%) and 2007 (3.9%), starting with 2008 unemployment began to rise: 4.4% in 2008, 7.8% in 2009 and 6.9% in 2010.



**Figure 2. The evolution of the unemployment rate (2003-2010)**

*Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute*

As seen from the data above, the economic climate in Romania changed significantly because of the global economic crisis. The following parts of the paper will illustrate the manner in which the local public administrations at the regional level handed the new economic challenges and what possible solutions were identified.

### **3. Regional Differences in Romania, in Terms of Administrative Structures**

The Romanian territory is divided into eight NUTS II-level regions, which have a more or less decorative role. They have no legal personality, they are not administrative-territorial units and they exist only due to the efforts Romania made in view of the European Union accession. Starting with September 1998, the process to organize the national territory into regions according to the European model began. The lengthy process of freely associating neighbouring counties with similar and complementary economic and social backgrounds ended in October 1999, when all eight regions had been established (Jaliu, 2009).

However, the inter- and intra-regional differences in Romania are great, not only because of the somewhat forced creation of regions, mainly on geographical grounds, but also as a consequent of the

former socialist organization of the country, which had developed certain industries and economic branches in particular parts of the country, leaving other territories completely deficient in terms of industrial development.

**Table 1. The regional territorial structure**

Region	Number of counties	Counties	Surface (km <sup>2</sup> )
North-East	6	Bacau, Botosani, Iasi, Neamt, Suceava, Vaslui	36,850
South-East	6	Braila, Buzau, Constanta, Galati, Tulcea, Vrancea	35,762
South Muntenia	7	Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman	34,453
South-West Oltenia	5	Dolj, Gorj, Mehedinti, Olt, Valcea	29,212
West	4	Arad, Caras-Severin, Hunedoara, Timis	32,034
North-West	6	Bihor, Bistrita Nasaud, Cluj, Maramures, Satu Mare, Salaj	34,159
Center	6	Alba, Brasov, Covasna, Harghita, Mures, Sibiu	34,100
Bucharest-Ilfov	2	Bucharest, Ilfov	1,821

Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute

Except for Bucharest-Ilfov, the regions are similar in size (between 29,212 km<sup>2</sup> and 36,850 km<sup>2</sup>) and in number of counties (generally, 5-6 counties).

In terms of administrative-territorial organizing, all regions have constantly increased their number of towns/municipalities and communes in the last few years. The statistical data go back only to year 2006, but the comparison of these data to those of 2003 faithfully illustrates the growing bureaucracy of the local public administration.

**Table 2. Comparative data regarding the number of towns/municipalities and communes at the regional level**

Region	Towns/municipalities		Difference	Communes		Difference
	2003	2006		2003	2006	
North-East	34	46	+35.3%	478	505	+5.6%
South-East	33	35	+6.1%	339	354	+4.4%
South Muntenia	43	48	+11.6%	488	519	+6.4%
South-West Oltenia	35	40	+14.3%	385	408	+6.0%
West	38	42	+10.5%	265	278	+4.9%
North-West	35	43	+22.8%	399	401	+0.5%
Center	55	57	+3.6%	336	357	+6.3%
Bucharest-Ilfov	3	9	+200%	37	32	-13.5%

Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute

The number of towns and municipalities has increased very much in only 3 years. The northern regions, North-East and North-West, increased the number of their towns by as much as 35.3%, respectively 22.8%. Three other regions have an addition of more than 10% in their number of towns, while the Bucharest-Ilfov quadrupled the number of towns in Ilfov County (from 2 towns in 2003, to 8

towns in 2006). The same tendency can be noticed in terms of villages that turned into communes, the positive trend being found in 7 out of the eight regions. However, the percentage of the increase is for almost all regions in the vicinity of 6%. The North-West region increased the number of communes by only 2 (from 399 in 2003 to 401 in 2006), while the Bucharest-Ilfov region is the only region where the number of communes has gone down, most likely because they were transformed into towns/municipalities.

The problem presented by the increase in the number of towns/municipalities and communes presents two sides. On the one hand, the decreasing trend of the unemployment rate during the period analyzed (2003-2006) may have been influenced not so much by economic progress and growth, but by the increased number of local public administration authorities. Overall, in just three years, 44 new towns were created, alongside 127 communes. The staff necessary to run the new town halls had some impact on the regional and national unemployment rate. On the other hand, the newly created public authorities place an additional burden on the local and state budgets.

In the conditions of the economic crisis, the public sector was forced to reduce expenditure. However, these new structures could not be dismantled and their financial burden was shared by the entire public sector. The austerity measures adopted by the government, with a view to manage the budgetary deficit, brought forth important challenges at the level of the local public administrations. The following section of the paper will analyze if the local public authorities were willing and/or able to compensate the lack of financial allocations from the state budget with increased efforts on the road to accessing European financing.

#### **4. Evolution Of EU-Funding Accession at the Level of the Romanian Regions**

The accessing of European funds has always been a difficult task for Romania, both for the public sector and the private actors. In the European Commission's Report "Cohesion policy: Strategic Report 2010 on the Implementation of the Programmes 2007-2013", at the end of September 2009, Romania has managed to absorb only 14.1% of the funds available (2.71 billion Euros paid for selected projects, out of the 19.21 billion Euros assigned by the EU as contribution for the development programs). The EU average on September 30<sup>th</sup>, 2009, was 27.1% absorption rate. Only Greece has a lower absorption rate than Romania, accessing only 11.9% of the available funding. Other states, such as Ireland, the Netherlands, Belgium or Spain, are above the 50% level. As terms of comparison, Bulgaria has an absorption rate of 20.2% and Hungary reached 46.3%.

In what concerns the Lisbon objectives, the situation presents as follows: For the Convergence objective, for which Romania is eligible with all its eight regions, the Lisbon earmarked selected projects represent 9.4% of the available funds (EU average 27.6%), while the non-earmarked projects reached an absorption level of 19.1% (EU average 26.2%).

Since most of the publically available data focuses on the development and implementation of the Regional Operational Programme (ROP), we shall analyze hereinafter the changes brought about by the economic challenges in the dynamic of accessing ROP funding.

According to the Annual Implementation Report for year 2009 of the Regional Operational Programme, elaborated by the Government of Romania, through the Ministry of Regional Development and Tourism, on December 31<sup>st</sup>, 2009, at the national level, there had been submitted 3,110 funding requests, in total value of 7.25 billion Euros, out of which 4.78 billion Euros would come from the ERDF. 715 financing requests had been approved, with an overall value of 1.69 billion

Euros (ERDF – 1.14 billion Euros), and 578 financing contracts had been signed (total value – 1.49 billion Euros; ERDF – 1.01 billion Euros). 57 projects were finalized before the end of year 2009, all for micro-enterprises, creating a total of 218 new jobs and bringing a European contribution of 2.9 million Euros. The top 3 regions in terms of contracts signed were West (12 contracts), North-East (11 contracts) and Center (10 contracts). In opposition, the South-East Region concluded a single contract, while South-West Oltenia and South Muntenia concluded 3, respectively 5 contracts.

In comparison, the situation at the end of year 2008 was as follows: total funding requests submitted: 1,516, with an average value per project of 2.41 million Euros. The ranking of the regions in terms of number of projects submitted remained the same at the end of 2009, as in the previous year. The highest number of projects was submitted by the North-East Region, followed by Center and North-West. The lowest number of projects was submitted by Bucharest-Ilfov, South and West regions.

However, in terms of dynamics, the region which submitted most projects between December 31<sup>st</sup>, 2008 and December 31<sup>st</sup> 2009 was the North-West region (286 projects), closing in on the gap between it and the Center Region in the overall number (a difference of 60 projects in favour of the North-West Region). The second most active region during year 2009, in terms of projects submitted was the North-East Region, followed by the Center Region.

The lowest number of projects, apart from the Bucharest-Ilfov Region, was submitted in 2009 by the South-West Region (156 projects), closely followed by the West and South Regions, with 181 and, respectively, 189 projects submitted.

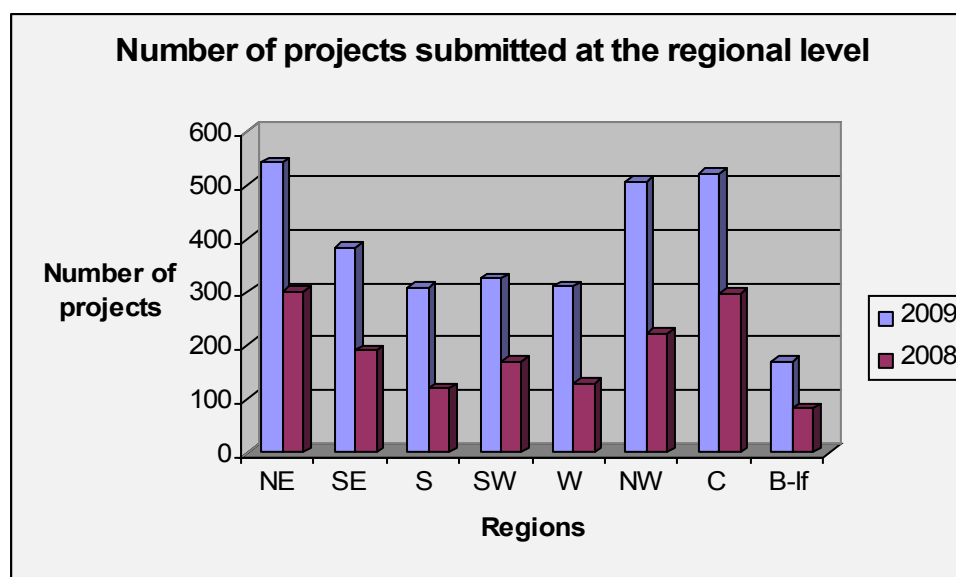


Figure 3. Comparative analysis of the number of projects submitted at the regional level

Source: Own processing from data provided by the 2009 Annual Implementation Report regarding ROP

The average value of the projects proposed does not vary much between the two years analyzed, 2008 and 2009, with an overall average value in 2008 of 2.41 million Euros/project and an average value of 2.33 million Euros/project in 2009. In both years, the region with the highest average value per project was South Muntenia (4.05 million Euros/project in 2008 and, respectively, 3.25 million Euros/project in 2009). The second-highest average value per project submitted was found in both years in the South-West Region (3.51 million Euros/project in 2008 and 3.01 million Euros/project in 2009). The smallest projects, in value, were designed in 2008 in Bucharest-Ilfov (1.08 million Euros/project) and

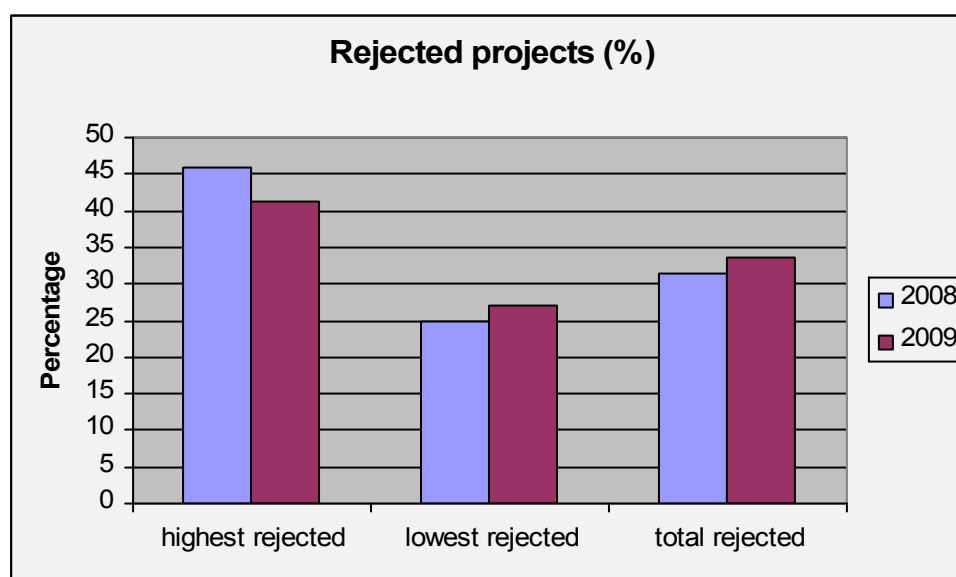


Center Region (1.78 million Euros/project). In 2009, the lowest average values per project were seen in North-West (1.71 million Euros/project) and Bucharest-Ilfov (1.77 million Euros/project).

The general trend in terms of average value/project was a descending trend, 6 out of the 8 regions submitting in 2009 projects of a lower average value than in 2008. Only 2 regions increased their average value, Bucharest-Ilfov and Center Regions, with the above-mentioned data.

The percentage of rejected projects at the end of year 2008 was 33.47%, while one year later, at the end of 2009, the percentage of projects rejected in different stages of the evaluation processes had decreased to 31.5%. The data at the end of year 2008 identified the South-West Oltenia Region as the region with the lowest percentage of rejected projects (27.14%), while the region which had the most difficulties in writing acceptable projects was South Muntenia (41.17% rejected projects). The second ranking region in terms of low percentage of rejected projects was the Bucharest-Ilfov Region (28.03%), while the third was the South-East region, with 28.05% projects rejected.

The situation one year later is quite different: the best capacitated region was the North-West Region, with only 25% of the projects rejected, a progress of 7.29% since the previous year. The Center Region has a total of 46% rejected projects in 2009, after having placed second in this negative hierarchy in 2008, with 40.38%.



**Figure 4. Percentage of rejected projects in 2008, respectively 2009**

*Source: Own processing from data provided by the 2009 Annual Implementation Report regarding ROP*

Analyzing the figures above, we can notice that, at the national level, the number of projects submitted in 2009 is significantly higher than in the two previous years. In fact, in a single year, the number of projects submitted for evaluation has doubled. This, in our opinion, indicates the fact that the European funding is seen increasingly as an alternative source of funding. It is true that the issue of co-financing is still a difficult issue in Romania, even though for the Regional Operational Programme the co-financing is limited to 16% of the contracted amounts (14% from public sources, 2% from private actors), the rest being supplied from the ERDF.

## **5. Conclusions**

As the effects of the global economic crisis are still very much present in Romania and in Europe, a viable source for financing future development and for overcoming the economic shortcomings remains the EU financing by means of its structural and cohesion funds.

The paper analyzed the state of facts of the Romanian regions with respect to their ability to access this EU financing and illustrated the dynamic way in which the public and private actors responded to the challenges brought by the economic crisis, intensifying their efforts to submit more and better projects for EU evaluation, and, hopefully, for EU funding.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES

## Labour Market Performance in the New Member States of the European Union in the Context of the Current Crisis

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**Abstract:** The global economic and financial crisis has generated a series of adjustments both in terms of macroeconomic policies and especially in terms of real economies developments. One field with major impact on the economies development, especially in this period, is the labour market. Referring to the labour market, the results at the global, regional and local levels appear extremely negative. Thus, only in the European Union (EU27) approximately 23.248 million men and women were unemployed in November 2010, of which 15.924 million people in the euro area, according to Eurostat. At the end of 2010, the EU27 unemployment rate was 9.6% and in the euro area it reached no less than 10%. Lately, in the labour market, although one can observe some temporary improvements, from month to month, the situation remains critical due to the delay in creating new jobs. In this context, the paper aims to capture, through a case study, the developments of EU New Member States (NMS) labour market, before and after the emergence of the crisis. The obvious and immediate implications of the crisis on the labour market are the increase of unemployment, especially the long-term unemployment, and the more difficult recovery of the NMS labour market, compared with euro area countries.

**Keywords:** unemployment rate; employment rate; public policy; Central and Eastern European Countries

### 1 Introduction

In late 2008 and early 2009, the international effects of the turmoil unleashed from the United States one year ago have been fully perceived on every continent, turning into the worst international economic and financial crisis after the Great Depression. Being in a catching-up process, the countries from Central and Eastern Europe, generally with large external and fiscal-budgetary deficits, felt strongly the effects of the crisis, through a sudden process of consumption and investment contraction, on the grounds of dramatic internal and external liquidity shrinkage and of the collapse of the entire society confidence. In this context, almost all new EU member states registered dramatic declines of real GDP (except Poland), with serious implications on the economy as a whole, and especially on these countries' labour market.

In the period preceding the onset and the manifestation of global financial and economic crisis, in all NMS, the labour market has registered, as the entire economy, an expanding phenomenon and even an overheating one, amid credit and trade expansion, strengthening of the prices and income convergence

process, also maintaining a high level of investment. However, simultaneously, it has been accumulated a number of factors with significant negative impact of which we state: uncontrolled growth of wages, in 2007-2008, higher than labour productivity gains; adverse demographic development; increase of unit labour cost; major imbalances of the educational system; exposure to poverty risk of certain categories of population; migration of well qualified workforce etc. Therefore, almost all negative factors accumulated prior to the crisis have made their presence felt once the crisis spread over Europe, and especially over NMS. As a result, the paper proposes a thorough study of the issue of economic and financial global crisis impact on the new EU member states labour market.

## **2 Labour Market and its Performance in the NMS before and after the Crisis**

Although the global economic and financial crisis has brought some favourable adjustments, most of its effects on the labour market can be considered dramatic for the majority of NMS, in particular for the Baltic countries. Thus, the employment rate decreased in 2009 compared to 2008, in Estonia from 69.8% to 63.5%, in Latvia from 68.6% to 60.9%, in Lithuania from 64.3% to 60.1%, in Bulgaria from 64% to 62.6%, in the Czech Republic from 66.6% to 65.4%, in Hungary from 56.7% to 55.4% and in Romania from 59% to 58.6%<sup>1</sup>. Poland is the only country from NMS, which recorded a modest increase in employment in 2008-2009.

Concurrently, in 2009, unemployment registered a tremendous growth in the NMS, exceeding twice the amount recorded in 2008 in the Baltic countries and increasing less robust in the Czech Republic, Poland, Hungary, Romania and Bulgaria. Therefore, in 2009, the strongest increases in unemployment were observed in Latvia (to 17.1% from 7.5% in 2008), in Estonia (to 13.8% from 5.5% in 2008 ) and in Lithuania (to 13.7% from 5.8% in 2008), while in Poland, Romania, Bulgaria, Hungary and the Czech Republic the unemployment increased with a rate below 3%. It is worth noting that, in 2010, the unemployment rate has continued to grow temperately in Hungary, Poland and the Czech Republic. In Bulgaria, in 2010, the unemployment rate increased with 3.1%, reaching 9.9%, however, it did not exceed the level of 11.2% marked by Hungary<sup>2</sup>. Such a negative development of employment makes the ambitious targets of the "Europe 2020" to be unattainable in the medium term, even for those countries which did not record significant difficulties in this regard, before the emergence of the crisis.

Referring to Hungary, the labour market situation was negative even before the crisis, given the adjustment measures of the fiscal and budgetary deficits; however the explanation for the poor evolution of employment and the increase of unemployment in the pre-crisis period finds its roots much deeper than those generated by the previous reforms. Thereby, the generous social welfare system, the shortage of labour supply among young people, mothers, elderly population, unqualified people and disadvantaged categories, the low education and qualification of the population, the insufficient expansion of the active labour market policies, the long-term and persistently high unemployment, the high taxation system, the disregard for labour, the low internal mobility of the working age population are just a few aspects that shape the real issues of the labour market in this country. These negative factors are found in different proportions in Romania, Bulgaria and in the Baltic countries, but are much less present in Poland and the Czech Republic. If we refer only to the Baltic countries and Bulgaria, the major problems of the labour market are found mainly in: a low employment rate among adults without higher education, a high percentage of long-term

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<sup>1</sup> Eurostat, 2011 February database.

<sup>2</sup> Eurostat, 2011 February database.

unemployment, especially a high share of male unemployment in the unemployment rate, but also a considerable share of employment in the black economy (in Bulgaria), based on a rigid legislation.

In general, in relation to the triggering moment of the crisis in the NMS, the growth of imbalances in the labour market has increased relatively quickly, amid the deepening of the recession, the decline of the employment in constructions and services, but also the accumulation of structural imbalances. The main concern is the growth and the persistence of long-term unemployment, which rose by more than two times in 2008-2009 in the Baltic countries and gained a persistent character, even if unaccompanied by increases as high as in the Baltic countries, in Hungary and Bulgaria<sup>1</sup>.

Looking at the evolution of the employment growth rate relative to the GDP growth rate, in late 2009 and early 2010, we can say that for the more developed states in the NMS group, such as Poland and the Czech Republic, there is a similar trend to the EU27 average, meaning that the shock wave of the crisis, by affecting economic growth, acted with a certain delay on the labour market, which recorded less brutal and immediate effects than in the case of Latvia, Lithuania, Estonia, Hungary, Romania and Bulgaria.

The interdependence between the economic growth and the employment makes crucial the importance of a stable macroeconomic environment, favourable to the sustainable recovery of economic growth, for a more balanced labour market. In turn, a good labour employment plays a fundamental role in the development of NMS economies and especially in the catching-up process, compared with developed countries of the European Union.

The normalization process of the labour market situation is based on balancing the labour supply with the labour demand, namely adjusting the qualification of persons seeking employment with employers' requirements. It should be mentioned for the NMS, that not only the inappropriate labour supply structure is a real problem in this crisis period; the lack of an increasing labour demand absorption area is part of the problem, too. Thus, the restriction of the number of vacancies and the unemployment growth led, on the one hand, to a rising competition in the labour market, and on the other hand, to an increased difficulty for the unemployed persons to find a job. *A direct and visible consequence of the crisis is the unemployment rising and the transformation of a large part of the cyclical unemployment into a structural one.*

If we refer strictly to the labour demand imbalances that can lead to this adverse development on the labour market, we can mention: the need to restore the profitability of business and the corresponding adjustment of balance sheets, situation which implies further postponement of the rehiring and even additional layoffs; delays in restoring confidence in a rapid economic recovery; additional costs with taxes imposed on companies, due to the need of reducing budget deficits; and also the legislative changes, mainly intended for public sector restructuring, but with impact on the companies' normal functioning. If we analyze the evolution of harmonized unemployment rate in terms of correlation with inflation during the period 2008-2010, we find consistencies with the classical theory of negative correlation between the unemployment and inflation (see Figure 1).

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<sup>1</sup> Eurostat, 2011 February database.

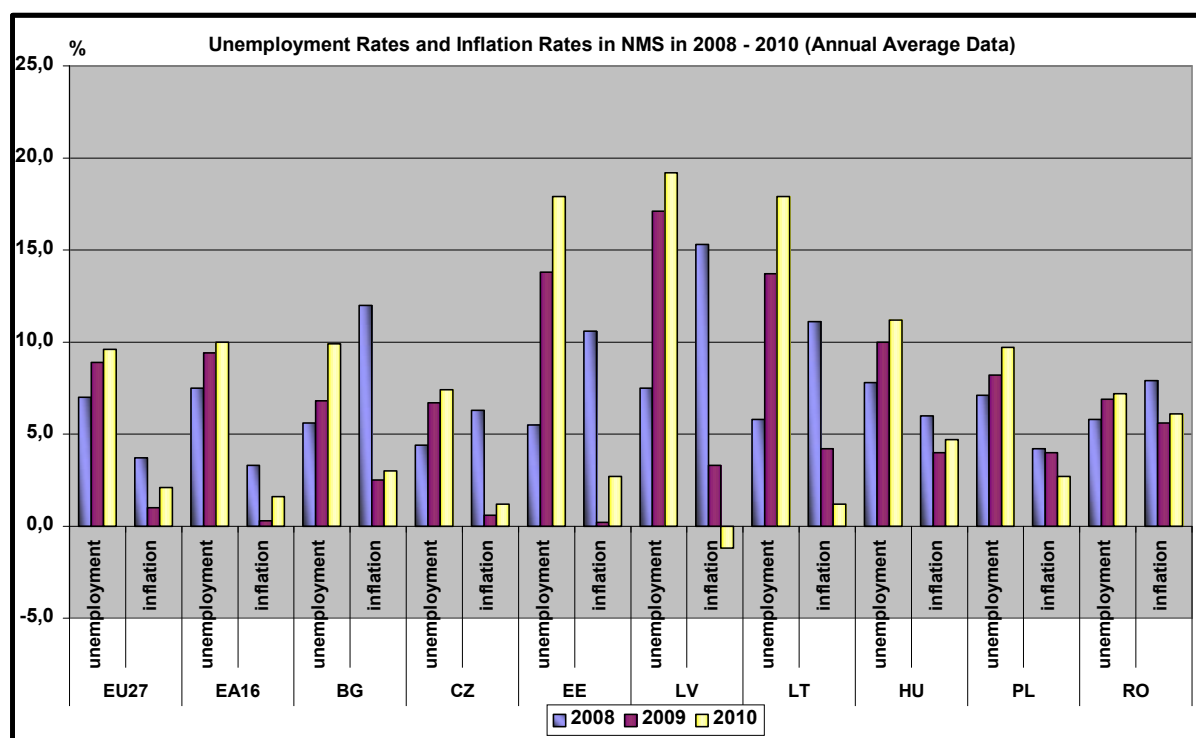


Figure 1. Annual Average Unemployment Rates and HICP Rates in NMS in 2008-2010 (Eurostat database)

We notice that, during the analysis period, in EU27 and in all NMS, the unemployment rate has increased considerably and this fact, although in the first phase led to a fall in inflation, in the coming period it resulted in an inflation rising, acquiring the U shape in EU27, euro zone, Bulgaria, the Czech Republic, Estonia, Hungary and Romania. At very high rates of unemployment (close to 20%) inflation becomes deflationary, as in the case of Latvia, which shows that inflation is indeed another facet of unemployment, with extremely serious implications for the present and the future evolution of the economy. However, most NMS with rising inflation seem likely to go through a process of stagflation (high unemployment, persistent inflation and an adverse GDP trend), which should concern all the national authorities and determine them to intervene through concrete measures for economic recovery. These measures should help to restart businesses, to increase employment and to improve living standards. Also, adjusting labour market structural imbalances in the NMS can help to diminish unemployment, to reduce poverty and to boost population growth.

Moreover, labour productivity represents, on medium and long term, one of the main supports of the economy's growth potential. In order to increase productivity, ensuring a favourable, stable, predictable and "friendly" economic environment is essential. This environment should encourage entrepreneurship, attract investments, contribute to the reduction of unit labour costs and attract considerable technological and human resources, offering the prospect of a sustainable economic growth. If we consider the crisis effects in the NMS, we can notice a massive decline in investments and capital capacity use.

Although it is expected a post-crisis recovery of the investment levels, a number of weaknesses in the business environment may further affect the economic performance of these countries. Among them, we mention: a still burdensome legislative environment, a relatively high length of time for closing or opening a business and also a high cost of these operations, an extremely complex method of taxation,

especially in the administration and collection of taxes, affecting in particular small businesses and start-ups, an inefficiency and lack of effectiveness of public administration, of the judiciary system, of supervisory and regulatory authorities, a lack of consistency of fiscal and competition policies, the corruption, a delay in public administration government restructuring, an insufficient transparency in the public procurement system, low levels of capital endowment and a modest overall productivity of inputs (especially in Bulgaria and Romania), a deepening of the disintermediation in credit financing and increasing difficulties in obtaining alternative sources of funding, an insufficient transport infrastructure development (in Estonia and Romania), a polarization of the direct foreign investments towards service and real estate sectors and last but not least, an underdeveloped capital market (especially in the Baltic States, Bulgaria and Romania).

In this context, if we look at labour productivity, we find, according to Eurostat, that in 2008 it has increased in Bulgaria, the Czech Republic, Lithuania, Hungary, Poland and Romania, but in 2009, it decreased in all new EU member states except Poland. In fact, Poland seems to have been able to take full advantage of the crisis because it has benefited and will further benefit from unit labour costs reduction, as the other NMS, but without any negative interference in labour productivity. In this regard, the analysis of labour productivity growth rate (per employee) together with real unit labour costs growth rate in 2008, 2009 and the forecast for the period 2010-2012, shows indeed a negative correlation accepted by the theory (see Figure 2). However, this correlation does not apply to Latvia and Hungary in 2009 and Romania in 2010, which demonstrates that these countries show deeper internal imbalances compared to other NMS.

For the period 2011-2012, the labour productivity growth rate is expected to be positive and increasing in all NMS, and if the wages growth rates will comply with developments in labour costs, they will be below the labour productivity gains.

With regard to the wage developments responsiveness in the crisis conditions, we can say that the NMS labour market is relatively flexible, earnings per employee having decreased in all NMS, but stronger in the Baltic countries and Romania, in 2009, compared with the previous year; in 2010 wages continued to decline but at a considerably lower pace, according to the statistics and national authorities. Theoretically, reducing labour costs, including wages, could have been a solution for maintaining or tempering the unemployment spectacular growth in the period from late 2008 until now, but it did not happen so (at least in the Baltic countries), indicating serious imbalances, rather structural, in the labour markets of these countries.

Thus, in 2009 and 2010, wage developments in these countries reflected the measures for reducing governmental fiscal-budgetary deficits and for adjusting the companies' balance sheets such as: the private or public sector wages cuts and wages freeze, the elimination of premiums and pay rises, the enforcement of unpaid leave, the payments postponement, the pension reforms, the adjustment of welfare systems costs, the reduction or the refusal of granting subsidies (including those for heating) and the series of legislative amendments to the Labour Code, in order to make more flexible and quick the entry and the exit of the labour market employees. Despite these measures, the economic recovery is sluggish and its effects in the labour market will be seen in a medium term horizon. In this respect, the creation of new jobs, both in the private and public sectors, is a difficult, lasting process, which takes into account people's and businessmen' confidence in the soundness and stability of the economies.

The factors that now delay the economic recovery, implicitly the employment, are represented precisely by those elements, which have stimulated the dramatic increase in demand and led to wage

increases in 2007-2008, in the pre-crisis period. If, before the crisis, these items had a positive effect on the economic growth, after the emergence of the crisis their effect became negative. Hereby, the sudden stop of lending growth, the serious cuts of employees' income, the tempering of budget deficits and the mistrust of the investors are just some elements that perpetuate the current situation in the NMS.

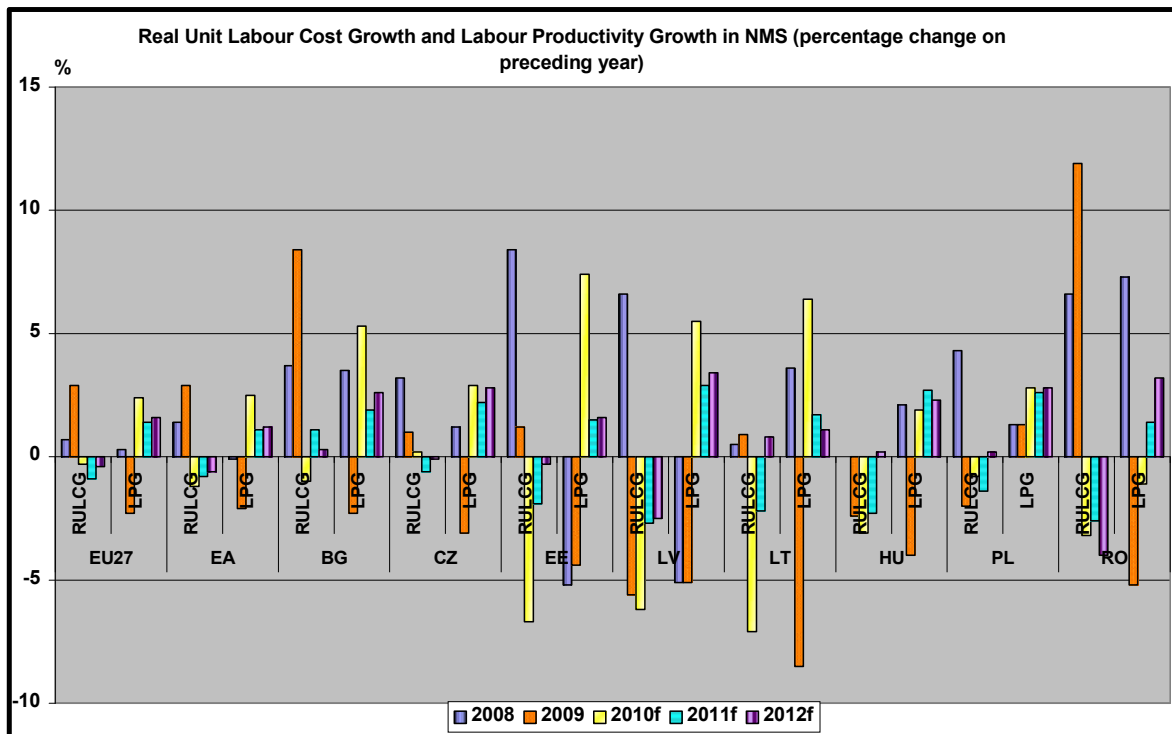


Figure 2. Real Unit Labour Cost Growth and Labour Productivity Growth in NMS in 2008-2012 (Eurostat database and European Economic Forecast, autumn 2010)

The employees' income adjustment measures had extensive implications also on the banking systems from NMS. Thus, simultaneously with the reduction of the population disposable income, there have also emerged pressures about the deterioration of the banks' portfolios quality, affecting the soundness of the banking system. Such a situation is actually normal, because of the defacement of the population perspective concerning the working place security and working earnings, which has led to the lower demand for credits, to the diminishing of households' marginal propensity for consumption and to the shift towards savings, as a preventive measure.

Referring to the labour market and social policies, one of the challenges of the NMS governments is to prevent the unemployment rising and its transformation into a structural one. To such development it can contribute, in a negative sense, the reduced regional and occupational mobility of the active population from these countries.

The demographic trends are not encouraging either, the aging population being one of the thorniest problems for the management of public policies at national and European level. Furthermore, the European guidelines for public policies, without a long-term vision, sustaining the idea of raising the statutory retirement age are only a short-term remedy for the major deficits of pension systems, in the absence of active measures to boost birth rates and employment.



### **3 Conclusions**

In the period preceding the onset of global financial and economic crisis, in all NMS, the labour market has registered a growing and even an overheating phenomenon, also accumulating a number of factors of negative nature, such as: the downward trend of natural growth of population, the huge growth of earnings, exceeding labour productivity gains, the unit labour cost increase, the decoupling trend of education system from the real requirements of the labour market, the well-qualified labour migration, the unsatisfying social protection for the disadvantaged etc. With the outbreak of crisis in the NMS, the negative factors accumulated in the labour market have made their presence felt, leading, together with the GDP fall, to the tremendous growth of unemployment and to the decrease of employment.

In the surveyed countries, the low employment rates reveal the decoupling of labour force qualifications from the labour market requirements. An important factor in this respect could be the adequacy of the education system to the realities of labour demand, through boosting training and lifelong learning policies. Not accidentally, the companies considered that, along with the infrastructure development, skills development represents one of the most important factors for the operation and business growth. However, labour market policies should be complemented with structural policies to support economic growth. In this respect, there should be undertaken measures to enhance absorption capacity of new technologies, of foreign direct investment flows, of European structural funds, also increasing the correlation of researches results with the profile industries and to improve the functioning of network and retail industries.

Moreover, the persistence of structural problems in the labour market, as the professional disparities of qualifications and the low regional mobility, may hinder any positive effects on social and labour market policies. Therefore, active labour market policies are crucial for the post-crisis period. Thus, active labour market policies should focus on as many as possible target groups and the evaluation of these policy measures should take into account their outcome or their social impact and not their financial size. In this sense, for companies it is more motivating to have a stable economic environment for labour absorption, than to receive subsidies to partially support the creation of new jobs; for the unemployed it is more suitable the coupling of the unemployment aid with their availability to work. At the same time, the salary must be consistent with the employees' efforts, skills and professionalism in order to support work and hence labour productivity.

In order to restore labour market conditions and to reduce unemployment, NMS governments have implemented and will continue to implement training and reintegration programs on the labour market, with the support of European funds. For that purpose, municipalities proposed accelerating public works in an attempt to attract a part of the labour force dismissed due to the crisis.

Despite the labour market reforms and the progress made on activation policies that link social assistance recipients with the activity of actually looking for a job, the employment rates in the NMS, except the Czech Republic, are well below the EU 27 average, and far from the target required by the strategy of "Europe 2020" (of 75%).

The NMS took a series of measures to support labour market reforms in order to improve internal and external competitiveness of their economies, but this was made with extremely high social costs, as wages, pensions and social benefits cuts. The stubbornly high or still growing unemployment, the negative economic growth, the large fiscal imbalances, the dependence on external financing, the tensions and imbalances in the banking system make from NMS the place of manifestation of major challenges for public policy management.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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**Premises of Sustainable  
Development on Rural Communities**

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**Abstract:** In this paper the authors want to highlight the opportunity on rural areas and development in terms of durability. The content of sustainable development offers to local communities real and lasting solutions. In this sense for a community to be truly sustainable, it must adopt a holistic approach, taking into account short-term environmental and economic sustainability of natural and cultural resources. The authors believe that a sustainable community among its objectives to include their major environmental issues, poverty eradication, improvement of quality of life, developing and maintaining an effective and viable local economies, leading to a global vision of sustainable development of all sectors of the community.

**Keywords:** sustainable development; local communities; environment; local economies

## 1. Introduction

In this way the community has control over the development process, decisions and develops and adopts them engage the local sustainability. This community is characterized by an active social structure, groups, associations and institutions able to mobilize long-term common stock and to assume responsibility for this ongoing process of development.

Prosperity of local communities such as the population is insured act in collaboration and in partnership, to improve quality of life and uses its resources to meet needs. In order to revitalize the rural economy, sustainable community mobilizes its capacity to provide quality care, a higher standard of living for all residents, prevent pollution, conserve natural resources and local resources and increase the efficiency of their use. Rural areas face particular challenges in terms of growth, jobs and sustainability in future years. But they offer real opportunities by their potential for growth in new sectors, ensuring the conditions of rural recreation and tourism, attractiveness as a place to live and work and their role as a reservoir of natural resources and valuable landscapes. Agriculture and food sectors must use the opportunities offered by new approaches, technologies and innovations to meet market needs at both European and global.

## **2. The Concept of Sustainable Development of Agricultural Farms**

In countries with transition economies like Romania, sustainable development issues farms are more than poverty and lack of productive technologies, rather than applying cleaner technologies and high levels of consumption as in developed countries.

A major impact on agriculture in the application of land had caused excessive fragmentation of agricultural lands, which do not permit the application of technology more effectively. As a result there has been an excessive development of cereal production at the expense of extensive grain legumes, which degrades the natural environment.

To establish a sustainable farm will be taken into account:

- soil and climate;
- household size;
- liquid or solid waste, m<sup>3</sup> space of pits;
- crop rotation and crop rotation;
- soil tillage;
- combating weeds and pests;
- available work force;
- organization of work;
- sale of goods;
- finance.

In conclusion, we might define as the most sustainable farms that:

- use complex and advanced management techniques to ensure the environmental integrity of the natural environment and even to consumers;
- specific area according to soil and climate and provide a certain relation between product offerings and product demand, that is to be flexible;
- maintain biodiversity, landscape beauty and other goods that are not assessed on existing markets;
- is economically efficient from a social perspective, ie: ensure food security and adequate income while farmers.

To convince the heads of farms practicing sustainable agriculture is needed primarily for financial support, but at the same time, they are interested in income and status in society if they will upgrade next time constraints.

## **3. Coordinates the Organization Scientifically Farms to Ensure Sustainable Development**

The organization is a combination of direct and indirect human resources, material and financial information at workplace level, departments and unity throughout the organization .In scientific establishments, delimit two main subdivisions. First, the overall organization of the unit embodied in the establishment of organizational structure and information system. This organization is part of the function performed by the senior management of the firm, conditional on the effectiveness of management-sensitive whole. The second major category is the organization of the main components of the company: research, development, production, marketing, personnel, financial and accounting

affairs. This category is accomplished at the middle and lower management levels, but predominantly in quantity terms. For farms to organize in accordance with sustainable development issues must be addressed:

1. **Dimension and the size of the farm.** Strategic option for achieving sustainable agriculture is to increase the size to land ownership and the formation of medium-sized farms, based primarily on family labor.
2. **Production structure.** It is necessary to continue the production structure to the needs of national economy and export requirements, processing and use of superior agricultural products, raising their quality parameters.
3. **Organizational and marketing structures in agriculture.** They'll have to set up new organizational structures and marketing in agriculture for farmers to better exploit the surplus production to be better informed as to this end they must travel expenses to the city and waste their time work.

To organize sustainable farms must not forget that a very important role the state should have it, primarily through appropriate legislation and not least financial support differentiated on the basis of efficiency and performance.

#### **4. Human Resources, Land and Technical Material Necessary to Ensure Sustainable Development of Agricultural Farms**

##### **4.1. Human Resources**

People who work with their production experience, the skills of their work with their scientific knowledge is the primary factor in agriculture production.

Share of rural population in total population has decreased from 60% in 1980 to 46% today. As we see the rural population is reversed and it will continue to measure social and economic progress in Romania. This decline occurred primarily due to modern agriculture, but the most industrialized and intensive agriculture is much environmental impact of agriculture is higher.

Studies on type farm rural households in Romania have revealed the following: households are created by the family, usually older man with a below average grade school, helped his wife and other family members, performing a community service.

In general, agriculture can be divided into three categories: owners, who work under (20%), and day laborers who do not have another job (Ministry of Agriculture and Food, 2006). Employment in agriculture is also aging, characterized by a high percentage of people over 50 years (31.3%) compared with 19.1% average for the economy.

In conclusion, we might say that farm work is generally a family business. Therefore, structural reforms in agriculture must consider the training of farmers and attracting young people especially in rural areas.

##### **4.2. Land Resources**

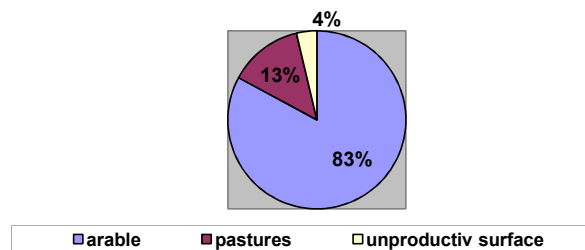
The role is crucial in ensuring the rational use of land supply, which is based on farming and other treasures throughout the world. Due to limited land and its importance as a factor in environmental

law and land policy established rules and measures at national and regional land use, particularly with regard to planning and carrying out land reclamation.

Potential land resources of mankind are much greater than those used in agricultural production, but the possibilities for reaching a new culture areas are limited, because many social factors, economic and natural. Around 64% of Romania's territory is used for agricultural production, 28% is forested, and the remaining 8% are other uses (built land, roads, railways, rivers, ponds and others).

**Table 1. Existing ground surface on BIOAGRA S. C.**

Categories of use	U.M.	Surface	% of total agricultural	% of arable
Total agriculture, including:	ha	1125	100	-
Arable, of which:	ha	932	82,86	100
- Cereals	ha	488	-	54,42
- bean	ha	10	-	1,07
- fodder	ha	192	-	19,76
- oil plant	ha	237	-	24,32
- medicinal plants	ha	4	-	0,43
Pastures	ha	151	13,45	-
Unproductive surface	ha	42	3,69	-



**Figure 1. Structure of agricultural land at S. C. BIOAGRA**

In conclusion, I would say that that area of land resources are satisfactory, the key problem is the structure and not least the size of farms. When the size farms will be optimal, then the land resources are properly exploited.

#### 4.3. Material and Technical Base of the Farm

Material and technical factors play a very important economically and socially. First, they have greatly facilitated work in rural areas and secondly, because labor productivity growth cheapened agricultural products.

Capital in the agricultural farm, the current technical and social restructuring requires new approaches, both in terms of volume of capital insured, technical structure and value and the fair allocation of additional investment. The volume of capital employed is determined by marginal productivity and interest rates, both components consisting of numerous risk and uncertainty. The current level of equipment in agriculture is unable to provide mechanical work done during the

optimal set of culture technology. Only by ensuring an optimal need of tractors and agricultural machinery will be able to practice sustainable agriculture on the farm.

**Table 2. The current level of equipment to SCBIOAGRA**

The type and brand of machine	U.M.	Year			2006/2008
		2006	2007	2008	%
Tractor U - 650	pieces	8	12	15	53,33
Disc Harrows	pieces	2	4	7	28,57
Tractor High Yield HP180	pieces	0	0	2	0
Auto tip for grains and fodder	pieces	4	7	8	50,00
Combine Class	pieces	0	1	1	0

Activity in the livestock sector has the following main activities of the sector specific fixed assets, such as:

- stables for cows - bovine 200capete two pieces;
- Youth cattle manure - 300 heads;
- barn for the birds - chickens 8500;
- cattle manure with a current destination maternity;
- saivan for sheep - 560 heads;
- 2 lanterns.

It must be made clear that the company takes on leased land and leased grown concentrated feed volume at the need. Unfortunately the society has aged equipment and construction of very large machines having already achieved some standardized ages. But the lack of financial funds, the company had to use the existing machinery park. Intervention with new investments is represented by large tractors and combines CLASS. Another very important factor in achieving sustainable agriculture is the use of chemical fertilizers. It is known, the optimal dose cultivation without chemical fertilizers and pesticides, results in poor yields, poor quality products due to pollution green. If by 1992, were used in society to 300-400 tons of chemical fertilizers, since 2008, the quantities used have decreased drastically, ranging from 150-200 tons. Causes of reducing the amount of fertilizers used in agriculture are numerous: lack of functioning markets, while emphasizing the gap between the growth rate of prices of agricultural and industrial origin at the expense of the latter, de-capitalization of farmers, etc..

## **5. Measuring Sustainable Development - The System of General Indicators at Farm Level**

The United Nations indicators emerged from the need to coordinate economic, social, demographic and environmental measure to ensure sustainability

**5.1. Sustainable cost-effective actions** are a fundamental indicator of economic and social progress. Experts say that the rent calculation purposes are to give people an idea of what they can consume without poverty. This statement is true nationally, so the actual rent is the maximum amount that a

nation can consume without jeopardizing their future assets. The concept of "rent" is therefore understood sustainable benefits for present and includes exchanges of assets (capital gain amounts to an increase in rent and capital loss equivalent to a reduction in rent).

Indicators of sustainable development must take into account mainly the environmental integrity of elements and structures and diversity of species and ecosystems. Some authors consider that a primary measurement of sustainable development must include:

- Indicators to pressure the company to report on the environment (contamination, resource use);
- Environmental condition indicators (biodiversity, ecological integrity).

## **5.2. Environmental Indicators Actions**

Environmental indicators are considered in specific areas: capital reserves and stocks, flows and deposits of waste sources, biodiversity, ecosystem integrity, the assimilative capacity of ecosystems to global changes in the ecosystem.

Latest research in the field, the structure of reference distinguished three groups of environmental indicators:

- The first group is oriented towards the causes that generate these problems (flows of emissions, use of natural resources);
- The second group wants to link the environment with the effect of human action (indicators of "effect", "quality", "status");
- The third group tries to quantify the response of society to improve the environment (indicated by the "response")

An important role is played by the **indicators for assessing biodiversity**. Biodiversity is the variability among living organisms from aquatic and terrestrial ecosystems and the ecological complexes of which they are part; includes diversity within species, between species and ecosystems.

**Biodiversity index** is the ratio between the total number of species and number of individuals in a biocoenosis.

## **5.3. The Indicators Used in Recording and Analysis of Sustainable Agricultural Farming**

To determine the effectiveness of agricultural activity should be calculated and environmental costs incurred by traders or farmers polluters if they directly contribute to environmental pollution.

It is very important to know who is responsible for actions on the environment, but more important is to determine who bears the consequences of this degradation.

Thus, sustainable farms will highlight:

- The cost of conservation or sustainability;
- Cost of health.



**The cost of conservation or sustainability (Cc)**

This cost is required to prevent or minimize degradation of the natural environment, so we could said to be an extra cost charged. An example might be that of low productive land. Where agricultural land would become unproductive due to more intensive exploitation and irrational, then that land would be pulled aside for a long time to rebuild productive capacities using appropriate technologies. The issue is who will bear those costs. A more viable way would be for government to provide subsidies and other financial incentives for farmers to carry out improvement works to conservation land and restore the land to agricultural use.

**Health cost (Cs)**

Regarding the cost issue is very delicate. Lately it was discovered that the basis for many cancer diseases and plant pesticides are used in large quantities. Farmers use large amounts of pesticides should support good science and the health cost directly. We have checked that this cost should not be introduced in the cost of production and health costs to be paid into a joint account for public health.

The main indicators used in the analysis of sustainable agricultural farming activities are:

- Indicators that reflect the economic or financial and economic outcome indicators (turnover, value added, net profit);
- indicators that reflect economic efforts, or indicators of economic and financial costs (operating expenses, financial, exceptional production costs per unit of product);
- Indicators of economic efficiency indicators of the potential use of technical-economic-financial (labor productivity rate of return. renewal and improvement of human capital along with the defense of natural capital are essential conditions for agriculture to be able to meet the needs of humanity now and in future .

**5.4. Analysis of External and Internal Factors****Analysis of external factors**

External strategic management audit is called environmental scanning or industry analysis. External audit to identify and evaluate trends and determine the events on which the company has no control such as strong foreign competition, population mobility, aging, information revolution. External audit reveals key opportunities and threats facing the association so that manager can formulate strategies to take advantage of opportunities and reduce the threats. Trends and events that represent opportunities and social threats, cultural, demographic, geographic, political, legal, governmental, economic, technological and competitive.

Its purpose is to achieve an external list of external environmental opportunities that will benefit the association and environmental threats that should be avoided. External audit tends to identify key variables that have noticeable effect.

**Social factors, cultural, demographic and environmental impacts:**

- social security programs implemented by government is an opportunity that can be successfully exploited by the company administrator.
- if the lifestyle of local residents is appropriate to the characteristics of market economy where the association can use this opportunity.

- traffic in the area is intense and where the association will distribute products more easily obtained.
- the life of the inhabitants in Romania is under threat because the income is low and inputs will be small, but in terms of a functioning market economy this may be an opportunity.
- confidence in the government while the business is integrated in a favorable industry policy is a business opportunity but only if the government considers as a source of revenue for the budget then this factor will be a threat to the association.
- attitude to work is an opportunity for regional population while the number of jobs in the area is reduced.
- attitude is an opportunity for savings in the specific romanian.
- government rules are seen as a threat as a simple market analysis shows a clear disregard of the government to maintain a level playing field and increased political patronage.

**Economic factors:**

- central budget and local taxes constitute a threat considering that in romania there are 225 taxes to stifling any business and requires managers to tax evasion for not being taken off the market.
- validity of loans will become a reality becoming more credible by lowering interest rates will lead to higher investment.
- interest rates are still high compared to lending rates in the eu further limiting access to credit.
- inflation is declining but still may pose a threat because it occurs in conditions of macroeconomic stability inflation rate is expressed as a single figure, which is still not specific to romania.
- branch that integrates economic association can be considered a priority for the government and in these circumstances the factor is appropriate but may be neglected by the government since the factor becomes a threat.
- an opportunity that can be created by specific techniques of consumer loyalty marketing is giving a revenue stability by regulating outputs.
- it is advisable for the manager that the upward trend in unemployment is that labor market supply is high to reduce the cost of production factor labor.
- it is imperative that productivity levels are high for the association to have a positive comparative advantage which will result in maintaining an efficient market.
- fluctuation of prices is a threat because the conditions in which the technical and economic analysis change the company's strategy to establish the prices of inputs will result in the nullity of the strategy adopted.
- fiscal policy is considered a threat due to the high share of income taxation of agricultural companies.

## 6. Conclusions

All countries have tried to promote agricultural development by funding research, providing support services and other forms of stimulating production by providing subsidies. This is what has allowed quadruple agricultural production in the early twentieth century, contributing to society in general. But at the same time, increased agricultural pollution and a number of landscape quality is degraded.

In Romania, issues of sustainable development of agriculture are more than poverty and lack of productive technologies, rather than applying cleaner technologies and high levels of consumption as in developed countries. However, sometimes the Romanian agriculture faces serious pollution problems, it became an easy victim, and without great opportunities for defense, the effect of various socio-economic activities taking place in our country.

Lately, people began to realize that environmental degradation is a continuing, defending the concept of sustainable development and sustainable agriculture default.

What is sustainable agriculture? Farms will be characterized by the adoption of sustainable practices and technologies:

- use advanced management techniques that maintain ecological integrity, both within and outside the farm;
- specific area and are flexible;
- maintain biodiversity, landscape beauty and other goods that are not assessed on existing
- markets; producers are profitable for the long term;
- are economically efficient from a social perspective.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES**

**The Politics of Social Responsibility in the  
Romanian Business Environment**

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**Abstract:** The ethics and social responsibility have become a delicate subject specially in the economically developed countries. Underestimating their impact can lead to the loss of clients, the diminishing of the economic activity and to difficulties for acquiring new customers. The implicit consequences for business are: diminished productivity, few development opportunities and significant decrease of the company's market value. Recently, the disparagement of these concepts by the local or central authorities may draw up supplementary economic costs which can be found in taxes and assessments paid by contributors.

**Keywords:** ethics; social responsibility; economic activity; taxes

Corporations' activity is based on the contribution of large and various socio-professional groups (such as: employees, consumers, providers, local communities- in one word *stake holders*) which must have their interests respected. When a successful company initiates programs of social responsibility locally or globally, these programs contribute either to the success of that particular company or more likely the financial success allows it the luxury of getting involved in "generous" initiatives. Beside these economic arguments, one should take into account the moral arguments favouring corporations' social responsibilities. The social responsibility of the economic agents can be regarded as a system in which there can be identified four types of responsibilities pyramidally disposed: economic, legal, ethical and philanthropic. (Zygmunt, 2004)

**Economic responsibility** - Firms, national and international companies have managers and shareholders who wish a reasonable revenue from their investments, have employees who want safe and well paid jobs, have clients who solicit good quality products at affordable prices etc. The first level of the social responsibility of any corporation is defined as the foundation of the other responsibilities which supports and makes them possible. Therefore, economic responsibilities are *demanded* (meaning imperatively solicited) to all economic agents.

**Legal responsibility** – The legal responsibility of any economic agent implies that the business correspond to the rules of a safe economic environment which codifies the moral conviction of the society so that their fulfilment be a mandatory condition with respect to a company's social responsibility. Recently, many important mobile companies had to abide penalties due unfair competition practices, materialized in illegal strategies meant to ensure them the keeping of the market sector and the unjustified increase of profit (this means these companies focused excessively on their economic responsibilities).

**Ethical responsibility** - Ethical responsibilities oblige corporations to act rightfully and equitably even if the community legislation does not oblige them to proceed as such. Ethical responsibilities can be counted through the societies expectations from corporations aside from the economic and legal demands.

**Philanthropic Responsibility** – The forth level of companies' social responsibility is represented by philanthropic activities. Etymologically, the word *philanthropy* means in ancient Greek *love for people* and its insertion into the business language has in view the liberty to decide, without any external constraint, to involve in actions aimed to improve the quality of the employees' life, of the local community and ultimately, of the entire society. This level of social responsibility comprises a large variety of initiatives, among which charitable donations, building recreational facilities for employees and their families, support for local schools, financing artistic or sport events, etc. However, the pattern does not specify what happens when two or more types of responsibilities come into conflict. Here is a pretty ordinary example: the problem of shutting down some productive units frequently raises the difficulty of finding a balance between economic responsibilities (which require efficiency and profitability) and the company's ethical responsibilities (referring to the employees' expectations for stable jobs).

Ethics and social responsibility have become a delicate topic, especially in economically developed countries. Underestimating this phenomenon can lead to the loss of clients, the diminishing of the economic activity and to difficulties for acquiring new customers. The implicit consequences for business are: diminished productivity, few development opportunities and significant decrease of the company's market value. Each of us, as social actors, have our own system of values and beliefs which reflect our social and cultural environment as a result of the adjustment to problems and difficulties from the external environment and the integration of religious norms.

The responsibility of social actors is the consequence of the power balance among these and of the existent institutional environment, especially of its structure and functioning. The liberty of decision is an essential component of morality and ethically, is much more relevant than any other criteria. For this matter, the democratic system and the mechanism of the free market offer the possibility to solve interests conflicts between social actors in a more equitable manner than the system based on oppression and dominance over the people- this being favourable to increasing corruption and opportunism. (Norman, 1978)

Companies' social implication has become a topic frequently approached due to a set of factors like: economic globalization, resources depletion, alarming increase of pollution risk in the public sector. CSR becomes a component more and more important of the business area's interaction with society in which organizations unfold their activities. This concept appeals more to those who apply it in their current activities and, in the academic environment, to its study in order to produce future responsible managers. Nowadays, the permanent need for change has become routine. Both natural and legal persons, in order to grow and assert themselves, need to constantly adapt to the evolution of the environment, to be creative in all their endeavours. According to Maslow's theory, companies develop policies of social responsibility only after they satisfy their needs from the first three levels such as those of surviving (or of the rationality of the economic activity): first level or obtaining profit and equities, second level- security needs- obtaining and maintaining competitive advantages, the third level- affiliation needs- participating in commercial or patronal unions/ lobby groups, the forth level- the need to take upon the social and communitary role. (Le Bon, 2007)

Social responsibility gets far more complex when multinational companies exceed the national barriers: if it is difficult to come to a common denominator with respect to a responsible social behaviour in the frame of one's own culture, then it is as difficult to determine common ethical values for various cultural areas. There are three main principles according to which managers have to be preoccupied with the responsible behaviour of the organization: a company's right to function depends on its responsibility towards the environment; governments can come up with strict laws if businesses do not include in their area social standards; a policy characterized by social responsibility can lead to social tolerance and implicitly, can consolidate a company's viability.

Nevertheless, lately there have appeared responsibility stimulants such as the pressure of the clients, the local community, the regulation authorities, the banks, the financiers or insurance suppliers. Companies' involvement in the approach of social aspects is a frequently tackled subject on the agenda of the business community, nongovernmental sector and ultimately of the state policies. There is a set of reasons justifying the increased interest on this topic, from the need to find alternative and flexible financing sources to the framing into a European and global context which oblige companies to be more responsible and transparent whether this is about a market segment used also by competitors or answering more effectively to the community's problems.

When the gigantic Nokia openly expressed its intention to shut down the mobile factory from Bochum, Germania in 2008, suppressing 3000-5000 employees, the federal government fiercely protested against it, by labelling this measure as "brutal"; in return, Nokia's shares rose immediately at the stock market. Meanwhile, the market and the media reacted by boycotting Nokia mobile products which made the company to give financial compensations and to reevaluate the deprivation policy from Germany given the fiscal facilities of over 200 billions euro from the government. (Gheorghe, 2009)

This problem is raised in Romanian current economy given the fact that the transition to a functional and competitive market economy strongly requires a growth of economic efficiency and productivity, fact which leads to eliminating the unproductive old sectors and massive deprivation. On the other hand, the reconversion of discharged labour is made slowly, leaving the former employees hopeless and without jobs.

Another limitation of the quadripartite model lies in its designing whose authors focused mainly on the American business environment which was different from that of the European Union. Social responsibility is seen as a logical consequence of the obligation arising from the increased social power (importance) of a company, and the lack of correlation of this growth with social responsibilities may lead, ultimately, to the loss of this social power and implicitly to the company's decline.

Generally, CSR - Corporate Social Responsibility is situated at the intersection point between political, cultural and economic systems. Along the time, a growing number of people with solid academic knowledge stated the idea that companies could no longer be considered purely private institutions, but social institutions. A.B.Carroll suggests that corporate social responsibility defines itself through society's economic, legal, ethical and social demands with respect to business. Similarly, other authors place corporate social responsibility at the border between societal expectations from business and business ethics. Tuzzolino and Armandi brought an interesting addition to this argument and formulated a motivational theory of social response to the needs of organizations based on Maslow's pyramid. (Craciun & Morar, 2004)

Responsibilizing activities are not necessarily a novelty: most enterprises have always been close to communities and have tried to be good actors or contributors. In fact, many owners or managers

instinctively realized that "doing the right thing" – being at the customers' service, taking care of the personnel moral and safety, paying respect to suppliers, being fair to competitors and protecting the environment are helpful business strategies. Moreover, the main obstacles for small and medium business are the state institutions which interact with the market. The SME sector seems to be most sensitive to business developments because it is the first to react to the market changes, legislation modifications or to state intervention. It is important that such companies to know and take into account the impact of their activities on all four areas. Hence, the importance of communication and transparency in CSR. On the other hand, companies have to find ways to interact with affected groups, from shareholders and employees to customers and local communities. Companies also need to create their own instruments in order to inform these about the environmental and social impact of their actions and strategies. Finally, companies cannot afford to obtain undue advantages from their business partners. This is against the marketing principles of identifying needs both profitably and ethically. Companies able to find new solutions in a socially responsible manner, stand good chance of real success. Romania is still in its preliminary stage of building a market economy with all required standards and responsibilities. The responsibility belongs to those who have defined their place on the market. In fact, CNIPMMR intends to give, in the future, to its members a certificate of good business practices. Aside multinational companies which came with borrowed expertise in CSR and adapted their models to the Romanian reality, the remaining companies found out that they applied CSR instinctively, without being aware of its denomination.

It is good that Romanian economy has become preoccupied with such concerns, but there is still a need for a common language and an unified perception of what generally corporate social responsibility means and how it can develop in Romania. Any issue which affects the members of the community where one works is real and must be treated with all consideration. Improving people's lives is a good reason for optimism. Companies often rely on "safe" CSR programs, meaning they choose "good" causes at the level of general perception, but these either do not meet real social needs, either the objectives are unclear and reckonable, consequently, the reports are too vague and less credible. Romanian companies experience in the field is more reduced than people tend to believe. Each company must evaluate its strategy, but CSR programs should be based on clear eligibility criteria for sustainability assessment. If CSR programs designed for the community do not meet its needs, they have no future. In Romania, the CSR is far from being understood as a management practice. It is a discipline attached to the PR Department, when, in fact, it should be a concern of the company's management.

It is more of a cosmetic instrument and not of planning long-term development. There are few real CSR programs in Romania, programs that have objectives, budgets, methods of evaluation, performance indicators, fact which is not necessarily good or bad, just insufficient. Romanian society needs genuine CSR, not acts of philanthropy. The evaluation of the CSR programs should be an absolutely natural intercession for companies involved in CSR projects and which target results. This type of audit - conducted in all phases of the shares - allows setting goals, priorities, target audience, proper steps - with specific tasks within the team involved and analysis of the partial and final results.

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## The Role of Management in the Banking Sector

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**Abstract:** As well known, in the economic literature the concept of market failure illustrates among other things necessity of a serious regulation framework. In this context, the failure of a bank institution is generally considered to be of more importance than the failure of other types of business firms because of the interconnectedness between banking institutions and its adjacent spill over of systemic risk in space and time. As a result, banking institutions are typically subjected to rigorous regulation, and bank failures are one of the major public policy objectives. In the financial area it is necessary an international regulation framework of banking convergence to approach the topics risk management in terms of quantitative and qualitative indexes of banking institutions. In this respect, the BASEL II mechanism represents the most referential framework of micro prudential banking supervision oriented mostly to risk management of banking instruments and manager behavior in the context of stress test an specific banking efficiency. For example, the rating system and the early stage.

**Keywords:** regulation; risk management; prudential banking supervision

### 1. Introduction

Effective regulation and supervision of banks and other financial institutions is essential to the financial stability and efficient functioning of any economy because the banking system plays an important role in the payments system and in the mobilization and distribution of savings. Supervision of banks and financial institutions has become difficult in the last decade or so. This is mainly the result of the information technology and banks expanding their business from one country to another. The banking crises and financial crises have also been blamed because of this internationalization of financial institutions, thereby increasing the importance of effective supervision and regulation.

Supervision and regulation are needed to reduce the weaknesses that can pose a threat to the banking system of the country. There has been an ongoing debate on supervision as to whether is it productive or counter-productive. There are two views held in this context; the first view is that supervision is counter productive, as it imposes a cost on end users. Also, it results in a less efficient banking system. It is also believed that it undermines market discipline and therefore removes the penalty associated with excessive risk taking; in other words it creates a moral hazard.

The second view held says that supervision is an essential requirement. Since the markets have become completely free of supervision this encourages banks to take excessive risks. With the advances in technology and new financial innovations and new systems being developed, these factors

pose greater risk to the financial stability of the system and therefore supervision is required. Secondly, it brings confidence in the banking system and also reduces the systemic risk.

## **2. Preventive Regulation**

Preventive regulation can take different forms; some of them are briefly explained below.

### **a. Anti-competitive measures**

*Competition limits:* This is done by controlling the number of new entrants in the banking field, also by setting rules for new branches to open. The latter should be justified as a case of public need. It also restrains competition through taking measures that force banks to maintain the profitability of existing banks and existing branches.

*Restrictions on price competition:* this is also a form of preventive regulation. Restrictions on price competition can be an interest rate cartel between banks. Banks determine the common interest rate on deposits and loans.

*Administered interest rates:* this is also an anti-competitive measure by the government or regulatory authority. In this case the government or regulatory body sets the maximum interest rate that can be used. This was done mostly in US.

The above-mentioned measures were most common in the developed countries but owing to the financial deregulation many of these measures have automatically vanished.

### **b. Liquidity adequacy:**

*Specific ratios:* this is also a kind of preventive measure where banks are forced to hold a specific certain ratio of liquid assets to their total assets. This is done to ensure that banks have enough cash for unexpected demands. This measure prevents banks from getting into solvency problems.

### **c. Permissible business activities:**

In this measure authorities put restraints on what business banks can actually do. These restraints can be in the form of product diversification.

### **d. Loan limits:**

Regulators control loan size to a single borrower. This is done mostly by fixing the percentage of the bank's capital base. The aim of setting loan limits is to encourage diversification.

*On-site loan inspections:*

Regulatory authorities send outside auditors to assess the quality of the loan book.

### **e. Capital adequacy**

The reasons for capital adequacy requirement are:

- i. To cover setup costs of the bank itself;
- ii. To absorb unexpected losses;
- iii. To maintain confidence in bank through balance sheet strength;
- iv. Capital itself provides a source of lending for a bank's loan portfolio.

The above-mentioned requirements are the form of preventive regulation that stabilizes the banking system and keeps the bank e to an absolute minimum.

## 2.1 Protective Regulation

Protective regulation involves deposit insurance and lender of last resort (LOLR). Both forms of protective regulation are briefly explained below.

### I. Deposit Insurance Scheme:

This type of protective regulation exists in many industrial countries. The main aims of such schemes are to:

- i. Prevent systemic collapse (deals with systemic risk);
- ii. Protect the consumer. The basic assumption made is that the average retailer cannot assess risk so needs some sort of protection.

In some countries deposit insurance schemes are operated under the control of the government (the UK and the US); in other countries the banking industry organizes them (Germany, France). In countries such as France, Japan and the UK it is obligatory to join deposit insurance schemes, whereas in other countries such as Germany and Italy it is voluntary. The amount of protection also varies from country to country and therefore the regulatory authorities set limits for the amount that could be insured. For example, in Germany and Norway deposit insurance is unlimited. These schemes are funded in different ways in different countries. In the UK there is a minimum amount that every bank has to pay, whereas in other countries it is started when needed.

Although deposit insurance schemes protect customers no prevent from systemic collapse they have been blamed for creating a moral hazard among financial institutions.

#### *Moral Hazard Problem*

Deposit insurance encourages banks to undertake greater risks than they otherwise would undertake. This in consequence undermines the soundness of bank, as the bank believes that the bank would be bailed out with the taxpayers' funds. When the depositors are protected they have no incentive to monitor the bank's activities. The moral hazard problem in the 1980's encouraged authorities to reform the deposit insurance schemes. In the US reforms have been designed to reduce the moral hazard problem by computing deposit insurance premiums on a risk related basis, thereby reducing bank risk-taking.

Narrow banking is also another option available to combat the problems associated with deposit insurance. In narrow banking, insurance with no upper limit would be available if deposits are used for transaction purposes, so any other activity taken by the bank would not be covered by the deposit insurance.

To raise awareness among regulators and banks, the Bank of International Settlement has played a very important role by setting standards of capital adequacy and other issues such as electronic banking; also, the disparities among banking regulations between different countries have also been addressed. Moreover, risks arising from different bank exposures have also been communicated to bank management all over the world.

BIS in 1998 through its Basle we accord provided a level playing field by shifting towards harmonization rather than coordination. The main reason behind this shift was the disparities among the countries over capital adequacy, which in future could be harmful. Banks in the high capital standard countries were less able to compete with low capital standards countries. Similarly capital

asset ratios also differed among banks and those banks with less capital/asset ratios were able to expand their balance sheets and thus lend money at a lower margin. This in turn decreased returns for all banks. Banks also began to take higher risk with high risk lending in order to take the business from other banks.

It can be seen from these conditions that the UK and US demanded a level playing field in the global market. They demanded that all the banks should have the same K/A ratio.

## **2.2 Basle Capital Accord**

On July the 15<sup>th</sup> 1988, the central bankers from the group of ten countries reached a landmark agreement. The Basle can be summarized by dividing it into five main points.

1. Basle was introduced in 1998 and fully implemented by 1993. The banking industry with regard to the capital standards was now regulated on a global basis, in other words, equalizes the capital requirements in all banks from G-10 countries. Another 90 countries also agreed and many countries adopted this accord in a short time.
2. The capital accord strengthened the international banking system by introducing the uniform capital standard in all banks in over 100 countries. This was confined to the Asian financial crisis of 1997 and the 1998 Russian crisis, where as no western bank failed, since these banks had enough capital to prevent themselves from becoming insolvent.
3. Accord took account of different categories of risk of the bank assets and it also incorporated on/off balance sheet items. Items such as cash had been given “0%” risk whereas loans were weighted with a risk of “100%”. For the first time banks had to take capital costs into account.
4. A common capital to assets ratio was established at 8% for all the banks. This was the minimum requirement and it was up to national regulators to decide what ratio particular banks should operate at.
5. Each country applying the capital accord was given some latitude with regard to defining capital accord and was also given some flexibility in risk weights to be applied in certain assets. Some argued this by saying that this point undermines the level playing field; accord has a degree of flexibility so a consensus could be formed, generally a level playing field with some bumps.

## **2.3. Basle Capital Accord Amendments**

Many people complained against the validity of accord and raised questions about it being out of date. For this reason between 1993 and 1995 many consultations and discussions took place among the supervisors and bankers. The main points that were discussed between these bankers and supervisors were:

Netting - National supervisors were prepared to recognize that bilateral arrangements existed between the banks and multiple positions can be reduced to single net obligation. Recognition of this point resulted in less capital required by certain banks.

Interest rate risk – Banks were urged to use the correct method for measuring interest rate risk. Also national supervisors will seek to identify high-risk banks and recommend appropriate actions.

Market risk - Since 1988 banks and other financial institutions have become involved with sophisticated products such as securitization and derivatives. Dealing with such sophisticated products exposed banks to other types of risks that they were not exposed to before. During the 1990's there was an increased involvement of banks with new products that had an impact on balance sheets and overall risk position. Therefore it was decided that capital was to be held against potential market risk; this increase was by 1%.

Choices for banks – Banks were provided with the choice of using their own financial model for measuring value at risk (VAR) according to their strength or using the standard model provided by the Basle Committee. These banks had to prove that the models they were to use is 99% correct in predicting the maximum amount that banks can lose over a period of a few weeks.

$$\text{VAR} * 3 = K$$

K over here shows the capital required for market risk and 3 is the multiplier factor subject to the quality of the bank's risk management system. Exemption of using their own financial model for calculating VAR was restricted to few big banks, while other banks were forced to use the Basle Committee's model.

These amendments provided a flexible style of regulation and also banks could ascertain their capital requirements more easily for new products. Banks tested the financial models in 1997 and fully implemented them in 1998. J. P. Morgan US investment bank developed a computer model that allowed banks to quantify the maximum likely loss they could make on their loan portfolios; they pulled together different types of risks such as consumer loans and corporate bonds into a single number. Many international banks such as Bank of America, BZW, Deutsche Morgan Grenfell, Swiss Bank Corporation and Union Bank of Switzerland backed this model, called Credit Metrics. The old formula of Basle treated a blue chip company and an unemployed person with an overdraft in exactly same way and made no distinction between a well-diversified portfolio and one where all the risks are concentrated in a particular country or sector.

Apart from J. P. Morgan Bankers Trust a New York based wholesale bank also benefited from these new amendments and adopted its own model for capital needed to cushion the swings in the financial market. Many other banks, including some large international institutions, are still using the BIG's simple capital adequacy formulae, which can distort their perception of how profitable their different business lines are.

#### **2.4. Basle Capital Accord II**

There was a broad agreement to update the original 1988 formula for calculating how much capital does the bank needs. Yet there is also enough disagreement on the philosophy and details of the new proposals to suggest that their implementation will be difficult and expensive, as banks will have to spend heavily on information technology for new systems. Another disagreement is that it is going to damage a bank's investment in hedge funds. Before the new proposal banks did not have to hold any capital against these funds as they invested through the hedge fund companies and not directly. Therefore the risks were fairly transferred from bank to the hedge fund companies. But following the near collapse of Long-Term Capital Management where many banks were the investors it was feared that if there is no capital against such funds they could trigger a systemic crisis.

The initial paper by the Basle Committee on banking supervision came out in 1999. Amidst disagreements, the aim of this new report is to strengthen the solvency position of the world's banking system. The minimum capital asset ratio is to remain the same at 8% as before; however, there has been a modification for large banks with sophisticated risk management system that can operate on lower capital but still not less than 8%. Basle II has been divided into three pillars:

1. Minimum capital requirement
2. Supervisory requirement and Capital Adequacy
3. Market discipline and greater transparency.

#### **2.4.1. Minimum Capital Requirements**

There is a proposal for an increase in risk categories. Also, loans to corporations in emerging economies may end up with lower risk weightings than governments themselves. The introduction of external ratings in relation to inter bank lending and sovereign governments has also been recommended. As mentioned earlier, big banks can use their own internal risk based system but they will be checked at regular intervals. With regard to the internal risk based system small banks will use third party ratings.

For the first time operational risk has been incorporated into Basle II. Operational risk takes into account legal threats and system failures. It is estimated that the operational risk will require 1% of the bank's capital.

Supervisors will determine whether each bank has got sound internal procedures to assess capital adequacy in order to assess the bank's risk portfolio. It is expected from the supervisors that they be up to date with regard to new risk management techniques.

The committee believes that the disclosure requirements and recommendations set out in the package will contribute to market discipline by allowing market participants to assess critical information describing the risk profile and capital adequacy of the banks.

### **3. Conclusions**

The basic framework is the same for two sets of proposals. Therefore the three-Pillar approach has been retained. There are also some differences to the June 1999 proposal; for example, there is greater detail in every aspect of the package. Secondly, the standardized approach to credit risk measurement will more closely align the various risk buckets to the underlying risk. Thirdly, two options have been provided under the internal ratings-based system approach so that more banks can use it. Finally, the focus of measurement of the risk has been changed with interest rate risk shifted from Pillar 1 to Pillar 2, but operational risk remaining in Pillar 1.

The accord is to be finalized by end of the year 2001 and implemented by 2004. For this reason, the committee has consulted supervisors around the world for the development of a new framework. It is expected that many global banks and other financial institutions around the world will implement the accord.

From the above discussion, it is clear that regulatory scene is currently in flux and it is hoped that national regulators along with international organizations will take prompt actions to deal with the

problems facing the current regulatory scene. However, once the disparities and problems are over the international financial system will be stable and the number of bank failures and systemic crises will be reduced.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
**EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES**

**References of the Fiscal System's Adaptation in the  
Context of Reforming the European Social Models**

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**Abstract:** The purpose and the objectives of this approach circumscribe to the highlighting and the delineation of the representative markers as milestones in the uneven dynamics, both in time and space, of the complex process of adaptation of the fiscal systems in the context of reforming the European Social Models. In this respect, the statistical analysis made on a sample grouping countries with different types of capitalist social economic systems, forefront and retrospectively outlines, a series of steps in the reforming of the European Social Models, and it is to be noticed the fact that the adaptation of the national fiscal subsystems, related to the requirements of the social and economic development on each step, was to be distinctively conceived and differentiated applied, through their main components. The neglect of the interdependences between the components of each fiscal system can lead to making unrealistic assessments and proposals regarding their adaptation process to the requirements of European Social Models reform. Even more, in the context of producing destabilizing phenomena (recession, crisis, unemployment) which disrupt social and economic processes, the issue of fiscal sustainability may have most unwanted consequences.

**Keywords:** government expenditure; taxation; welfare state; European integration

## **1 Introduction**

This paper, aims as main objective, the highlighting and the delineation of the main markers of connecting fiscal systems in the context of reforming the European Social Models, both conceptual and empirical.

The motivation in approaching this theme resides from the confluence of at least three defining aspects for the countries on "the old" continent.

First, within the European social and economic system and its subsidiaries, visibly coexist more versions of capitalist social and economic systems, each one, with its own development model. Second, in the context of building the European construction, the defining dimension of national autonomy (from enforcing and insurance of autonomy point of view) is the fiscal one. Never the less, it is to be noticed that, in time, the European Social Models needed and still need to be developed and adapted, according to the fast changes of social and economic systems, and to the global system as a whole. In such a context, regarding the quality of the fiscal systems as subsystems within the higher order systems (the national social and economic systems), it is admitted that the European Integration



created the premises of adapting the first, to the requirements of the second, including in the context of reforming the European Social Models.

Such an adaptation process is by excellence, a complex one, through the current approach of the matter, the highlighting and the delineation of the representative markers as milestones are imposing themselves in its dynamics, even more because it is uneven both in time and space in the European Union.

## 2 Conceptual Basis

As a high complexity process with profound implications on the economic, social and political aspect of life, the European integration seems to be circumscribed to the evolution of social and economic systems on “the old” continent, targeting their development by its aim. In order to accomplish this, it is required to substantiate and implement, on suitable basis, development models and strategies both in the economic and social European system and in its subsidiary, on the level of each national economic and social system.

In an usual acknowledgement, the concept of *European Social Model* is the generic name, used to describe the divers European experience regarding the simultaneous promotion of sustainable economic growth and social cohesion (Oneaşcă, 2006). Also, regarding the fact that within the European social and economic system, visibly coexist five versions of capitalist social and economic systems, “it is obvious in any case that there is not one, single, European Social Model. There are many varieties...” (Wener, 2006), respectively: the Nordic model (Scandinavian), the Anglo-Saxon model, the Continental model, the Southern model and the “catching-up” model (Socol & Marinaş & Socol, 2010). At the same time, according to the rapid changes of the social and economic systems, and the global one, there was and still is necessary to reform the European Social Models. In order to do this, it is known the fact that “the modernization of the social model means developing and adapting it to take account of the rapidly changing new economy and society and to ensure the positive mutually supportive role of economic and social policies” (Commission of the European Communities, 2001).

The integration of the *fiscal subsystem* in the social and economic systems, is circumscribed to the same evolution process, and through its complex content it represents *an assembly of social and economic interrelations in monetary form, generated by the mobilization and use of the fiscal resources, organized and run through a system of specific social and economic institutions, including the ones specialized in their formation and administration*. On a broader spectrum, the formation and the use of financial resources (including the fiscal ones) refers to “two different moments of the same process, with close ties between them, of interacting”. Therefore, the purchase of financial resources (including the fiscal ones) to the public financial funds “is justified only through their guidance for meeting certain defined public needs”, and the use of these resources can only be made “only if, previously, there were constituted the appropriate funds” (Filip, 2002). This way, reporting also to the side of fiscal resources utilization through public expenditure, and not only to the side regarding their mobilization, is a rational support to make realistic assessments not only about the notion of fiscal system and its content and structural components, but also about its adaptability to the requirements of social and economic development, including regard to its adaptation in the context of reforming the European Social Models.

At the same time, due to the interdependences between the processes in financial-monetary form, and the processes in natural-material form (Filip, 2001), these development models, also included, in principle, fiscal variables. Regarding the place of the fiscal subsystem in the evolved social and economic systems, it reveals its self the fact that the mobilization side (by taxation and social security contributions) and the use and allocation side (through government public expenditure) of the fiscal resources, are real channels used by the social model to considerably stimulate economic growth and its odds (especially competition and the ability to adapt the social and economic system to the requirements of globalization). In particular, in the context of building the European Union, subsumed its self to the social and economic development, such an influence lies under the impact of the reforming actions of the European Social Models, although in each national social and economic system, the “hard core” of carrying out and insuring autonomy is own fiscal subsystem.

### **3 Empirical Benchmarks**

In an empirical plan and related to the integration process, this approach notice the existence of more stages in the evolution of the European Social Models (Păuna, 2006). Briefly, the first stage revealed its self through: the maintenance of the social welfare costs at manageable levels in the Western countries, a rapid economic growth, the mutual support between the macroeconomics and the social welfare state, for over two decades. This stage of consolidation of the European Social Model philosophy, ended with the two oil shocks and the changes in some power relationships on the energetic resources and raw materials markets, but also because the demographic development indicators, the rapid technological progress and the globalization process. The second stage, between 1974 and 1985 was characterized through its evolution that led to the discouragement of labor and investments, and it slowed down the GDP growth on long term. The third stage, the one after 1986, although refers to some progress, showed in an obvious manner the imperative need of reforming the European Social Models, because of their precarious social efficiency, context that had a great influence on the adaptation of the fiscal subsystems.

This approach identifies, within the last stage, after the year 1993, three sub-stages, between 1993 and 2000, 2001 and 2007, respectively 2008 and 2010. The statistical analysis is based on a series of synthetic indicators, searching to outline both the *level* (by arithmetic average,  $m$ ) and their *dynamics* (by the regression line, with the slope  $b$  and the coefficient of determination  $R^2$ ) for each period of time. For methodological reasons regarding the availability and comparability of the data, and the need not to complicate the exposure, this approach explicitly present only the calculations related to the first stage, between 2001 and 2007. For the stage between 2008 and 2010, because of its relatively low duration, we only present the levels of the appropriate indicators.

The motivation for the previous timing lies in the fact that in the year 1993 was triggered the fiscal consolidation process that targeted the stop of the budget deficits triggered in the previous decades.

Second, in the year 2000 rose the issue of updating the European Social Model, regarding the following aspects: the need to improve the level of education and training (skill), adopting a new attitude regarding professional training and lifelong learning, the reforming of the security system and promoting the social inclusion. As we can see, the first aspects are related to the human capital and oriented to the labor market supply. Regarding social protection, there were emphasized: the sustainability of pensions and labor payment, but also social inclusion with the highlighting of the individual ability to answer challenges and to survive in a competitive economy. Even more, this second stage, distinguished its self by bringing up to date the reinventing of the European Social

Model, “by making it more flexible but without its losing the elements of social solidarity” (Špidla, 2005). In a similar way, it was told that “there is a new version of the Lisbon Strategy. It states that we need a more competitive economy, but that we should not ignore social and environmental policy aspects in our efforts at modernization” (Wener, 2006). The justification for invoking the need for deep social transformations lies in the fact that there was a growth of average age of population due to birth decline in the European Union countries that decreases labor force and alters the equilibrium between generations, this phenomenon leading to the decrease of the economic potential and generating a high level of dependence. Especially, the analysis for this period, based on indicators such as real GDP growth rate (growth rate of GDP volume - percentage change on previous year), unemployment rate (annual average) and long term unemployment share in unemployment, showed a series of empirical regularities. Regarding the real GDP growth rate, most European countries (except for some belonging to the Anglo-Saxon model, such as Ireland or the “catching-up” model, like Hungary) registered notable performances, reflected by a high level of this indicator and by a ascendant sustained dynamics of this indicator. Regarding unemployment, we see that it was at high levels in some countries, the general trend being of dropping (less in the countries belonging to the Anglo-Saxon model and respectively to the Continental model). Never the less, long term unemployment had significant shares (even over 60%) of all unemployment. Regardless of what these calculations show and of some similarities to the performances of the previous period, we must mention that the analyzed period’s performances were inferior to the performances of the previous period.

In the context of producing deep destabilizing phenomena that greatly disturbed the economic and social processes in the last years, this approach notice many voices that question the possibilities of maintaining some national social protection systems, and of such expensive governmental mechanisms in Europe, outlining a different stage in reforming the European Social Models and in the adaptation of the fiscal subsystems. Especially, the analysis, for this particular stage, based on the same synthetic indicators shows unprecedented aggravation both of their levels and dynamics. In the year 2009 the level of the real GDP growth rate was a negative one in all countries of the analyses sample, with one exception, Poland (1.7%). Regarding the unemployment rate, its level had a considerable growth in most countries, over 20% in Spain in 2010 (20.1%).

In the given context of the social and economic data, regarding the previous period with an impact on the reforming of the European Social Models, it is obviously that the adaptation of the fiscal subsystems in that context was distinctively conceived and differentiated applied, through their main components. In this respect approach first delineate the adaptation of social and economic interrelations subsystems in monetary form that they mobilize through and respectively use fiscal resources. Tied to this matter, we must say that, in the globalization context, we see on one side, a growth trend of the financial availability (including the fiscal ones) required in order to support social programs of some stronger social and economic systems, and on the other side, a growing need for social transformations regarding the adaptation of those social and economic systems in order to face competition. In this context, we see that the growth of financial resources (including the fiscal ones) in the welfare state can be a defining condition to strengthen the social cohesion within the European Union, based on rational criteria with their allocation-use side.

In a similar way, the analysis for the stages between 2001 and 2007 respectively 2008 and 2010 based on synthetic indicators regarding *total general government expenditure* (as percentage of GDP) and *total receipts from taxes and social contributions (including imputed social contributions) after deduction of amounts assessed but unlikely to be collected* (as percentage of GDP) shows a series of

empirical regularities. Regarding the level of total general government expenditure ( $G$ ), for the stage between 2001 and 2007, the highest values were in countries belonging to the Nordic model, the Continental model respectively to the Southern model, while the lower values mainly were in countries of the “catching-up” model. It is also to be noticed the fact that the values of this indicator for that stage were lower than those for the previous stage in the case of all Nordic model countries and the Continental model. For the stage between 2008 and 2010 this approach notice values of the same indicator higher than the values for the previous stage (exceptions: Sweden, Germany, Malta, Bulgaria, Czech Republic, Hungary, Slovakia and Switzerland) (see Table 1). By reporting to the dynamics of the total general government expenditure, we notice for the stage between 2001 and 2007, on one hand, a significant dropping trend for all countries of the Nordic model, and on the other hand, a significant growing trend for the countries of the Anglo-Saxon model. Especially, a significant reduction trend of total general government expenditure was noticed in most countries of the Continental model (exception: France), while a growth of total general government expenditure was noticed in most countries of the Southern model (exception: Malta).

Regarding the level of total receipts from taxes and social contributions (including imputed social contributions) after deduction of amounts assessed but unlikely to be collected ( $T$ ), for the stage between 2001 and 2007, the highest values were registered in the countries of the Nordic model, respectively the Continental model, while lower values were mostly in the countries of the Southern model, respectively the “catching-up” model. At the same time, it is to be noticed that the values of this indicator for this stage were lower than those for the previous stage in all the countries of the Nordic model and of the “catching-up” model (exceptions: Bulgaria and Czech Republic). For the stage between 2008 and 2010 there are values of this indicator lower than the values of the previous period (exceptions: Netherlands, United Kingdom, Germany, Cyprus, Italy, Malta, Portugal, Estonia, Lithuania, Poland and Slovakia).

**Table 1 The level and the dynamics of  $G^{(j)}$ ,  $T^{(j)}$  and  $SP^{(j)}$  for a series of European countries (2001-2007)**

<i>Country</i>	$m_G$	$b_G$	$R_G^2$	$m_T$	$b_T$	$R_T^2$	$m_{SP}$	$b_{SP}$	$R_{SP}^2$
Denmark	53.4	-0.660	0.728	49.7	0.260	0.323	43.3	0.199	0.389
Finland	49.0	-0.053	0.009	43.9	-0.250	0.769	42.0	0.003	0.000
Netherlands	45.8	-0.142	0.166	38.4	0.107	0.191	36.5	-0.285	0.559
Sweden	53.9	-0.646	0.712	48.3	-0.096	0.091	42.3	-0.023	0.004
Ireland	34.1	0.496	0.694	31.3	0.589	0.767	29.8	0.890	0.899
United Kingdom	42.7	0.700	0.908	36.9	0.217	0.296	36.2	-0.547	0.959
Austria	51.1	-0.446	0.311	44.5	-0.571	0.939	40.7	-0.049	0.012
Belgium	49.8	-0.125	0.039	46.2	-0.171	0.734	35.5	0.049	0.023
France	52.7	0.096	0.108	44.9	0.060	0.129	40.6	0.266	0.911
Germany	46.7	-0.689	0.749	40.4	-0.128	0.475	46.0	0.178	0.439
Luxembourg	40.0	-0.421	0.144	38.3	-0.682	0.947	42.2	-0.052	0.031
Cyprus	41.5	0.539	0.291	34.4	1.489	0.892	22.7	0.562	0.598
Greece	45.2	0.110	0.098	34.0	-0.235	0.438	35.9	-0.433	0.288
Italy	48.0	0.078	0.160	41.4	0.242	0.314	37.3	0.184	0.515
Malta	44.5	-0.092	0.012	33.9	0.596	0.952	31.6	0.178	0.134
Portugal	43.9	0.346	0.364	34.4	0.410	0.828	32.7	0.895	0.948
Spain	38.7	0.028	0.037	35.4	0.653	0.957	33.4	0.012	0.020
Bulgaria	38.8	-0.446	0.222	31.1	0.403	0.361	30.7	-0.863	0.607
Czech Republic	44.9	-0.471	0.408	36.0	0.460	0.676	29.8	-0.205	0.166
Estonia	34.4	-0.242	0.444	30.7	0.075	0.111	28.6	-0.132	0.097
Hungary	49.8	0.385	0.275	37.9	0.082	0.040	32.6	0.781	0.911
Latvia	35.8	0.342	0.397	29.1	0.317	0.674	28.9	-1.807	0.992
Lithuania	34.2	-0.289	0.226	28.7	0.178	0.463	30.7	-0.215	0.299
Poland	43.6	-0.246	0.353	32.7	0.314	0.433	39.9	-0.986	0.863

Romania	34.8	0.039	0.004	28.6	0.128	0.198	29.9	-0.077	0.040
Slovakia	39.5	-1.775	0.903	24.0	0.317	0.543	32.7	-0.062	0.011
Slovenia	45.5	-0.728	0.893	38.2	-0.017	0.012	36.8	0.050	0.108

Source: statistical data available at the following web

address: [http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database).

Notes: <sup>a)</sup> as percentage of GDP, <sup>b)</sup> as percentage of G.

Regarding the dynamics of the total receipts from taxes and social contributions (including imputed social contributions) after deduction of amounts assessed but unlikely to be collected for the stage between 2001 and 2007, there is a significant growing trend in the countries of the Anglo-Saxon model, in most countries of the Southern model (exception: Greece), and in most countries of the “catching-up” model (exception: Slovenia). A significant dropping trend was registered in most countries of the Continental model (exception: France). Regarding the Nordic model countries, there was a dropping trend (Finland and Sweden) or a growing trend (Denmark and Netherlands), both less significant.

In that same context, this paper focuses also on the analysis based on structural indicators regarding total general government expenditure. Regarding the analysis on the same two stages based on indicators of *general government expenditure on social protection* (as percentage of total general government expenditure), it is to be noticed that this also indicates some empirical regularities.

By reference to the level of general government expenditure on social protection (*SP*), for the stage between 2001 and 2007, the highest values were in the countries of the Nordic model (exception: Netherlands) and the Continental model (exception: Belgium), while the lowest values were in countries of the Anglo-Saxon model, of the Southern model and of the “catching-up” model. It is significant that the values of this indicator for this stage were higher than those for the previous period in all the countries of the Continental model, the Southern model and mostly the countries of the “catching-up” model (exceptions: Estonia, Latvia, Lithuania, Romania and Slovenia). The Anglo-Saxon model countries registered values of this indicator for this stage lower than those of the previous stage. For the period between 2008 and 2010, is revealed values of this indicator higher than those from the previous stage, in almost all the countries (exceptions: Finland, Sweden, Latvia, Slovakia and Slovenia).

Regarding the dynamics of the general government expenditure on social protection, for the stage corresponding to the period between 2001 and 2007, is revealed that it is diversified, and it has both a significant growth trend (Ireland, Cyprus, Portugal and Hungary), and a significant dropping trend (United Kingdom, Greece, Bulgaria, Latvia and Poland), mostly with trends of low growth or dropping. A growth trend was registered in the countries of the Continental model (exceptions: Austria and Luxembourg) and the Southern model (exception: Greece). Also it was obvious a dropping trend in the countries of the “catching-up” model (exceptions: Hungary and Slovenia). Regarding the countries of the Nordic model, there were both growing (Denmark and Finland) and dropping trends (Netherlands and Finland).

In subsidiary, the current paper also focuses on the analysis based on structural indicators regarding general government expenditure on social protection. About the analysis for the stages between 2001 and 2007 respectively 2008 and 2010, based on indicators of: *general government expenditure on sickness and disability (S&D)*, *general government expenditure on old age (OA)*, *general government expenditure on family and children (F&C)* and *general government expenditure on unemployment (U)* (as percentage of general government expenditure on social protection) is revealed that it also indicates empirical regularities.

Regarding the level of these general government expenditures, for the stage between 2001 and 2007, the highest values are for government expenditure on old age, followed by government expenditure on sickness and disability, government expenditure on family and children and government expenditure on unemployment (see Table 2).

**Table 2** The level<sup>a)</sup> and the dynamics of *S&D*, *OA*, *F&C* and *U* for a series of European countries (2001-2007)

Country	$m_{S\&D}$	$b_{S\&D}$	$R_{S\&D}^2$	$m_{OA}$	$b_{OA}$	$R_{OA}^2$	$m_{F\&C}$	$b_{F\&C}$	$R_{F\&C}^2$	$m_U$	$b_U$	$R_U^2$
Denmark	22.1	0.523	0.921				22.6	-0.024	0.013	15.9	-0.843	0.678
Finland	20.9	0.149	0.490	43.2	0.525	0.904	12.8	-0.073	0.661	12.4	-0.553	0.814
Netherlands												
Sweden	24.4	1.018	0.405	46.5	-0.516	0.145	11.8	-0.120	0.271	8.6	-0.237	0.328
Ireland	17.6	2.666	0.799	28.4	-0.921	0.720	22.0	0.110	0.034	12.6	-0.785	0.882
United Kingdom	18.0	-0.141	0.951	46.7	0.190	0.433	15.2	0.492	0.566	2.0	-0.025	0.053
Austria	8.9	0.245	0.944	59.4	-0.163	0.511	12.4	-0.206	0.836	6.2	0.043	0.124
Belgium												
France	11.9	-0.049	0.326	54.4	0.515	0.823	11.2	-0.095	0.713	8.8	-0.169	0.178
Germany	12.5	-0.131	0.589	45.7	0.268	0.526	10.4	0.030	0.385	12.2	0.074	0.035
Luxembourg	11.1	-0.153	0.608	60.1	-0.191	0.427	19.0	-0.073	0.128	5.3	0.364	0.774
Cyprus	8.4	-0.089	0.242	41.9	-0.491	0.829	18.0	0.053	0.124	5.6	-0.112	0.288
Greece	13.3	-0.873	0.254	65.1	-0.135	0.017	3.6	0.096	0.359	2.7	0.172	0.470
Italy	9.6	0.057	0.157	66.9	0.056	0.119	5.6	0.062	0.218	2.7	0.043	0.261
Malta	13.4	0.311	0.663	52.9	0.240	0.171	8.6	-0.338	0.860	4.3	-0.063	0.022
Portugal	10.8	-1.265	0.901	55.8	1.491	0.973	10.1	-0.449	0.708	6.6	0.344	0.424
Spain	16.7	0.008	0.001	48.0	-0.163	0.262	3.8	0.079	0.379	12.3	0.069	0.379
Bulgaria	16.2	1.003	0.327	63.4	-0.896	0.335	11.9	-0.549	0.034	3.4	-0.555	0.374
Czech Republic	24.7	0.056	0.034	50.5	0.169	0.267	9.7	0.496	0.492	2.7	-0.115	0.607
Estonia	18.5	0.943	0.936	56.8	0.331	0.377	14.8	-0.010	0.001	3.6	0.007	0.001
Hungary	23.0	-0.497	0.726	37.4	0.146	0.128	13.6	-0.110	0.092	3.2	-0.038	0.120
Latvia	17.9			59.5			10.7			3.6		
Lithuania	20.2	1.522	0.947	53.9	-1.798	0.706	7.8	1.201	0.723	3.9	-0.035	0.130
Poland	14.8	-0.165	0.141	59.8	-0.605	0.715	7.2	0.090	0.362	5.5	0.298	0.812
Romania												
Slovakia												
Slovenia	16.0	-0.001	0.000	57.4	-1.157	0.683	11.7	-0.002	0.001	3.9	-0.356	0.799

Source: statistical data available at the following web address:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database).

Note: <sup>a)</sup> as percentage of *SP*.

The level of general government expenditure on old age registered the highest values mainly in the countries of the Continental model (exception: Germany), the Southern model (exceptions: Cyprus and Spain) and the “catching-up model” (exception: Hungary). At the same time it is to be noticed that the values of this indicator for the stage between 2008 and 2010 were lower than those for the previous period mainly in countries of the Southern model (exceptions: Malta and Portugal) and the “catching-up” model (exceptions: Bulgaria and Czech Republic).

The level of general government expenditure on sickness and disability registered the highest values in the countries of the Nordic model, the Anglo-Saxon model and the “catching-up” model. At the same time, is revealed that the values for this indicator for the stage between 2008 and 2010 were lower than those of the previous stage, mainly in the countries of the Southern model (exception: Italy) and the “catching-up model” (exceptions: Estonia, Latvia and Lithuania).

The level of general government expenditure on family and children indicator registered its highest values mostly in the countries of the Nordic model (exceptions: Finland and Sweden) and the Anglo-

Saxon model (exception: United Kingdom). At the same time is revealed that the values of this indicator for the stage between 2008 and 2010 were higher than those of the previous period, mainly in the countries of the Southern model (exceptions: Cyprus and Portugal) and the “catching-up” model (exceptions: Estonia and Latvia).

The level of general government expenditure on unemployment registered its highest values in the counties of the Nordic model, but in other countries too (Ireland, Germany and Spain). At the same time, is revealed that the values of this indicator for the stage between 2008 and 2010 were higher than those for the previous stage, mainly in the countries of the Southern model (exceptions: Cyprus and Malta) and the “catching-up” model (exceptions: Bulgaria, Poland and Slovenia).

Regarding the dynamics of the general government expenditure on old age, for the stage between 2001 and 2007, is revealed a growing trend mainly in the countries of the Continental model (exceptions: Austria and Luxembourg), the Southern model (exceptions: Cyprus, Greece and Spain) and the “catching-up” model (exceptions: Bulgaria, Lithuania, Poland and Slovenia).

Regarding the dynamics of general government expenditure on sickness and disability, for the stage between 2001 and 2007, is revealed a growing trend in the countries of the Nordic model. Also a significant growing trend was registered in Ireland, Bulgaria, Estonia and Lithuania.

Regarding the dynamics of general government expenditure on family and children indicator, for the stage between 2001 and 2007, we see a dropping trend in the countries of the Nordic model and a growing trend in the countries of the Anglo-Saxon model.

Regarding the dynamics of general government expenditure on unemployment, for the stage between 2001 and 2007, is revealed a dropping trend in the countries of the Nordic model and the Anglo-Saxon model.

#### **4 Conclusions**

Being subsystems of the national social and economic systems, the fiscal systems need to be generally adapted to the requirements of the first type of systems, and in particular, in the context of reforming the European Social Models.

Regarding the analyzed countries, the current analysis showed, under all targeted aspects, the existence of significant differentiations, without excluding the possibility to refer and formulate, punctually, certain similarities between the experiences of these countries regarding the adaptation of their fiscal subsystems in the context of reforming the European Social Models.

As a general trend, it is obvious that in the stage between 2001 and 2007, the dimensions of the mobilization and allocation-use processes of the fiscal resources in all of the countries of the Nordic model and the Continental model, were at the highest levels. In principle, for most of the analyzed countries, in the period between 2008 and 2010, on the background of producing deeply destabilizing phenomena that considerably perturbed the economic and social processes, the levels of those processes mediated by their own fiscal subsystems, were superior to the first stage. Through the dynamics of these processes, the first one stands up, on one hand, with a relative reduction in the countries of the Nordic model and the Continental model, and on the other hand, with a relative expansion in the countries of the other models.

Regarding the global dimensions of the allocation-use of the fiscal resources that address directly to social protection processes, their highest levels for the stage between 2001 and 2007 were also in the

countries of the Nordic model and the Continental model. In principle, for most analyzed countries, in the following period, on the same background of producing deeply destabilizing phenomena, the levels of those processes mediated by their own fiscal subsystems, were superior to the first stage. Through the dynamics of these processes, the first of two, stands up, on one side, with a relative reduction in the countries of the Southern model and the “catching-up” model, and on the other side, with a relative expansion in the countries of the other two type of models, having dynamics of uneven homogeneity.

Never the less, regarding the structural dimensions of the previous mentioned processes, it reveals its self the fact that the countries of the Continental model, the Southern model and the “catching-up” model are characterized by high levels of general government expenditure on old age, while the countries of the Nordic model and the Anglo-Saxon model, by higher levels of the other general government expenditure on social protection. Through the dynamics of these processes, the first of two, stands up, on one hand with a relative expansion in the countries of the Continental model, the Southern model and the “catching-up” model, and on the other hand, with a relative reduction in the countries of the Nordic model and the Anglo-Saxon model.

All of these assertions suggest the fact that the reforming of the European Social Models (except for the Nordic model, the best performing in achieving the agreed objectives) is a desideratum far from being accomplished, in which context, the adaptation of the fiscal subsystems, in the near future, will be subject to some major challenges, even more on the same background of producing deeply destabilizing phenomena (recession, crisis, unemployment) that disrupt economic and social processes, reveals the fact that problem of fiscal sustainability can have most unwanted consequences.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

## The Decline of Traditional Banking Activities

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**Abstract:** The decline of traditional banking activities raise the issue of efficiency of financial stability, in terms of quantitative and qualitative aspects – the increasing danger of banking failures as well as of susceptibility due to increased propensity of banking institutions to assume additional to risks either in the form of riskier loans offer or engaging in other "non-traditional" financial activities which give a promise for greater profitability, but also higher risks. Non-traditional activities of banking as financial products dealers (financial derivatives), generate an increasing risks and vulnerabilities in the form of moral hazard issues. That is the reason why and these activities should be regulated as well as are the traditional activities. Challenges posed by the decline of traditional banking activities is twofold: the stability of the banking system must be maintained, while the banking system needs to be restructured to achieve financial stability in the long run. One possible way is an appropriate regulatory framework to encourage a transition period of changing the structure of banking activity (reduction of traditional activities and expanding non traditional activities) to enable banking institutions to perform a deep methodic analysis of non traditional activities, oriented to the financial banking efficiency.

**Keywords:** traditional banking activities; quantitative aspects; qualitative aspects

### 1. Introduction

The new industrial economies witnessed post-1970 economic take off with GDP growing at a faster rate than the population. These economies shared 20% of global output and it is predicted that by the year 2015 these countries will be producing approximately one third of the output, which is virtually the same as the OECD countries.

There was not any single model that could be presented for such a success but there are some main reasons for such a huge and fast growth within these economies in this short period of time. The main reasons include culture: the people in these countries worked hard and importance was given to the literacy rate, i.e. being able to read and write; secondly, external factors, such as in some of the countries like Malaysia and South Korea which faced military threat from some communist countries; therefore these countries were financially supported by the US. Hence, this encouraged the political alliance among the countries of South East Asia and the growth of Japanese economy was emulated. Also the financial markets in these countries were encouraged by the structural reforms within economies and foreign investors were assured that there would not be any control on their capital.

Other reasons for such successes in these economies were: they provided industrial basis, there was increase in export growth, exchange rate policies, careful privatization and high savings ratios.

Such measures produced some economic benefits for these countries and they saw an increase in the mobilization of domestic savings. They removed reliance on external debt as a single source to finance economic and also the development of the stock markets reduced the cost of capital which resulted in increased shareholder value.

## **2. Financial Crisis and Risk Management**

The Asian financial crisis was a big shock after so many years of outstanding performance. It did not break all of a sudden but there were numerous signs of gathering crisis. Macroeconomic indicators pointed to major imbalances such as real exchange rate appreciation, a slowdown in export growth and large persistent current account deficits that were financed mostly by portfolio investments and, also, the short term capital and the rising external debt. These problems were witnessed in the Thailand economy; the above-mentioned problems also exposed other weaknesses in the economy, such as unhedged foreign currency borrowings by the private sector, an inflated domestic property market and a weak over-exposed banking system. It is not that everything was realized afterwards but the market reflected its own warnings by declining property prices and mounting exchange rate pressure. However, the concerned authorities in Thailand and in the rest of the region did not realize this and were not ready to recognize such problems after so many years of success. This is the reason why there was a delay in taking necessary action and providing a convincing policy.

The question asked at this stage is: how did the crisis spread to other South East Asian countries that had less current account deficit and foreign investment was substantial? Since these countries are close trade competitors, the depreciation of one country's currency will make other countries' products less competitive; hence, the other countries will depreciate their currency as well. This depreciation in currency value will increase the cost of domestic-private debt servicing and it makes a country's financial position vulnerable, so most of the foreign currency reserves go into debt servicing. Secondly, when the investors see the financial condition of one country as being vulnerable, they try to shift their investments from this particular country to another. In the case of the Asian financial crisis, most of these countries were running on the same policies, so when the investors saw Thailand's financial position in trouble, they thought that, sooner or later, the other East Asian economies would go through the same problems as well, so they started to shift their investments from these countries, thus making their position weaker and spreading the problems from one country to another. Another reason for this contagion effect during the crisis period is that when the depositors of banks started to demand their money back, banks found it hard to provide the funds in order to fulfill the demand. Hence, banks must either borrow money from other financial institutions or transfer the funds from their branches in other countries. This transfer of funds from one country to another also makes the position of other country's financial institutions weak and therefore the crisis spreads from one country to another.

This study will now focus on banks in East Asian countries, as these banks are also partly blamed for the crisis. The economic growth of the South East Asian region concealed the banking practices in this region. Against the background of strong regional growth lending of dubious quality was both concealed and accommodated. But these practices were making these banks more and more vulnerable and this is what had been witnessed over the period of time.

### **3. Bank Failures**

Bank managers, investors and regulators are all concerned with bank failures because all of them have their own vested interests. Managers are concerned because they might lose their jobs, investors might lose their investments and regulators have to make sure that there is no know-on effect from such a failure since a failing bank may put costs on the taxpayers. An attempt will be made to identify some reasons that cause these banks to fail. Also, a recent example of bank that failed to identify the risks and consequently suffered heavy losses is cited.

Banks fail when liabilities outweigh assets of the bank. The assets are the IOUs of its customers and the liabilities are their deposits. If the customer borrows a million pounds from the bank and has given the IOU to the bank for this borrowed amount then the bank has assets worth that amount. If the customer is unable or refuses to pay the amount by the due date this means that the IOU that he signed is worthless, but if the borrowed amount by the customer is in the same bank then the liability of the customer remains there. Many banks can absorb such losses but if the borrower was a sovereign government and the amount of the borrowed money was high then this creates serious problems for banks.

Bank failures are perceived to have greater adverse effects as compared with other firms' failures in other industries. One of the reasons why they are given more importance is that their failure can spill the effect over to other banks and thus can cause problems for the whole system. This means that the systemic risk can be triggered if the bank fails. When history is examined, it may be noticed that it is not only one country or region that has suffered from bank failures but, regardless of political and economic culture, virtually every country at some point has suffered. This is the reason why banking industry as compared with other industries has been subject to heavy regulations throughout the world. The explanation to this is that in the 14<sup>th</sup> century, the Bardi family of Florentine bankers was ruined owing to the failure of Edward III to meet outstanding loan obligations. This is the only time in British history that the government failed to honor its debts. From this it may be concluded that bank failures are not a new thing. Some of the bank failures seriously damage the financial system of the country, as witnessed in the UK in 1886 and in the USA in 1993. In England there were two major failures: one was over end, Gurney and Company Ltd. In 1866 and the other was Barings Brothers in 1890. Over end Gurney was a financial firm that dealt in bill broking and banking. Until 1856 it was running smoothly but in 1857 after the change in management, it began to lend money with poor collateral. It also started to take bills of dubious quality. Soon the bank started to report losses and was floated in the summer of 1865. In 1866 it went to Bank of England for assistance but this was refused and therefore it was declared insolvent. Similarly Barings Brothers was a merchant bank that made loans to the governments of Argentina and Uruguay. These loans made up three quarters of the total loan portfolio. The value of the securities provided dropped and also there was a drop in the loan repayments. Barings reported the problem to the Bank of England. Barings was put into liquidation but was refloated as a limited liability company; capital was provided from the Barings family and friends. The collapse of the bank was largely the result of the mismanagement of assets that led to a weak loan portfolio and, in the case of Gurneys, poor quality finance bills (Shelagh, 1998, p.267). In the USA there was a series of bank failures between 1930 and 1933. The main cause of bank failure was the stock market crash of 1929. This created uncertainty and resulted in a severe depression in the economy. During the first US banking crisis in November 1930 the number of US banks which failed was 256; this had a contagious effect and the whole of the US fell under its grip, with 352 more banks

failing in December. Apart from the market failure another reason for the bank failures was the poor quality of loan books and bad investments, according to Friedman and Schwartz. After the 1930's the main causes of bank failures were bank runs that forced banks to sell their assets at a discount (Shelagh, 1998, p.268).

The main causes and reasons for the bank failures and problems will be examined.

### **3.1. Causes of bank failures/problems**

The main reasons for bank failures or the banks facing problems in running operations are:

#### **a. Expansion**

One of the reasons for bank failure is the rapid expansion of its operations. This creates problems in managing the bank, as the management does not have enough expertise. This was the main reason why Credit Lyonnaise has faced problems: in order to see the French bank rival Deutsche Bank, the president of France strongly endorsed the expansion of the bank throughout the world. Owing to the lack of management experience in dealing with problems that arise during the rapid expansions the bank ended up with heavy losses.

#### **b. Liberation**

Liberation is also one of the reasons why banks have faced problems in the recent past. Liberation should go hand in hand with the supervision and adequate internal controls. If there is no adequate supervision and no internal controls then this will compel bankers to take unnecessary risks and they will try to make most out of the opportunities available to them. Therefore, it is important to have internal controls that are compatible with government policies.

#### **c. Fraud**

Corruption and fraud in banks are also reasons for bank closures. In many countries politicians influence banks and therefore loans are given to those private firms that politicians have interest in. BCCI is a prime example of criminal involvement and massive fraud; the loans were given without any collateral to the Dubai based shipping corporations because of the personal relations involved. These frauds forced this bank to close its operations and the management of the bank was punished, although some of the people involved have still not been punished.

In many cases when the bank is already facing some problems the top management tries to take one last risk, but this last risk does not work and therefore the bank goes deeper into trouble.

#### **d. Economic sector**

In many countries banks have made a mistake by investing heavily in one particular sector. This has been witnessed in many countries of Asia such as Japan, Thailand, Malaysia and many more Asian economies where banks have given loans to the real estate sector without having properly followed the rules. In many banks the loan books were not maintained properly and therefore banks would incur heavy losses through bad loans. Recently in Europe, it has been seen that banks have given many loans to the telecom sector. If the authorities do not take any quick action, this could create a bubble that could burst at any time, causing many banks and firms to fail as a result. Recently, the Bank of England warned banks in the UK to limit their investment in the telecom sector. If all the regulatory authorities were to take similar action then banks would not get into such serious problems.

#### **e. Derivatives**

Many people think that derivatives are an abolition of risk. Derivatives do not abolish risk they just shift the risk. The example of Allied-Lyons can be mentioned here where the company reported a loss of L150 million. The treasury was speculating in options and even when it thought it was reducing its risks, it was increasing them. Another reason is that the top management may be unaware of the mechanism of derivatives. Peter Barings, a descendant, did not know anything about derivatives so never paid any attention towards what his colleagues were becoming involved in. Therefore it is important for the top management to have sound knowledge of its products and services.

f. Too many banks

The problem that banks are facing these days is of shrinking profit margins. This is the result of excessive competition; because of this competition banks have started to give loans at lower margins and without any collateral. This is done in order to buy the market share.

g. Deposit insurance

Deposit insurance has also made it easier for bankers to take unwanted risks. As both the depositors and the bankers think that the deposits are safe the depositor therefore does not care what the bank management is implicated in and similarly the bank management takes high risks as they think that the deposits are safe even if the investments that they are making fail.

h. Complexity of financial conglomerates

In the recent past it has been seen that the companies have merged and because of these mergers bankers require sophisticated management control techniques. Those banks that do not maintain their systems accordingly and do not invest in information technology cannot keep up with this pace and therefore fail.

i. Rogue traders

Rogue traders have been the major reason for recent bank failures and bank losses. The biggest example is that of Barings Bank which collapsed in 1995 as a result of rogue trading. One way of reducing rogue trading is by eliminating the bonuses.

j. Regulators/Auditors

One of the questions being raised these days is: who are regulators accountable to? Another reason for regulators not performing their jobs properly is that the salaries paid to them are not as good as that paid to traders. Also, banks should have their own internal controls and they should not rely totally on these auditors and regulators.

These are some of the reasons why banks have failed in the past and now the implications will be considered.

#### **4. Conclusions**

In some cases bank failures have put a heavy burden on the taxpayers. This is the reason why regulators are often believed to be the reason for bank failures as they have increased the probability of bank failures and also their cost. Regulators are partly blamed because they try to socialize the cost of the failure by shifting the costs from private depositors to taxpayers. A matter for debate is why these costs must be socialized, whereas when the bank makes profits these go to only a few private pockets.

Banks, as compared with other firms, are considered to be more fragile and also the banking industry as a whole is considered to be more susceptible to contagion than other industries. This greater fragility is believed to lead to greater failures for three reasons. 1. Low capital asset ratios, which means that they are highly leveraged 2. Low-cash-to-asset ratios, which may require sale of earnings assets to meet deposit obligations 3. High demand debt and short term debt-to-total debt (deposits) ratios, which may require sale of assets and even sale of non-liquid assets in order to pay off depositors (Kaufman, 1996).

Since banks are more closely intertwined financially through lending and borrowing from each other, the failure of one bank is believed to spill the effect over on another bank. Therefore the banking system is more susceptible to systemic risk. The contagious effect in banking occurs faster, spreads widely within the industry, results in a large number of bank failures, results in larger losses and can even spread to other countries, which might have a macroeconomic impact.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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## The Impact of Tourism upon Natural Capital

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**Abstract:** Tourism now represents a major management problem to be faced by those who are responsible for the protection and control the host areas and their facilities. We have identified impacts from tourist-related transportation, tourist-related development, tourist activities including some recreational activities such as boating, and direct impacts of the lodging and cruise industries. Although this discussion focuses on environmental impacts. After we analyze the influence that providers of tourism services can have on their suppliers as well as the tourist. Although environmental awareness has had an important impact on the tourism industry, economic motives are still primary. Therefore, educational programs aimed at tourism service providers should emphasize the potential economic and marketing benefits of environmental stewardship. Educational efforts to promote environmentally responsible tourism should be framed in accordance with the targeted audience. Tourists may be more receptive to educational initiatives that focus on the environmental benefits of altering their behavior, while industry sectors are more likely to be responsive to educational efforts that emphasize cost savings and an improved public image.

**Keywords:** tourism; environmental impact; service sector; sector environmental profile

### 1. Introduction

Tourism is a rapidly growing source of pressure on natural resources and the environment.

Europe has long been the world's favorite tourist destination and the World Tourism Organization forecasts a doubling of the number of arrivals to around 720 million per year by 2020. Vacationing patterns are changing with more holidays per year, shorter stays, longer travelling distances and more second homes with low occupancy rates.

Tourism is the temporary movement of people to destinations outside their normal places of work and residence, the activities undertaken during their stay in those destinations, and the facilities created to cater to their needs. It is often difficult to distinguish between tourism and recreation, as they are interrelated. Tourism involves traveling a distance from home, while recreation is defined as the activities undertaken during leisure time

Tourism, which contributes to well-being and recreation, is receiving increasing attention as an economic sector in need of more sustainable management. For example, there are tourism activities in E.U., involving about 2 million businesses (mostly small and medium-sized enterprises) currently generating up to 12 % of GDP (directly or indirectly), 6 % of employment and 30 % of external trade. There are large regional differences in European countries, tourism being the main activity in some places.

## **2. Environmental Impact on the Construction and Development**

The degree of environmental impact varies, depending on the type of tourist and the intensity of site use. There are day tourists, who visit a destination for a day and then leave; summer residents who are in effect tourists for a season; and tourists on bus tours and other trips that may visit a location for a few minutes or a number of days. Day tourists have an impact on the environment through their transportation to their destination as well as their activities once there. This is true for summer residents, but these tourists also have a cumulative impact, as they are in one place for a longer period of time.

The environmental impacts of the construction and development of facilities needed to support the industry are both immediate and gradual.

Development associated with tourism includes accommodations, roads, retail stores and restaurants, tourist attractions, tourists' seasonal waterfront homes, water supplies, and waste disposal facilities.

Hotels appear to be the most ecologically acceptable form of accommodation. However, energy consumption per m<sup>2</sup> per year in a one star hotel is 157 kWh, in a two star hotel 230 kWh and in a four star hotel 380 kWh. Campsites have the advantage of being a reversible form of land use, but problems (such as waste water collection and treatment or waste) can arise during temporary overcrowding.

Hotels, swimming pools and golf courses can put critical pressure on water resources. Tourists typically consume around 300 liters (luxury tourism 880 liters) and generate 180 liters of wastewater per day.

Cumulative effects over time are particularly problematic because the developer in question is often out of the picture before impacts become obvious. An example of a gradual impact is the leaching of nutrients from septic systems of tourists' waterfront homes into the water body, accelerating eutrophication and depleting dissolved oxygen supplies.

On the other hand, summer residents often are an important force in preserving the natural beauty of an area. Tourists who visit an area for longer than a day and choose to stay in hotels contribute to the impacts that the lodging industry has on the environment. In addition to the length of stay, tourist impacts depend on the type of activity undertaken. Passive activities have different impacts than more active pursuits.

Tourist infrastructure can also adversely impact water quality because more waste water is created in one place and reduced some place else, putting more pressure on sewage treatment plants or septic systems in the tourist destination. When a sewage treatment plant receives more effluent than it can treat, the excess can flow directly into water bodies untreated, creating a potential health hazard. The sewage problem with tourist facilities is further exacerbated by the seasonal nature of many tourist areas. An area which off-season may have the capacity to properly treat sewage may be overburdened during the tourist season.

However, it is difficult to separate the effects of rapid urbanization on the sewage treatment plants with the effects of an increase in tourists to the area.

There are environmental impacts from the travel to a destination, the tourist activities in and of themselves at that destination, such as hiking or boating, and from the creation, operation, and



maintenance of facilities that cater to the tourist, such as hotels. This discussion addresses impacts from tourism-related development, transportation, and tourist activities.

Tourist facilities increase the amount of impervious surfaces, causing more run off to reach water bodies. This run off contains nutrients, suspended particles, and oil and gas. Excess nutrients added to a water body can accelerate the process of eutrophication, causing an overgrowth of algae, which in turn uses up excess dissolved oxygen as the algae decays, causing fish kills. The overgrowth of algae is also a nuisance to swimmers.

Increased development to accommodate tourism and recreation contributed to the degradation of water quality for two primary reasons:

- (1) the increase of impervious surface, which in turn led to increased runoff of nutrients into the lake, and
- (2) the destruction of wetlands needed to filter those pollutants.

Construction of facilities supporting the tourism industry can damage wetlands. Wetlands have been destroyed to make way for roads, airports, marinas, sewage treatment plants, and recreational facilities.

This destruction is problematic because wetlands provide many crucial functions, including acting as a nursery ground for a diverse aquatic community, and helping to buffer the impacts of pollutants to the water body.

Although tourism has been the impetus for much destructive development, it has also been the motivation for preserving sensitive ecosystems. Some of this motivation stems from economic benefits, as natural parks serve as attractions for tourists.

Tourism with an emphasis on cultural and historic sites has been called “heritage” or “cultural” tourism, and is one of the fastest growing trends in the industry. Heritage tourism focuses on sharing the historical and cultural resources of an area with travelers, while still maintaining the integrity of each site. This type of tourism has been the impetus for the rehabilitation of existing historic sites, buildings, and monuments, such as the facelift that historic houses, lighthouses and others

The revenue generated from tourists and their activities allows these areas to maintain sites and buildings that would not otherwise be as well kept. Another benefit of tourism development is its role in fostering an appreciation and understanding of nature. Tourism development can facilitate an increasing awareness and appreciation of the natural world.

Although rural areas can benefit from tourism in many ways, this may come at high cost because of the need for infra-structure such as roads and water supplies, waste disposal problems, and damage to environmentally sensitive areas. In mountain regions, too, tourism can bring economic benefits to otherwise poor communities, but at significant environmental cost. Walking and mountain biking can lead to erosion and wear and tear of paths. The building of cable cars and ski lifts, and in particular the laying out of new ski runs, has resulted in extensive clearing of forests. Most visitors to ski resorts are day trippers arriving by car, leading to traffic congestion, overcrowding and litter problems. The increase in tourism is not being matched by a similar increase in available accommodation, leading to demand for more building, overcrowding, especially at peak holiday times, and more pressure on resources and the environment.

### **3. Impacts from Tourism related Transportation**

Tourism is responsible for a large share of air and road traffic, and consumption of energy by tourist infrastructure adds further to emissions of greenhouse gases and acidifying substances.

Aircraft emit the most carbon monoxide of any of the five listed air pollutants, but it is a small amount relative to other modes of transportation. Aircraft are responsible for approximately one percent of the total ground-level emissions from mobile sources.

Although aircraft contribute only a small amount to total air pollution, emissions from this source is increasing. Aircraft emissions in nonattainment areas with large airport facilities in particular are projected to represent a growing percentage of regional sources of air pollutants.

In addition to air pollution, aircraft contribute to noise pollution.

Much of the tourism-related air pollution comes from automobiles. In France for example, 5–7 % of greenhouse gas emissions are due to tourism, mainly because 80 % of domestic tourist travel is by private car.

Light duty vehicles emitted an average of 1.53 grams of exhaust hydrocarbons per 1,5km, 19.86 grams of carbon monoxide per km, and 1.51 grams of nitrogen oxide per 1,5km. Automobiles emit by far the most carbon monoxide, nitrogen oxide, and volatile organic compounds in comparison to other transportation.

However, it is difficult to separate the amount of tourism-related automobile travel from all automobile travel.

One area where it is possible to distinguish between tourism-related automobile travel and other travel is within national parks. Exhaust from tourists' cars affects air quality and vegetation in some national parks. Adverse impacts on vegetation have been attributed to automobile exhausts. Almost three-quarters of national park superintendents surveyed cited exhaust from tourists' cars as a significant factor affecting air quality within the parks. The impact of automobiles (air and noise pollution, acreage for roads, gasoline stations) may be more significant than the impact of the visitors themselves (Table no.2).

Tour buses have an impact on air quality as well. Often referred to as the motor coach industry, the tour bus industry includes 3,000 companies and 25,000 vehicles. Companies are classified as inter-city or charter-tour. The latter constitutes more than 50% of the market. Charter-tour bus trips have increased, while inter-city trips have declined. Specific emissions data on tour buses are not available, but most tour buses belong in the category of heavy-duty diesel vehicles.

### **4. Tourist Activities**

Many tourist activities occur in fragile ecosystems. While snorkeling and diving in and of themselves do not cause much damage, inadvertent related activities, such as stepping on coral do cause damage. With such activities, it is the cumulative nature of the damage that is most problematic. One or two tourists may not cause much harm, but hundreds of them over time can do considerable damage to an ecosystem. The cumulative effect is relevant here as well, as one tourist may not understand her impact when aggregated with other tourists.

Tourists hiking along mountain ranges can harm the ecosystem by littering and by trampling vegetation. The greatest impact of tourists on vegetation usually occurs during initial contact with an area, with the most sensitive species affected first. The cumulative impact of tourists on vegetation gradually shifts species composition, because only the most resilient plants can survive in an area under constant pressure from tourist activities. Hiking on the soil can also damage wildlife habitat. Constant pressure can damage or destroy the burrows of reptiles, mammals, and underground-nesting birds. Tourists' use of trees for firewood and tent poles has diminished tree populations, altering the age structure of the plant community.

Littering not only contributes to visual pollution, but can also change the nutrient composition of soils and prevent light from reaching plants.

## **5. Ecotourism**

The numerous names and definitions make it difficult to ascertain how environmentally responsible ecotourism is. There are important distinctions among nature tourism, adventure travel, and ecotourism. Nature tourism implies enjoyment and appreciation of nature, yet it often does not include protection of the environment. Adventure travel utilizes local resources often without consideration of impacts. Ecotourism, as the above definition suggests, is concerned with the concurrent enjoyment and preservation of the natural environment.

Aside from the uncertainty and discrepancies surrounding the labels, there are also problems with the term ecotourism itself. It is possible that some travel suppliers that call themselves "eco" are only paying lip service to a marketable concept that is gaining popularity.

Some travel outfitters use the label "eco" for short-term economic gain without truly abiding by environmental principles. One tour operator suggested in a survey that the label "eco-tour" should be given only to those tour operators that directly benefit the culture or environment; otherwise they should be known as "adventure travel" operators.

The development of industry standards or regulations about the definition of ecotourism would be a productive first step in differentiating these groups. The Ecotourism Society (TES) established guidelines in 1993, which are fairly comprehensive and can be used as a starting point for developing an industry standard. These guidelines include educating travelers to minimize impact, ensuring that the tour company minimizes impact and contributing to the economy of the region visited. Therefore, emphasizing the potential for economic gain from abiding by these ecotourism guidelines would increase compliance with them. An accepted industry standard such as the TES guidelines can help identify the tour operators that conduct truly environmentally friendly tours. This identification would in turn aid travel agents in recommending qualified groups to interested tourists.

As the environmental impacts of tourism have become more obvious, efforts to minimize or avoid further impacts have developed. There are existing initiatives within the tourism industry to minimize impacts. Potential improvements include voluntary efforts by industry sectors and government initiatives, developers' initiatives to design and build tourist infrastructure with minimal impact on the environment, and nonprofit tours that espouse environmentally friendly travel ethics.

## **6. Conclusions**

As indicated by the regulatory framework highlighted above, the fragmented nature of the tourism industry is not conducive to integrated, holistic regulation that encompasses all aspects of the industry. The dispersed nature of the tourism industry produces diffuse impacts that fall under the jurisdictions of different places. Moreover, enforcement and compliance problems make it particularly difficult to regulate tourist activities.

For these reasons educational efforts seem more promising than regulation to minimize many of the environmental impacts of tourism that are not now regulated. Education can be used to support existing regulations, and to encourage environmentally responsible behavior where no regulations exist.

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## Old and New Configurations Regarding the Concept of Economic Performance

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**Abstract:** The performance is generally known to be a special achievement in a field of activity. The measurement of performances represents a system of control techniques meant to make sure that the achievements from various centers of responsibility within the enterprise are in conformity with the norms established for each of them and to apply positive or negative sanctions if the achievements are sensitively off track from the selected norms. In the economic specialized literature, the performance is perceived in three different ways, respectively: - performance – the strategic objectives' achievement level; defining performance depending on the creation of value; - efficiency versus efficacy in defining the performance. The performance of the enterprise is known nowadays under the name of sustainable development, a concept targeting the achievement of three objectives: - the growth of the enterprise's financial performance; -the development of its surrounding environment's efficacy; - the favoring of the social development.

**Keywords:** performance; internal value; external value; sustainable development; enterprise

### 1. Introduction

In the attempt to define the term of performance, we consider it is necessary to monitor the meaning of the word performance and its evolution in time, the starting point for this being the origin and signification of this notion and only afterwards we will try to give our own definition for performance.

We notice that in spite of the abundance of its use in various cases, performance is very rarely defined, even in the papers that have it as the central object of study. It is like the sense of this notion is so obvious but its definition is completely unimportant.

### 2. Problem Statement

The origin of word performance is Latin, but its main signification from the English language. The words more related to it are *performare* in Latin and *to perform and performance* in English.

*Performare* in Latin means to give shape to a thing.

The generally accepted signification of *performance* is: “*a special achievement in a domain of activity*”. (The Romanian Language's Explicative Dictionary).

The general performance, defined as a system aggregating the economic, social and environment performances, is a multidimensional concept difficult to measure from the technical point of view. In most of the cases performance is associated *with the positive result of an action or with an action*

*leading to success.* In other words, we can say success can be appreciated only from the perspective of the results obtained a posteriori. *“It is built up during the entire period of a process’s manifestation, from the moment of defining the action plan until the moment of finalization, when the strategic objectives are achieved.”*(Lorino, 1995)

This definition leads to the conclusion, also supported by A. Bourguignon, that *performance is not a thing that can be noticed at a certain moment, it is built up gradually.*

### **3. Concept and Terms**

The economic performance has been defined in various manners during time.

In 1971, L. Labrousse defines the economic performance starting from a set of characteristics specific for it: „ an enterprise that knew to place itself on the market and exploit a certain peak and consequently has known and knows a really remarkable expansion; *a well administrated enterprise that knew how to measure its productive effort at the lowest costs; a enterprise that knew how to preserve its own expansion*”. F. Harisson defines performance like „*the final result of making efforts*” while M. Klein affirms that performance „*is a subjective and relative notion.*”

At the same time, performance can not be defined without mentioning the modalities for measuring the performance of the enterprise, fact achieved by A.Knemakhem: *“the measurement of the performances represents a system of control techniques meant to make sure the achievements from the enterprise’s different responsibility centers are in conformity with the norms established for each of them and to apply positive or negative sanctions if the achievements are sensibly off track compared to the pre-established norms”.*

If we search through the specialized literature, we notice that, along time, many criterions, both qualitative and quantitative, have been used to measure the enterprise’s performance, but very few authors succeed to give a clear definition to the concept „performance of enterprise”. This might explain why some researchers considered more practical to evaluate the enterprise’s performance using measures based on the *enterprise manager’s opinion.*

The etymological analysis of the notion performance shows it is frequently used in the domains of mechanics and sport.

The notion of performance is known from the beginning of the 20th century and used to designate the numerical indicators that characterized a car’s technical qualities. The performance of cars is explained by making reference to objectives. In the domain of sport, performance signifies the results obtained by an athlete in a race or by a sportive team.

If a comparison is made with the economic domain, it can be noticed that in sport the performance is referring to the qualification of the sportive at high level competition; and in the enterprise, it refers to holding a higher percent of the business market in comparison with the percent hold by the competitors; in sport it is about a better position within the elites while in the enterprise we talk about a better position within the companies’ hierarchy; in sport it is about a personal record broken while in the enterprise it is about the higher than the ones gained in the previous years.

So, the word result but also that of the word success varies depending on their number. Success dominates result when the signification of terms is used at singular. As a plural, success is less frequent, the accent being put on the result in order to determine its size.

It can be observed that the *performances* are multiple considering the archaic senses of the term, but the performance become singular in the present senses of the term.

At singular, the notion is used especially in the innovative sense of management that lead the enterprises to a much more efficient success than by the traditional methods, but its imprecision answers better to the multidimensional strategies from nowadays, within which success often surpasses the traditional economic-financial dimension.

At plural, the neutral term is associated in general with the classical management instruments which consisted of the measurement of evaluation of the performances.

It is obvious therefore the sense of the notion performance has evolved and changed during time. It has become a term with multiple senses, having various significations depending on the domains in which are used.

In the economic specialized literature performance is perceived in three distinct manners, as follows:

### 3.1. The performance – the strategic objectives' achievement level

The performance is a notion frequently used because of the metaphorical allusions it contains. The performance represents the achievement of the organizational objectives (Bourguignon, 1995). This definition can be translated by something equivalent: the performance in the enterprise represents all the factors that contribute to the strategic objectives' achievement. We can not affirm a performance is not good or is bad by itself. The same result can be considered a good performance if the objective is modest and bad performance if the objective is really ambitious. The organizational performance depends on the enterprise's objectives but also on its internal or external reference points in the same manner in which the sportive performance can be appreciated in report with the goal the athlete fixed for himself, by *external reference point* (it competitors, a worldwide record) or *internal one* (a previous performance).

Therefore, the performance is always the *result of a comparison*. ***Achieving performance means to achieve or surpass the objectives.***

This definition indicates that:

- *“performance depends on a reference point – objective or goal;*
- *Performance is multidimensional when there are multiple goals;*
- *Performance is a subassembly of action;*
- *Performance is subjective because it represents the result of an operation, which is subjective by its nature, and consists in bringing a desire closer to become a reality”.*

But it seems this definition of performance is incomplete since it refers only to the performance's characteristics without researching for an operational method (Lebas, 1995).

From another perspective, the performance represents: *„the achievement of the organizational objectives no matter their nature and variety”* (Lavalette&Niculescu, 1999). The organizational performance proves the capacity of an individual to progress due to its efforts.

*Performance does not exist by its own. It always represents the result of a comparison.* But to what kind of base we report the comparison? This base of comparison can be an internal variable (an

objective for progress or a result of a past period) or an external variable. *But the base for comparison has a dynamic character, which makes the performance seem a transitory state.*

Taking into account all the above mentioned, the conclusions are the following: *“the actual concrete content of performance is dependent on the strategic objectives; there is no absolute performance, independent from its objective; the evaluation of the performances depends on the objectives that have been established, so what is considered to represent performance in a certain situation, characterized by certain objectives can be considered a non performance in another situation characterized by other objectives.”*

### **3.2. Defining the Performance by Considering the Creation of Value**

This perspective is supported by P. Lorino, who affirms: *“the performance of an enterprise represents what is contributing to the amelioration of the couple value – cost, and not only the creation of the couple value-cost; or, as we put it, it explains the manner in which the enterprise creates and will create value”*. But when is an enterprise creating value?

In order to answer to this question it must be made clear that an enterprise can create two types of values: *an external value and an internal value* (Bogliolo, 2000).

To create external value implies that the enterprise has a higher market value than the accounting value of its assets. We refer to it as the external value since the difference between an asset's market value and its accounting value is given by the growth of respective asset's market price, and this can not be influenced by the internal decisions taken by the enterprise but only by the specific conditions of the market.

To create internal value means the enterprise creates economic added value, so a positive net value after the remuneration of all the factors of production, including here also the costs of owner's equity.

The primordial role in assuring, maintaining and developing performance is held by the client. Though the large majority of the enterprises recognize the principles determining a better performance, they do not always succeed to line up their competences to the clients' exigencies. A reason for this difficulty seems to be the acceptance of the notion of performance.

To support this opinion, we mention M. Porter's point of view, expressed by him in some specialized literature, who considers that the enterprise's performance depends on its capacity to create value for its clients.

We extend the area of value creation further more not only for clients, but also for shareholders, employees and natural environment, giving a new nuance to the definition above.

Another author, C.Marmuse considers performance to be that something that allows to keep the distance from the competitors on long term, by a strong motivation (based on reward systems) of all the members of the organization. But the nature of the competitive systems is the one determining the manner in which the performance can be achieved. The market share hold by the enterprise is an essential factor reflecting the performance of an enterprise, but this performance can be achieved only by respecting employees like members of the organization. The importance of the employees in assuring the enterprise's performance is supported by R. Danziger as well, who considers human relations the determining factor of performance within the enterprise.



Therefore, the creation of value results not only from a product's intrinsic qualities, but also from the structure of the immaterial services that are accompanying it. The ways in which the people communicate and work together determine the performance of any organization.

So, we believe *the education of the 21st century must answer to four objectives: learning to know, learning to make, learning to be and learning to live together*, and the enterprise must take into consideration this new approach to obtain performance for its employees as well.

In this context, we consider that one of the four objectives enumerated above, which we have underlined to point out the importance we are giving it, is that of *learning to live together*.

In order to be able to live together, we must respect the environment, we as physical persons, but the enterprises too, as juridical persons. The enterprise's commitment towards the environment must be perceived nowadays not like an option but like a common sense obligation from the following perspectives:

- *commercial*, because the clients have new expectations; they are demanding, for example, the recycle of used household appliances;
- *moral*, because we are all citizens with children and we must act in such a manner so to live the future generations a world that will offer them better conditions;
- *economic*, under the shape of diminishing the consume of materials, eliminating the waste, diminishing the accidents' number.

This new approach of performance is known in the present under the name of sustainable/lasting development, concept targeting the achievement of three objectives:

- the growth of the enterprise's financial performance;
- the development of the surrounding environment efficacy;
- the favoring of the social development.

This concept appeared officially at the beginning of the '80 at the same time with the creation of the "*Commission for Environment and Development*" under the ONU auspices, its leader being Gro Harlem Brundtland. In 1987, this commission *had defined sustainable development* like "*the development that satisfies the needs of the present without compromising the future generations' possibility to satisfy their own needs*". Though this definition is the most frequently used, it has far too general character, leaving the possibility for many interpretations, and even further more, it is referring to a dimension that belongs to the macroeconomic policy debate, and is difficult to apply in the case of the enterprises (at microeconomic level). In conformity with the opinion of the European Commission, the principles of sustainable development at the enterprises' level should become applicable by the mean of social responsibility. This commission defines the notion of enterprise's *social responsibility* to be "*the volunteer integration of the social and environmental preoccupations in the economic activity and in the relationship with the interested parties by the enterprise*" (*Livre vert, 2001*).

This thing *essentially* implies the enterprises should become responsible from their own initiative in order to contribute to a better society and the best manner possible for the protection of the environment, in collaboration with the interested parties. These parties interested in this aspect or the «*shareholders*» were defined by Freeman (1984) as being any group or person that can influence or can be influenced by the activity of enterprises.

The concept of performance is used in this context to evaluate the manner in which the firms put in practice the sustainable development strategies (Capron&Quairel-Lanoizelee, 2005).

In the American vision and in biblical sense, the social responsibility of the enterprise puts the stress on the term of charity like a corollary of the individual responsibility principle with the aim of correcting the deficiencies of the system and anticipating the diminishment of the pollution and environmental damages caused by the enterprise's activity (Capron&Quairel-Lanoizelee, 2007).

The practical sense of social responsibility in enterprises is concretized nowadays in the concept of "Triple Bottom Line" respectively economic prosperity, respecting the environment, respecting and ameliorating the social cohesion (Pesqueux, 2002). The concept reflects the recognition at the enterprise level of the sustainable development's three dimensions. The sustainable development in the enterprises is often represented by a triangle so to underline the three objectives targeted: the first one is economic, the second objective is referring to the environmental protection and the last one has a social character. The principle of sustainable development consists in balancing these three dimensions in disfavor of other objectives.

The importance of the social performance in assuring the performance of the enterprise is also supported by M. Porter, who assimilates the performance with the concept of excellence that is based on four determinants: the efficiency of the organization, the social identity, the achievement of the objectives and the reputation of the organization.

Analyzing the opinions presented above, we can consider an enterprise characterized by performance is the enterprise which conciliate the expectations of all its partners: *creates value for its shareholders and clients, makes the place of work enjoyable and preserve a clean environment for the collectivity*. So, the enterprise that achieves performance is the one creating value for its shareholders, answering its clients' expectations, taking into account the opinions of the employees and respecting the environment. *The consequences are: the shareholder is satisfied because the enterprise has obtained the targeted profitability, the clients are confident, the employees are proud of the enterprise they work in, and the society is pleased by the enterprise's environmental protection policy*.

### 3.3. Efficiency versus Efficacy in Defining Performance

In order to properly define performance, we consider is necessary to clarify first the signification of two other concepts, respectively efficiency and efficacy. The term of efficiency has many senses in the specialized literature. Some authors affirm an activity is efficient when it achieves the targeted aim with minimum effort. The problem raised in this case is to delimit the degree of concordance between the results obtained and the objective that has been established from where the activity is considered to be efficient.

The most general meaning of efficiency is that of the direct or indirect report between the useful effects obtained and the effort made for them:  $Efficiency = \frac{effort}{efect} \text{ or } \frac{effect}{effort}$ .

From the managerial point of view, we understand by efficiency the degree in which the desired goals and objectives were achieved. The managerial performance is obtained in this situation at the crossroad between the quality of the managerial results, decisions and actions and the quality of the managerial system's aims.

Efficacy can be defined as the degree in which the enterprise succeeds in satisfying its own exigencies or the external expectations (the clients, state, retailers, employees, shareholders). The efficacy of an enterprise is obvious when it succeeds in optimizing the manner in which its internal and external

development resources are used, as well as the correlation between the two of them, answering as good as possible to the expectations of the third parties or of the external partners. Therefore *an enterprise has economic and social performance when it is simultaneously characterized by efficiency and efficacy*. It results that *performance is a function with two variables, efficiency and efficacy, their combination reflecting an enterprise's level of performances*.

#### 4. Conclusions

Consequently to our incursion in the specialized literature to identify the definitions of performance along time, priority having the economic oriented ones, we can affirm that the performance represents the degree in which an enterprise succeeds to satisfy the requirements of the internal environment, as well as those of the external environment by an optimal combination between efficacy and efficiency. Performance is a state of competitiveness for the enterprise which grants a lasting presence on the market; is an indicator of a potential of future results that emerges due to the satisfying of the strategic objectives. So, the performance does not characterized only a temporary situation, it is always referring to the future. Performance is multiple, it is different depending on the person evaluating it, because each of us perceives performance from his own point of view and in report with the degree in which the objectives established have been achieved.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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**Accounting and Financial Data Analysis. Data Mining Tools**

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**Abstract:** Computerized accounting systems in recent years have seen an increase in complexity due to the competitive economic environment but with the help of data analysis solutions such as OLAP and Data Mining can be a multidimensional data analysis, can detect the fraud and can discover knowledge hidden in data, ensuring such information is useful for decision making within the organization. In the literature there are many definitions for data mining but all boils down to same idea: the process takes place to extract new information from large data collections, information without the aid of data mining tools would be very difficult to obtain. Information obtained by data mining process has the advantage that only respond to the question of what happens but at the same time argue and show why certain things are happening. In this paper we wish to present advanced techniques for analysis and exploitation of data stored in a multidimensional database.

**Keywords:** knowledge discovery in database; multidimensional analysis; data mining tools

## **1. Introduction**

In the current global economy, the performance of an organization is ensured and at the same time, conditional on the quality of decisions taken by its manager. Making the right choices based on a lot of data but also a complex process of analysis and synthesis thereof.

Necessary information to support decision may be obtained because of a powerful computer system, by which data is presented quickly, synthetic and relevant but also to provide opportunities for complex analysis and some predictions.

In analyzing the overall efficiency of an enterprise is very important information such as quantity and quality of existing accounts in the system at a time of economic enterprise, preferably at levels from becoming more analytical. (Crecañă, 2000)

The decisions is the result of conscious choice of activities directions and engage in this action, which usually involves the allocation of resources. The decision resulting from the processing of information and knowledge, and belongs to a person or a group of people who have the necessary authority and responsible for the efficient use of resources in some given situation. (Filip, 2005)

In these circumstances, and computerized accounting systems have grown in complexity but with the help of data analysis solutions such as OLAP and Data Mining can be a multidimensional analysis of financial data - accounting, it can detect possible fraud and can discover knowledge hidden in data, trends can be established for certain indicators, thus ensuring useful information for decision making within the organization.

Manager, with financial and accounting information processed in a manner appropriate to its own needs, has the option to make an evaluation and Manage effectively the resources available to the company (we refer to financial, human and material) to meet its objectives and strategies set to medium term business development company.

For this, the financial manager has provided a number of tools such as:

- financial and accounting statements submitted and processed in accordance with internal reporting requirements, such as income statement, cash flow, financial statement;
- analysis of the income, expenses and profits;
- determining the minimum threshold of profitability;
- analysis of receipts and payments.

EF Codd, considered the father of relational databases, said in 1993 that "the company's ability to compete successfully and thrive is directly correlated with the effectiveness of its OLAP capability."

## **2. Data Mining**

The Data Mining means the extraction process which takes place in the knowledge database based on some information requirements and to validate the information obtained. This is the approach that has been accepted more and more lately.

Data mining became known in the '90s, when speaking of data mining or mining the data "in many environments, whether it is academic whether the business.

In 1997 Pregibon - Research Scientist Google Inc., says that "Data mining is a mixture of Statistics, IA (Intelligence Artificial) and database research" (Pregibon, Data Mining, Statistical Computing and Graphics Newsletter, 7, p.8, 1997).

The literature abounds with definitions of the concept of data mining. Han and Kamber, in his book "Data Mining - Concepts and Technique" from 2006 suggest the following definition "a lot of techniques that can be used to extract valuable information and knowledge from massive volumes of data."

Gray and Watson believe that "data mining allows analysts and store managers to find the answers to company data, which they have not even asked<sup>1</sup>."

The Knowledge Discovery System that can work on a large database system is called Knowledge Discovery in Databases System - KDD.

Between KDD (Knowledge Discovery in Databases) and Data Mining there are authors who differentiation (such as Fayyad). (Fayyad, et ali., 1996) Data mining systems are seen as a query technology, which involves the discovery and extraction of patterns, trends in the data using algorithms. Systems of knowledge discovery in databases it involves the entire process of discovering

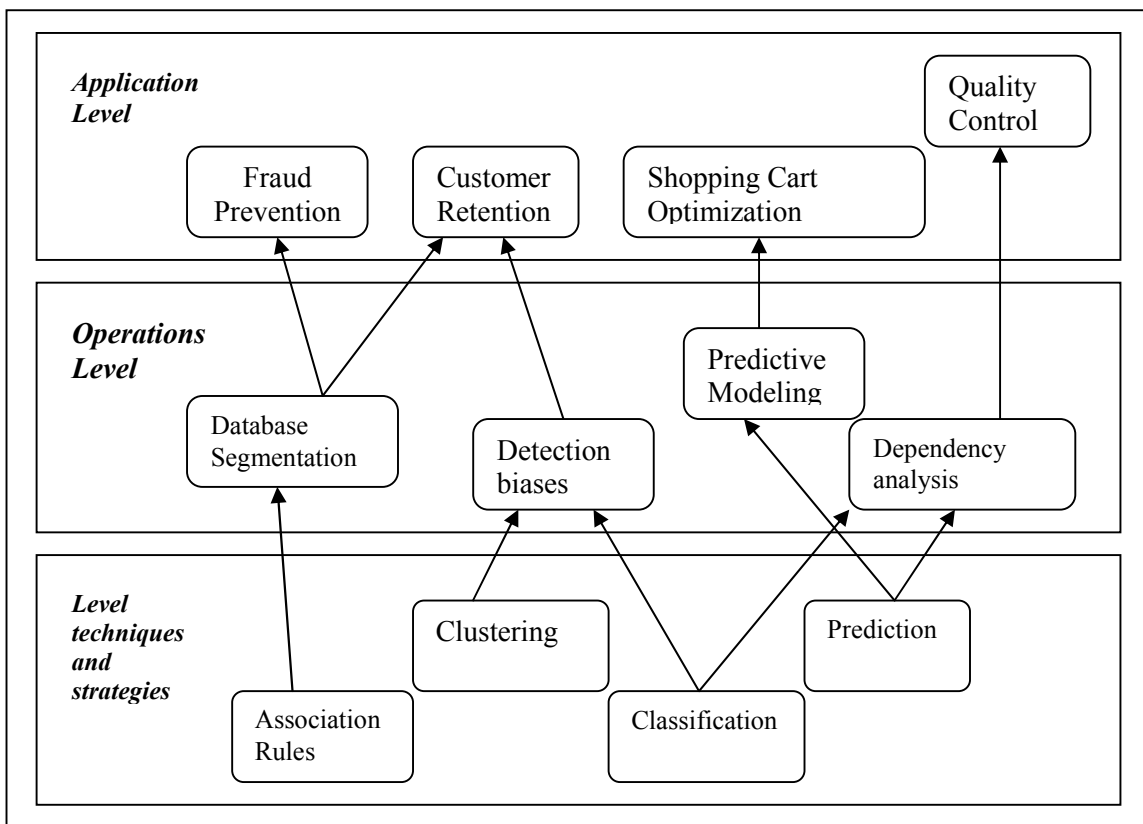
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<sup>1</sup> Gray P. H.J. Watson (1996) *The new DSS OLAP, MDD and: Data Warehouses, KDD.*

useful knowledge from data and besides we can say that Data Mining includes: problem definition, data collection and data interpretation.

It often happens that data mining is associated with: SQL queries, data retrieval, analysis of multidimensional database systems using OLAP tools, reports and graphs used for presenting data, traditional statistical data processing. This is because the combination of data mining, many times it happens to be used with traditional techniques of query or data analysis.

Although the above techniques are used together, yet they do not realize the same thing. Data analysis techniques and views have as main objective the verification of hypotheses, while data mining is to obtain answers to questions like “*What are the main causes that generate this phenomenon?*” or “*How I get some results?*”.



**Figure 1: Applications, operations, techniques and strategies**

At the organizational level can identify three levels where data mining is done as follows:

- *Application Level*: involves the use of one or more strategies and are used in decision making level;
- *The operations*: at this level using one or more technical level, and use information;
- *The techniques and strategies*: involves the use of specific data mining tools to extract knowledge from data.

### 3. The Process of Data Mining

The process of data mining is a process that involves going through the following successive steps:

1. *Data collection and preparation process follow undergoing analysis.* Data to be used in data mining process may have several sources: text files, spreadsheets, file type (Excel), relational databases, data warehouses. After collection, they are subject to a cleaning process to be used in the analysis. *Data analysis or application of an algorithm or a method of data mining.* In order to analyze the data, choice of data mining methods should be taken into account: the type of learning (supervised or unsupervised) that existing cases be used to construct the model and will be used to model testing Which attributes will be used for analysis.

3. *The interpretation algorithm results:* output is to examine the data mining tools to assess whether the knowledge obtained is useful or not. If the data obtained satisfactory then the process of data mining be resumed based on new attributes and comments.

4. *Using the results of the analysis process* to address new problems.

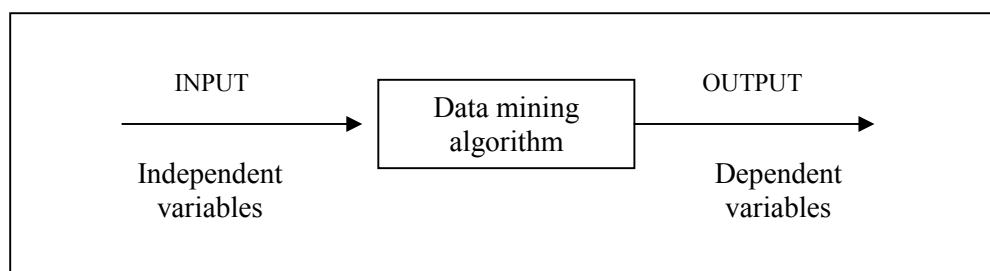
### 4. Strategies of Data Mining

Using a strategy of data mining approach defines a solution to solve a problem. Any technique used for data mining uses a strategy. Data mining strategies are divided according to year two major categories of learning methods:

- supervised strategies;
- unsupervised strategies.

With supervised learning models are made based on input attributes to predict the output attributes. Output attributes as the wear and dependent variables because their value is influenced by amount one or more input attributes. In turn, the input attributes is called the independent variables. In practice, we encounter supervised learning algorithm using one or more attributes of the output (dependent variable).

Where we unsupervised learning in the model type attributes are not found output, so all attributes will be of type input, independent variables.



**Figure 2: Supervised data mining algorithm**

(Sandu, 2009)

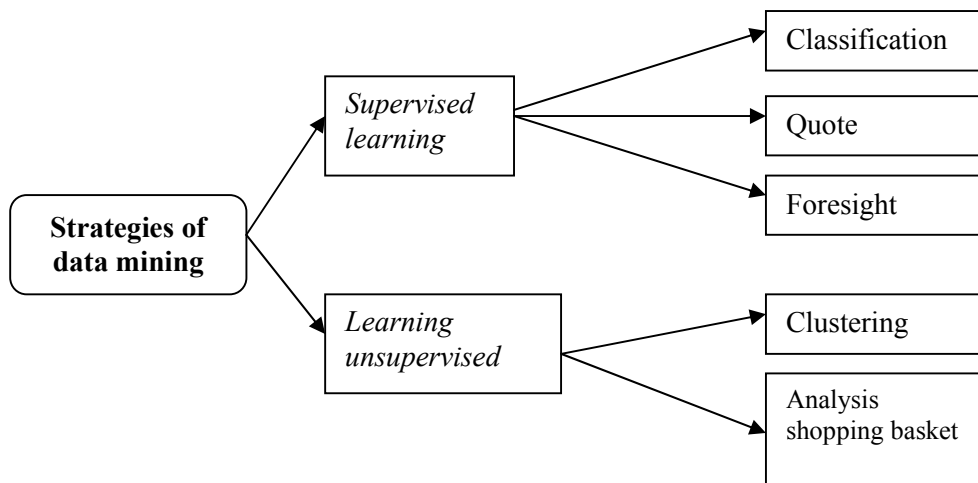


Figure 3: Strategies for Data Mining

## 4.1. Strategies Supervised Data Mining

### 1. Classification

In the literature this strategy is known as the categorization. Classification is regarded as the most common and easiest to understand. Classification process is based on four fundamental components (Gorunescu, 2006):

- **Class** (dependent variable model) is a categorical variable. Sample classes: myocardial infarction, class of stars (galaxies), the class of an earthquake (hurricane), etc.
- **The predictors** (independent variables of the model) are given the characteristics of the data subject classification process. Examples of predictors: smoking, blood pressure, satellite images, geological records specific season, Loctite produce the phenomenon, etc.
- **The set of training** (learning) - Training Data Set: dataset is given by values containing the first two components, the model being used to identify the appropriate grade on the grounds of the predictors. Examples include: the group of patients tested for heart attack, earthquake research database containing images and telescopic tracking.
- Testing data set – in composition to enter new data will be subject classification model previously designed and thus can determine the model performance (classification accuracy).

Models were constructed by the algorithm can then be used to classify new cases.

Several types of situations you can use the classification problem:

- Profiling a person considered "successful";
- Establish characteristic under which people who have suffered a myocardial infarction to be distinguished from those who have not suffered a heart attack;
- Develop a profile that can help us to differentiate between men and women suffering from heart disease;



- Establish geographical areas at risk for an earthquake.

Classification, and strategy data mining, is used to analyze the current behavior and not to the future. For example, if realized a financial model for buying a car, then this strategy may help determine whether the buyer has low or high credit risk now and not in the future. In order to determine future behavior predictive models are used.

The category most commonly used methods for classification can include:

- classification trees / decision;
- statistical analysis;
- neural networks;
- Bayesian classifiers;
- genetic algorithms;
- classifiers based on rules

## **2. Quote**

The main objective of the estimate, as for the classification is to determine the output value of an unknown attribute (dependent variable). Like the difference between the two strategies can estimate states that the output is numerical attributes, while the classification, as described above, output is categorical attributes.

Examples of situations where it can be used for estimation:

- estimate the probability that a person suffering a heart attack;
- estimate of income a person owning a second car;
- estimate the probability that a bank card and stealing.

A significant category of data mining techniques are used to solve problems of classification and estimation, but are not able to solve both simultaneously. Where existing data mining tool supports only one strategy over the other, the situation can be resolved so that the problem can be solved using existing techniques. It appeals to transform categorical attributes numeric attributes, or vice versa by converting numerical attributes categorical attributes.

## **3. Forecast**

The first two strategies presented, classification and estimation, are currently used to predict behavior while the third strategy, the forecast is used to estimate future behavior. This is the major difference between the three supervised learning strategies. In the case of a forecast model output attributes can be categorical or numerical.

For example, prediction strategy can be used to determine whether telephone subscribers from a firm plan to change service provider in the next period.

In practice, many data mining techniques are used appropriately for classification and estimation, may be suitable for estimation. Choice model to be used correctly for classification, estimation or prediction is given by nature to be subject to data analysis process.

## **4.2. Unsupervised data mining strategies**

### **1. Non-supervised clustering**

Clustering is the method of dividing a dataset into several parts (clusters). If non-supervised clustering dependent variable does not meet a target to help learning. Knowledge structure learning program is designed by reference to the cluster quality metrics for the division comments in one or more clusters. At the beginning of learning the number of clusters is known as clustering to identify conceptual structures in data.

Clustering is used when you want:

- determining outlier data (data of abnormal cases);
- evaluating the results of a supervised learning model
- establish meaningful set of attributes used for supervised learning

Clustering technique helps determine where abnormal data, cases are known as outlier. Non-statistical techniques of data mining to identify abnormal cases while the applications used for data mining statistical data exclude these abnormalities in the data set. For example, identifying outlier data are used to determine whether a credit card is fraudulently used or not.

### **2. Analysis shopping basket**

With shopping basket analysis can discover non-intuitive relationship between the products are sold. Following this analysis, the results obtained, the trader can make better decisions in terms of promotional campaigns, presentation of products in various catalogs and offers strategy by which to present their products on the shelves.

## **5. Conclusions**

Using data mining analysis to obtain new knowledge without the need for human intervention. Practical data mining analysis are focused on the discovery of new knowledge from data.

Information obtained by using data mining techniques to be valid. The accuracy and completeness are the two characteristics of the underlying validity of the data. This information should not only be valid and the data mining process itself.

Another feature of the information obtained by using data mining techniques is operationality, is based on information obtained, the organization can start various actions to ensure a number of advantages. It happens that in many cases, the results of data mining techniques are not very easy to apply. With data mining techniques to historical data and then process it may happen that the results may not be current.

## **6. Acknowledgement**

I would like to thank the trust and support, teacher advisor for doctoral Mr. Ion Lungu Academy of Economic Studies.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
**EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES**

## **Analysis of Students Travel Preferences – Which Identity?**

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Economic Business, rx\_ana@yahoo.com*

**Abstract:** The main purpose of this paper is to show and share the results of the research that were made in order to improve the situation and importance of tourism among students and also to offer to the academic society and not only, the results of this achievement. Was chosed the our country: Romania and I studied the case. I had to consider the financial crisis in the hope that the results would contribute to minimize it. I got qualitative data through personal interviews to my students from the Faculty of Management Marketing in Economic Business from Ramnicu Valcea. All the theoretical and practical views focus on making a rigorous inventory of all that means tourism, a field that grows each second and expands. The results of this research have proved it. Tourism is existing and viable for them, with important benefits for present and future opportunities. The paper highlights the importance of tourism activity, and gives evidence about the rapid evolution of the tourism industry.

**Keywords:** Development; economic crises; preferences; Romanian tourism; tourism

### **1. Introduction**

The main purpose of this article is to discuss a very recent subject: the current economic crisis and its impact on tourism. If we take into account the fact that tourism in Romania has become a more and more complex business, especially in the past few years, it is interesting to notice how it will unfold on the background of the actual economic and financial crisis, which has begun to show its effects throughout the country. This study intends to investigate the touristic preferences among the students of the Faculty of Business Marketing and Management, University “Constantin Brîncoveanu”, Vîlcea.

Briefly, tourism may be defined as a socio-economic phenomenon, specific for modern civilization, strongly anchored in social life and, therefore, easily impacted by its evolution. Available on a large scale and adapted to society’s needs, tourism stands alone by its unique dynamic nature. Besides, given its appeal to all social categories and his complex structure, tourism engages large scale human and material resources and has an important influence on global economy, on society’s evolution and also on national and international relations. Global economic crisis gets from bad to worse and Romania is fully suffering the effects of this form of recession, without getting a viable solution from the financial analysts yet. These effects spread towards mostly all branches of commercial activities and the purpose of this study is to analyze their impact on the touristic preferences of the targeted lot of students.

## 2. Conceptual Approach

Tourism is first of all perceived as “a cumulus of means of recreation and other activities destined for spending one’s free time in a pleasant way”. It involves travelling to a place different from the one of residence and it encompasses all the activities undertaken during that travel. Thus, tourism is defined as a complex activity, which can cover a wide range of fields, with a significant economic involvement and which finds itself at the crossroads of multiple industries and services.

Tourism is a complex business that continues to grow: economically speaking it represents the synthesis of a wide range of services; psychologically and socially it constitutes as a better method to organize one’s free time.

*Tourism* is defined as “a complex and multifunctional branch of the national economy covering a rich offering of goods and services destined to those who travel away from their usual environment for a period of time under a year and whose main purpose doesn’t imply a financial gain from the place of their visit (Stanciulescu, 2003, p.5).”

According to the new definition given by the Global Tourism Organization (OMT), tourism encloses “all activities done during holidays and travels to a destination other than the place of residence and for a period of time of less than 12 months (one year) in the purpose of business, free time or other” (Iordache, 2008, p. 8).

*Natural and anthropic tourism potential* – the first one represents the basic package that encloses all resources made available by the natural characteristics of a given space, while the second is the sum of all leisure activities created by man during the evolution of local community (Iordache 2008, p. 9).

*Tourist attraction* – a tourist attraction of a given destination, which usually constitutes the main reason why travellers come to see the place.

*Holiday resort* – an urban or rural area with developed touristic services based on local available resources.

*Holiday complex* – an urban or rural area (or part of it) with specifically developed touristic purposes.

*Crisis* – a time of hardships (economic, political or social in nature); a period of tensions, confusion and trials (mostly decisive ones), which come to life in society. Critical loss (of goods, time, jobs, etc).

*Economic crisis* – a time defined by a crucial decay of global commercial activities.

*Statistic selection* represents a study taken on a lot of the population, which is representative for the rest and is thereby called a case study (Grigorescu, 2010, p. 65).

*Investigation* is a statistical analysis with a definite structure, which involves gathering information, especially from the targeted lot of people, following the issue of specific questionnaires and compiling data from the case study.

It seems that tourism was a practice since ancient times; however, given the fact that it’s difficult to set a specific date of its first steps due to lack of historical data, we cannot say precisely when it distinguished itself from other similar activities.

As commercial activity, tourism is very hard to pin into specific limits; like all human action, it is subject to a complex analysis related to the numerous fields involved: economy, geography, psychology and sociology. The first human inclination towards travelling was mentioned in the writings of Strabon, a geographer from ancient times. As a concept, tourism reflects a the human need

to visit different places and attractions throughout the world, for personal reasons; travelling involves both the act of getting from one point to another as well as short-term dwelling in beforehand chosen places as a destination for passing free time (Snack, 2003, p. 18).

Generally speaking, what mainly influences the choice of a tourist destination is the natural factor: geographical position, scenery, flora, fauna and climate; also the general aspects of past and present human existence and activities: language, mentality, level of hospitality, customs, folklore, culture (religion, art science), politics, economy; the human factor as well: locals attitude towards tourists, quality of service, local authorities approach and police behavior etc.; resources like: transport, accommodation, food, sports, entertainment, flow of information, etc.

### 3. Problem Statement

Due to its complex nature, tourism is often considered a stepping stone for the economic development of a country; that is if we take into account its practical applications in industry, transports, construction, etc. At country or regional level, the impact that tourism might have has to be analyzed in relation to its connection to the main objectives of the overall economic system; that way we can measure its influence on the economic growth, financial stability and unemployment.

From an economy's perspective, tourism brings its contribution to achieving a more balanced flow of income and reduces the growing tendency of the national inflation rate. Tourism increases consumption of goods and the bigger that becomes the more balanced will the money flow get (Pantelescu, 2008, p. 29).

One of the first contributions of tourism industry to the economic growth is perfectly illustrated in the generation of PIB. According to World Travel and Tourism Council's estimations (WTTC), tourism industry is expected to have a 9,3% contribution to PIB in 2010 and a 9,7% one in 2020.

However, this contribution to PIB generation may vary from one area to another, depending on the local economic level but also on the degree of tourism industry participation in the respective economy.

**Table 1. Tourism input to PIB in 2010 versus 2020**

	<i>PIB 2010</i>		<i>PIB 2020</i>	
	Mld \$	%	Mld \$	%
<b>Country</b>	<b>2,464.775</b>		<b>2,383.133</b>	
Us	1,375.9		2,485.7	
China	499,9		1,948.9	
Japan	459,3		594,8	
France	284,6		379,9	
Germany	273,4		377,1	
Spain	237,9		341,1	
UK	231,1		393,3	
Italy	217,1		292,5	
Canada	136,1		-	
Australia	123,1		-	

Source: [www.wttc.org](http://www.wttc.org)

Future investments in tourism are approximated to reach 2,464.775 billion USD in 2010 and 2,383.133 billion by 2020. They represent an important macroeconomic factor for the global economic

development and, in our case, for the local tourism evolution; they are particularly highlighted in the analysis of the investments made by the main developed countries in the world.

#### 4. Analysis of Touristic Preferences in the Times of Crisis

The main purpose of this study is to analyze how much our students travel now, what were their preferred destinations before and how will they change because of the current economic crisis. As a case study we've included the students in their 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> years - from the Economy and Commerce in Tourism and Services branch – given that they've already gained some knowledge about tourism and they're able to express an opinion about it. This study was completed between 2.12.2010 and 9.12.2010 and performed on a lot of 155 students, chosen randomly.

The main detail taken into consideration was that all students are to be chosen from the Economy and Commerce in Tourism and Services branch. The result was that: 97.41% actually travel, which confirms the first hypothesis: that at least 97% from the questioned lot do travel (see table no.2)

**Table 2. Students that travel**

	Answer	ABSOLUTE	RELATIVE (%)
1 <sup>st</sup> year students	Yes	35	94.59%
	No	2	5.4%
	Total	37	
2 <sup>nd</sup> year students	Yes	80	97.5%
	No	2	2.43%
	Total	82	
3 <sup>rd</sup> year students	Yes	36	100%
	No	-	-
	Total	36	
Total	Total	155	
	Yes	151	97.41%
	No	4	2.58%

Source: Data gathered by the author

#### Reasons why some of the interviewed students do not travel

The relatively low percentage of the students who don't actually travel, not even once per year, is rather due to lack of time than to a reluctance towards this form of tourism. Unfortunately, almost 60 % of the students who don't travel gave as main reason the lack of spare time. However, 31% of them reveal a sad truth about our country: even if these students work the year-round, they still cannot afford to travel, not even if it's meant to improve their general well-being and state of mind (see table no 3).

**Table 3. Reason why students don't travel**

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	I don't have time	27	73%
	I can't afford it	9	24.3%
	I am not interested in travelling	1	2.7%
	Total	37	
1 <sup>st</sup> year students	I don't have time	43	52.43%
	I can't afford it	27	33%
	I am not interested in	2	2.43%

	travelling		
	<i>Total</i>	82	
3 <sup>rd</sup> year students	I don't have time	22	61.11%
	I can't afford it	11	30.55%
	I am not interested in travelling	-	-
	<i>Total</i>	36	
TOTAL	<i>Total</i>	155	
	I don't have time	92	60%
	I can't afford it	47	30.32%
	I am not interested in travelling	3	2%

Source: data gathered by the author

### Student's preferences towards various forms of tourism

In order to better observe what influences student's choice when it comes to a specific offer, we decided to bring more light on their current preferences. Among those who travel, 63% prefer to choose a semi-organized travel and 51% prefer to make their own travel arrangements; they don't require the services of a travel agency and they make their own itinerary, they choose their own accommodation as well as what they want to see. The small percentage that remains is made of people who prefer a fully organized travel, who want to take no risks as far as travelling details are concerned, but their numbers is growing (see table no. 4)

**Table 4. Students' preferences towards various forms of tourism**

	<i>Answer</i>	<i>Absolute</i>	<i>Relative (%)</i>
1 <sup>st</sup> year students	Organized	4	10.81%
	Semi-organized	14	37.83%
	Individual	19	51.35%
	<i>Total</i>	37	
2 <sup>nd</sup> year students	Organized	32	39%
	Semi-organized	29	35.36%
	Individual	21	25.60%
	<i>Total</i>	82	
3 <sup>rd</sup> year students	Organized	5	13.88%
	Semi-organized	20	55.55%
	Individual	11	30.55%
	<i>Total</i>	36	
TOTAL	<i>Total</i>	155	
	Organized	41	26.45%
	Semi-organized	63	40.46%
	Individual	51	33%

Source: data gathered by the author

### Reason for travelling

The tendency to get away from the daily routine is highlighted by the fact that 68% of the interviewed students want to travel in order to relax, to regain their forces, both physically and psychologically, therefore for entertainment. Travelling to see one's relatives or friends is also considered, as it represents a cheaper way to travel, given the fact that most accommodation and meals are provided (see table no. 5).



**Table 5. Reasons for travelling**

	Answer	Absolute	Relative (%)
<i>1<sup>st</sup> year students</i>	Entertainment, relaxation, holiday	21	56.75%
	Visiting relatives and friends	4	10.81%
	Business and other job related reasons	3	11.11%
	Medical purposes	2	5.40%
	Pilgrimage	2	5.40%
	<i>Total</i>	37	
<i>2<sup>nd</sup> year students</i>	Entertainment, relaxation, holiday	57	70%
	Visiting relatives and friends	13	16%
	Business and other job related reasons	6	7.31%
	Medical purposes	1	1.215
	Pilgrimage	5	6.09%
	<i>Total</i>	82	
<i>3<sup>rd</sup> year students</i>	Entertainment, relaxation, holiday	24	66.66%
	Visiting relatives and friends	9	25%
	Business and other job related reasons	1	2.77%
	Medical purposes	-	-
	Pilgrimage	2	5.55%
	<i>Total</i>	36	
	<i>Total</i>	150	
TOTAL	Entertainment, relaxation, holiday	102	68%
	Visiting relatives and friends	26	17.33%
	Business and other job related reasons	10	6.66%
	Medical purposes	3	2%
	Pilgrimage	9	6&%

Source: data gathered by the author

### Travelling duration

In order to sketch a more precise profile of the travelling student we analyzed their preferences towards how much they like to spend travelling. Therefore, we noticed that most students tend to travel for a medium period of time: 49% of the interviewed ones don't spend more than 3-5 days away from home. Then we have the 25% of those who usually travel for less than 3 days (table no. 6).

**Table 6. Travelling preferences depending on days**

	Answer	Absolute	Relative (%)
<i>1<sup>st</sup> year students</i>	under 3 days	3	81.08%
	3-5 days	10	27%
	5-7 days	15	40.54%
	7-10 days	4	10.81%
	above 10 days	5	13.51%
	<i>Total</i>	37	
<i>2<sup>nd</sup> year students</i>	under 3 days	18	22%
	3-5 days	43	52.43%
	5-7 days	9	11%
	7-10 days	5	6.09%
	above 10 days	7	8.53%
	<i>Total</i>	82	
<i>3<sup>rd</sup> year students</i>	under 3 days	15	41.66%
	3-5 days	18	38.88%
	5-7 days	1	2.77%
	7-10 days	-	-

	above 10 days	2	5.55%
	<i>Total</i>	36	
TOTAL	<i>Total</i>	146	
	under 3 days	36	24.65%
	3-5 days	71	48.63%
	5-7 days	25	17.12%
	7-10 days	14	10%

Source: data gathered by the author

### Accommodation

Most students – 40% – prefer pensions, which shows a preference towards average accommodation, the kind that offers comfort but at reasonable prices. Then we have 26.45% of the students who prefer mountain chalets, for reasons similar to the previous ones. Therefore, we can conclude that the majority prefers quite picturesque destinations. Even if all-inclusive offers are abundant on the market, only 17% of the interviewed students actually choose a 3 star hotel (see table no. 7).

**Table 7. Accommodation**

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	hostel	-	-
	motel	5	13.51%
	pension	15	40.54%
	mountain chalet	4	10.81%
	hotel 2*	2	5.40%
	hotel 3*	7	18.91%
	hotel 4-5*	4	10.81%
	<i>Total</i>	37	
2 <sup>nd</sup> year students	hostel	1	1.21%
	motel	-	-
	pension	34	41.46%
	mountain chalet	29	35.36%
	hotel 2*	4	5%
	hotel 3*	9	11%
	hotel 4-5*	5	6.09%
	<i>Total</i>	82	
3 <sup>rd</sup> year students	hostel	1	2.77%
	motel	-	-
	pension	12	33.33%
	mountain chalet	8	22.22%
	hotel 2*	2	5.55%
	hotel 3*	10	27.77%
	hotel 4-5*	3	8.33%
	<i>Total</i>	36	
TOTAL	<i>Total</i>	155	
	hostel	2	1.29%
	motel	5	3.22%
	pension	61	40%
	mountain chalet	41	26.45%
	hotel 2*	8	5.16%
	hotel 3*	26	17%
	hotel 4-5*	12	8%

Source: data gathered by the author

### Transportation

There is a preference towards travelling in comfort; among all the students questioned, 68% prefer to travel in their own car, because it has a lot of advantages: they can choose the itinerary, they can stop

anywhere and anytime on the road and it's more comfortable than any other means of transport. Next second best transportation is by coach, but we have a low percentage of students who prefer that - 19.35%. That's mostly due to the fact that our case study is made of students who prefer their own car when travelling (see table no. 8)

**Table 8. Transportation preferred**

	Answers	Absolute	Relative (%)
1 <sup>st</sup> year students	plain	2	5.40%
	train	2	5.40%
	Personal car	27	73%
	coach	7	19%
	<i>Total</i>	37	
2 <sup>nd</sup> year students	plain	6	7.31%
	train	6	7.31%
	Personal car	57	70%
	coach	13	16%
	<i>Total</i>	82	
3 <sup>rd</sup> year students	plain	3	8.33%
	train	1	2.77%
	Personal car	22	61.11%
	coach	10	27.77%
	<i>Total</i>	36	
TOTAL	<i>Total</i>	155	
	plain	11	7%
	train	9	6%
	Personal car	105	68%
	coach	30	19.35%

*Source: data gathered by the author*

### The effects of the economic crisis on our students' preferences

The economic crisis has affected most of the interviewed students, therefore their preferences changed. During the questionnaire, I've noticed their reactions towards the fact that they can no longer afford the same destinations and they also need to shorten their travelling (see table 9).

**Table 9. Economic crisis' impact on students' income**

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	Yes	32	86.5%
	No	5	13.51%
	<i>Total</i>	37	
2 <sup>nd</sup> year students	Yes	76	93%
	No	6	7%
	<i>Total</i>	82	
3 <sup>rd</sup> year students	Yes	31	86.11%
	No	5	13.88%
	<i>Total</i>	36	
TOTAL	<i>Total</i>	155	
	Yes	139	88%
	No	16	10.32%

*Source: data gathered by the author*

**Table 10. Change of destination preferences**

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	Yes	32	84.21%
	No	6	15.78%
	<i>Total</i>	38	
2 <sup>nd</sup> year students	Yes	58	71%
	No	24	30%
	<i>Total</i>	82	
3 <sup>rd</sup> year students	Yes	25	70%
	No	11	30%
	<i>Total</i>	36	
TOTAL	<i>Total</i>	155	
	Yes	114	73.54%
	No	41	26.45%

*Source: data gathered by the author*

### Future tendencies towards form of tourism chosen

In the following, we've analyzed the trend of changes for those who'll change their preferences because of the economic crisis - a percentage of 73.54% students (according to table 10). Therefore, 39% shall make their own travelling arrangements; while only 29% will still choose organized travel (see table no. 11).

**Table 11. Form of tourism chosen for the future**

	Answer	Absolute	Relative(%)
1 <sup>st</sup> year students	Organized	12	32.43%
	Semi-organized	7	19%
	Individual	18	48.64%
	<i>Total</i>	37	
2 <sup>nd</sup> year students	Organized	17	21%
	Semi-organized	31	38%
	Individual	34	41.46%
	<i>Total</i>	82	
3 <sup>rd</sup> year students	Organized	15	41.66%
	Semi-organized	13	36.11%
	Individual	8	22.22%
	<i>Total</i>	36	
TOTAL	<i>Total</i>	155	
	Organized	44	29%
	Semi-organized	51	33%
	Individual	60	39%

*Source: data gathered by the author*

### Future tendencies towards travelling duration

We can notice a difference with regards to a holiday's duration as well: most students, 43%, shall take 5 to 7 days holidays and the rest only 3 to 5 days holidays. On the whole, there is a tendency to decrease the number of days spent for one's holiday (see Table no. 12).

**Table 12. Future travelling duration**

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	Less than 3 days	3	8.10%
	3-5 days	5	13.51%
	5-7 days	21	56.75%
	7-10 days	3	8.10%
	above 10 days	5	13.51%
	<i>TOTAL</i>	37	
2 <sup>nd</sup> year students	Less than 3 days	14	17.07%
	3-5 days	24	30%
	5-7 days	34	41.46%
	7-10 days	5	6.09%
	above 10 days	5	6.09%
	<i>TOTAL</i>	82	
3 <sup>rd</sup> year students	Less than 3 days	5	13.88%
	3-5 days	16	44.44%
	5-7 days	11	30.55%
	7-10 days	2	5.55%
	above 10 days	2	5.55%
	<i>TOTAL</i>	36	
TOTAL	<i>TOTAL</i>	155	
	Less than 3 days	22	14.19%
	3-5 days	45	29%
	5-7 days	66	43%
	7-10 days	10	6.45%
	above 10 days	12	8%

*Source: data gathered by the author*

### Future preferences in accommodation

Future preference in accommodation tend to be unchanged; students still prefer holiday homes, due to the picturesque appearance, comfort and the fact that when travelling in large groups they can rent the whole house for themselves. Therefore, 44% shall choose a holiday home, followed by those who'd prefer a 3 star accommodation (see table no. 13).

**Table 13. Future preference in accommodation**

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	hostel	-	-
	motel	1	2.7%
	Holiday home	12	32.43%
	Mountain chalet	5	13.51%
	hotel 2*	6	16.21%
	hotel 3*	11	30%
	hotel 4-5*	2	5.4%
	<i>TOTAL</i>	37	
2 <sup>nd</sup> year students	hostel	-	-
	motel	-	-
	Holiday home	44	54%
	Mountain chalet	17	21%
	hotel 2*	2	2.43%
	hotel 3*	11	13.41%
	hotel 4-5*	8	10%
	<i>TOTAL</i>	82	
3 <sup>rd</sup> year students	hostel	1	2.77%
	motel	-	-
	Holiday home	12	33.335
	Mountain chalet	6	16.66%
	hotel 2*	-	-
	hotel 3*	8	22.22%

	hotel 4-5*	9	25%
	TOTAL	36	
TOTAL	TOTAL	155	
	hostel	1	0.64%
	motel	1	0.64%
	Holiday home	68	44%
	Mountain chalet	28	18.06%
	hotel 2*	8	5.16%
	hotel 3*	30	19.35%
	hotel 4-5*	19	12.25%

Source: data gathered by the author

### Money wise destination

Even when the number of days chosen for a holiday increases, some students stick to the same form of accommodation or maybe add a star to it; they also tend to keep to the old travel arrangements, but adapted to their current financial possibilities. However, 73% of the interviewed students went for more dramatic options like choosing a more money wise destination (see table 14).

Table 14. Money wise destinations

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	Yes	23	62.16%
	No	14	38%
	Total	37	
2 <sup>nd</sup> year students	Yes	62	76%
	No	20	24%
	Total	82	
3 <sup>rd</sup> year students	Yes	28	77.80%
	No	8	22.22%
	Total	36	
TOTAL	Total	155	
	Yes	113	73%
	No	42	27%

Source: data gathered by the author

### Forms of tourism

Despite the economic crisis, 80% of the students still afford both types of travelling: in the country and abroad. This might be regarded as an opportunity in Romania. There is however a low percentage of them who go for local tourism (see table 15)

Table 15. Local/Abroad

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	Only abroad	-	-
	Both local and abroad	36	97.3%
	Only local	1	2.7%
	None	-	-
	TOTAL	37	
2 <sup>nd</sup> year students	Only abroad	2	2.43%
	Both local and abroad	59	72%
	Only local	21	25.6%
	None	-	-
	TOTAL	82	
3 <sup>rd</sup> year students	Only abroad	1	2.77%

	Both local and abroad	28	77.80%
	Only local	7	19.44%
	None	-	-
	<i>TOTAL</i>	36	
TOTAL	TOTAL	155	
	Only abroad	3	2%
	Both local and abroad	123	80%
	Only local	29	19%

Source: data gathered by the author

### Local tourism

33.10% of the interviewed students, who chose the local tourism, usually go for the mountain resorts, followed by those who prefer the sea resorts or other - 26.89%, (see table 16).

**Table 16. Local tourism**

	Answer	Absolute	Relative (%)
1 <sup>st</sup> year students	SPAs	4	10.81%
	Sea resorts	8	21.62%
	Mountain resorts	11	30%
	Bucharest and other cities	5	13.51%
	Other	9	24.32%
	<i>TOTAL</i>	37	
2 <sup>nd</sup> year students	SPAs	2	2.44%
	Sea resorts	19	23.17%
	Mountain resorts	29	35.36%
	Bucharest and other cities	4	5%
	Other	18	22%
	<i>TOTAL</i>	82	
3 <sup>rd</sup> year students	SPAs	1	2.77%
	Sea resorts	12	33.33%
	Mountain resorts	8	22.22%
	Bucharest and other cities	3	8.33%
	Other	12	33.33%
	<i>TOTAL</i>	36	
TOTAL	<i>TOTAL</i>	145	
	SPAs	7	5%
	Sea resorts	39	26.89%
	Mountain resorts	48	33.10%
	Bucharest and other cities	12	8.27%
	Other	39	26.89%

Source: data gathered by the author

In order to get close to a complete view of the Romanian tourists' profile, especially students, while facing the economic changes that affect their range of choices; we analyzed and reviewed specific data like age, occupation, sex and origins.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES

## Sustainable Development Rm. Vâlcea City - Strategic Objectives

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**Abstract:** Although sustainable development was initially meant to be a solution to the environmental crisis caused by intense industrial exploitation of resources and environmental degradation continues and seeks primarily preserve environmental quality, today expanded the concept of quality of life in its complexity, and economically and socially. Sustainable development is central to many studies of both scientists and local authorities. Ramnicu Valcea sustainable development requires the promotion of principles and mechanisms capable of deep changes in mentality and behavior of entire communities. Problem analysis and evaluation priorities are pre-completion and implementation stages of the Action Plan, the central element of sustainable development planning. The conclusion I can draw is that the strategic objectives for each area of development are not in contradiction with each other, and more mutually supportive and contribute to achieving the common vision on future settlements in a county: making changes positive economic and social, integrated effort to protect the environment.

**Keywords:** sustainable development; local authorities; strategic objectives

### 1 Introduction

Sustainable development means to achieve the objectives of nature. "Development" should not be confused with a mere quantitative growth measured by GNP to obtain, it has a complex of growth accompanied by a double movement of diversification and integration, which allows the system to grow without losing coherence and multidimensional growth that has the quality of relations between people, between them and the natural environment in which he operates.

To be "sustainable" (Profiroi, 1998, p. 51) this development should meet the needs of present without compromising the ability of future generations to meet its own aspirations.

### 2 Valcea Administration Objectives

Sustainable development of Ramnicu Valcea and even Valcea county, the promotion of principles and mechanisms capable of deep changes in mentality and behavior of entire communities. Problem analysis and evaluation of priorities are the stages preceding the establishment and implementation of the Plan of **Action**, the core of sustainable development planning.

By nature, structure and temporal dimension, the Action Plan is the defining development strategy, he must solve the problems and needs of the whole company in a systemic and long perspectives. To this end, it is necessary to integrate all the local resources in a unified effort to reach the goal: a harmonious, long-term, the aspirations and needs of society.

In developing the Action Plan as part of Local Agenda 21, the administration Ramnicu Valcea and the focus to achieve a complete integration, both horizontal components by combining economic, social and environmental as well as vertically among all levels of power: community, national, regional and local action that can ensure consistency of process policy and decision making.

The organizational and decision-making system in local governments must adapt to the principles of ecosystem management and urban thinking in the spirit of Local Agenda 21, sustainable development concept required. An Action Plan prepared by coordinates, also outline plans, budgetary and operational (the municipality according to the resources available on a limited time) and proposals for community members, legitimately expressed in a partnership.

Involvement all partners, whether it is civil society, whether it is government or interest groups, is the key that opens the quick implementation of the Action Plan and achieving the strategic objective of sustainability in all our social structures.

It is widely accepted that the problems facing our community, they should oppose a unified strategic vision, objectives expressed toward certain areas of interest, with clearly defined responsibilities, which are necessary for the functioning of various partnerships.

To achieve the objectives proposed in the Local Plan Action, Ramnicu Valcea City Hall, the local authority should strengthen institutional capacity at all levels of decision and execution, this action involves not only attracting and providing sufficient financial resources but also human resources mobilization, identifying the most effective mechanisms communication and, not least, the administrative reconsideration of the allocation of responsibilities. In urban areas, public and private sector retains its traditional roles in relation to investment programs.

Concrete objectives government Valcea aim to shift in a reasonable timeframe and realistic model of development generating high added value, driven by interest in knowledge and innovation-oriented continuous improvement of people's lives and their relationships and harmonizing with the natural environment. The lack of such vision leads to a chaotic administrative activities, in which it can miss opportunities and irrationally consume valuable resources.

The principles were the basis for the strategic planning process was to ensure scientific validity, community involvement, transparency, objectivity, consistency and continuity of approach. Strategic planning must be accompanied by promotion of the public administration of a strategic integrated management at all levels, able to identify and exploit emerging opportunities in the community.

The fundamental strategic objective of local authorities in fulfilling the aspirations Râmnic Valcea is a city of science with a dynamic and competitive economy with a quality living environment, sustainable development principles, and European values of Moldavia. From this strategic objective is based on theoretical valences of sustainable development, taking into account that the Valcea County has a beneficial natural setting, being located in the southern part of Romania. It occupies an area of 175 km<sup>2</sup> is covered by mountain ridges and hills, the variety of landforms influence climate is temperate continental feature Valcea county, meeting the specific nuances of depression Loviște hilly mountain climate and the Olt Valley. Depending on the terrain and climate, vegetation, land feature is

distributed valcean their zoning. Valcea county territory has a rich and varied fauna, depending on the floor in relief and climate conditions.

As said above we see that the county has a rich natural environment and well defined, but in view of the fact that the area is populated, their duty to provide protection by establishing and conducting courses of action.

## **2.1. Environmental Objectives**

Starting from the idea that each local authority level there are three sub-categories covering all areas of activity namely, natural and anthropogenic activities, and the third category is related the social aspects.

As each of the three subsystems identified, in relation with the system that encompasses them, like levers that can positively or negatively influence the sustainable transformation, they can be conceived and defined as the real resource of quantification sustainable development.

In terms of environmental protection, conservation and protection of natural capital as the main objective of local authorities sustainability trend, I can boast that Valcea natural capital has varied, diverse natural landscapes, highly attractive complex landscape tourist complex hydrographic network, wide area occupied by lakes, temperate climate with moderate tones, rich fauna and flora, soils with well-developed profile and texture. However, the county is prone to natural disasters (landslides, floods), which has led local authorities to engage in the implementation of programs to promote recovery and natural capital as a tourist resource. Another element of sustainability is the county air quality. In this area we can boast that there are positive trends in pollution reduction, water resources, specialized environmental institutions and environmental plan. But there are situations in which businesses and citizens sometimes do not comply with environmental legal requirements, there are changes in local climates due to massive deforestation and therefore local authorities are involved in creating programs in environmental infrastructure, promotion of partnerships for environmental protection, applying the "polluter pays".

The first line of intervention in the environmental concerns of industrial and domestic waste management. In this direction is to be achieved three waste transfer stations included in the county waste management plan, implementation of the second municipal waste landfill and a municipal waste incinerator (waste to energy) for power generation and heat. For this purpose it is necessary to advise local governments, businesses and households on how the selective collection.

Management of woodlands, the natural protected areas of degraded land and land covered with forest vegetation outside the forest is a other direction on the environment. In this direction aimed at regeneration and conservation of forest cutting by reducing abuse, identifying and afforestation of degraded lands and the ongoing degradation. Also in this respect are to tourism infrastructure development and maintenance of natural areas protected by specific marking, maintenance and approval trails, repair and development of tourist huts, camping areas, information, visitor centers, trails and thematic collection centers waste.

Local authorities have proposed the creation of centers of consulting and marketing for traditional and organic agricultural products (eg honey and bee products), and a program of counseling and training for access to funding sources. It also believes that local authorities to ensure sustainable economic development at county level study is needed on the potential energy of the county, making plants and

thermal power generation from renewable sources, and development of installations for the capture and neutralization of industrial emissions pollutants.

## 2.2. Valcea Economic Situation

In *economic terms*, the authorities have proposed the development of economic activities by promoting and supporting investment in developing partnerships with local and foreign investors and providing incentives (material, financial, tax, etc.). Another objective on the agenda of the authorities making the most of natural resources and sustainable economic development activities specific to the provision of incentives to investors.

Promote or support the establishment of associative forms of exploitation of agricultural products (fruits, vegetables) and supporting farmers in selling direct product (markets leaflets) is another objective that supports sustainable development in the county.

Due to its favorable geographic Valcea county is considered a tourist district. So the authorities turned their attention to support operators and providers of programs and services and leisure travel through the modernization and maintenance of access roads, developing facilities for tourism and sports activities in the area lakes and support activities builds sustainable aquaculture species specific fisheries.

Regarding the development of the research - development - innovation to support economic activities and development activities aim to create business incubators, especially for innovative companies, support equipment and introduction of efficient and clean technologies in the productive coal and oil, scale operations, supporting research, development, innovation, in areas of interest for the county - tourism, chemistry research, bees (centers of excellence, technology centers, research laboratories). To improve the quality of products and services is important in fostering partnerships between educational institutions, research and production.

As regards agriculture, Valcea enjoys important agricultural land fund, the county's agricultural area is 2463.1 km<sup>2</sup>, representing 42.7% of the total area of the county and 1.7% of the total land area of the country.

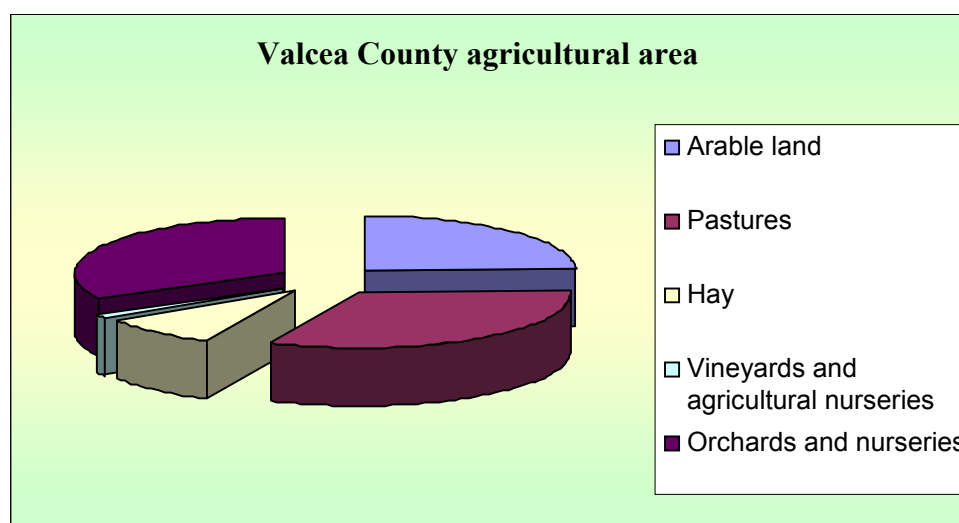


Figure 1. Structure of farmland in the Valcea County

Of this 33.7% is agricultural land, 45.3% pasture, 12.7% meadows, vineyards and nurseries 1.7% and 6.6% orchards and nurseries.

The dissolution of the former cooperatives, agricultural area was fragmented into many small parcels, a system that creates difficulties in implementing work under mechanized proper fertilization pests, use of irrigation facilities, feeding of large herds of animals, make certain investments for facilities and maintenance of productive capacity of land.

Agriculture Basic is one of the pawns that contribute to sustainable development in the county. Local authorities want this sector to become thriving and again we can enjoy national and even international recognition. But my view is that if not carried out a centralized agriculture too soon we will not enjoy the fruits of the earth Valcea their full capacity.

### 3. Valcea Authorities Involvement in Industry

Develop a *industrial sector* strong and dynamicable to meet the demands of a market economy is central to the development sustainable district, being an important economic sector, the creator of new jobs.

Valcea County's economic structure is characterized by the dominance of the industry. Complex and diverse industry is represented by all its branches: chemical, food, coal, oil and salt, woodworking, light industry and textile industry.

The industrial profile of the county is one of the main factors contributing to the development of the county. Earning in this area had a tendency of increase by 2008 as shown in the chart below, which makes this area attractive to young graduates. The business sector is successful, we can say that people have to gain by creating jobs, but also brings economic benefits to the county. The development of employment policies and management training and labor market is another objective of the authorities Valcea, given that the number of unemployed in Valcea county is in decline to the emergence of economic and financial crisis, namely until 2008, when he began to grow, as is apparent in the following Graphic:

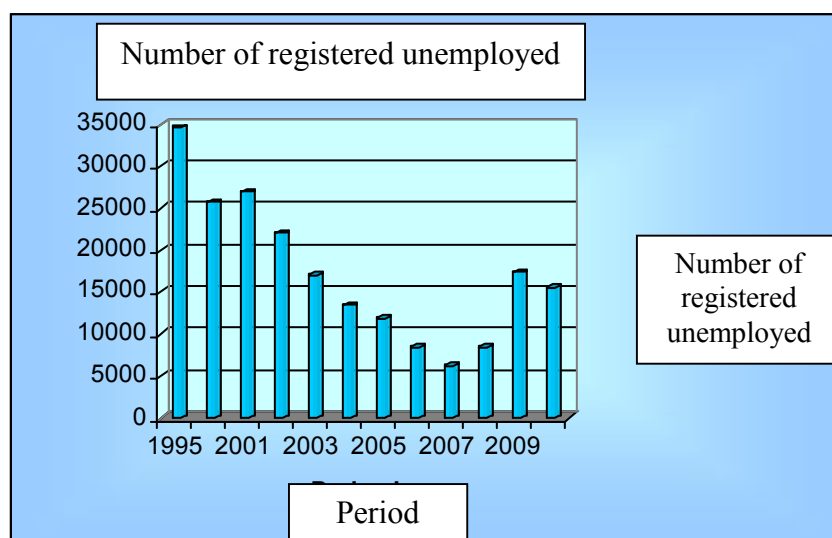


Figure 2. Evolution of the number of unemployed in the period 1995-2010 Valcea

In 2009, we saw double the 8344 number of unemployed people without a job in 2008 to 17,351 people in 2009. The economic crisis was felt in our county, where many companies have limited activity, and a number of construction firms have closed. The number of unemployed fell by almost 13% in 2010 versus the same period of 2009. At the end of 2010 there were 15,575 unemployed, while in the same period of 2009; the number was higher by 1776 people, or 12.9%. Unemployment rate in 2010 is thus less than last year but higher than the rate in the country. Although at first sight, in 2010 a decrease in the number of registered unemployed would lead many to think of a miraculous revival of the local economic system, the explanations are quite different representatives of CEA, which induce an acute and uncertainty among persons without a job. Valcea CEA representatives say that there are two important reasons that explain the decrease in the number of unemployed in this period. In 2009, following a legislative provision, each unemployed person was prolonged task of allowance for another three months, so most of them - especially those who became unemployed in mid last year - came out this month grace period, which benefited from state aid. Also, another important aspect is the technical term unemployed persons held companies that have supported their payments for their accounts, which are not recorded in the basics of CEA Valcea.

In order to achieve this aim authorities support and entrepreneurial training programs managerial skills development, social development partnerships to identify new opportunities to integrate the labor market and facilitate labor market integration of young graduates and potential employees returned from the European Union. I also want to identify workforce needs in the county, by field, to correlate training (all levels) with the supply of labor markets and developing strategies and policies for initial and continuing training. Another principle City certifying sustainability relates the provision *toof social housing the homeless*.

In recent years the authorities turned their gaze Valcea and the families with social problems or nationalized houses evacuated and returned to owners. Valcea authorities have upgraded an Ostroveni district building, which was originally designed for a retirement home, Valcea County Council funded. Lack of money and European Union standards by taking it off site by the municipality, which conducted the social housing for the needy.

On the social level, the authorities encourage self-help networks for various disadvantaged groups. For elderly women to create Credit Unions, for people with disabilities, associations of persons with disabilities. On the agenda is and ealizarea a program to support gifted children from families in need.

Local authorities have been involved in projects aimed at upgrading the streets, as at 31 December 2008 were upgrading 343 km of city streets.

After I think the quality of a county road is one of the important economic relations with other counties, is a point of vulnerability of the competitive advantages that sustainable development is reflected directly on the local economy, the county on tourism, etc. Also subscribe to the bad road condition would be a major obstacle to the development of tourism Valcea.

There is now a significant number of ongoing projects funded under Regional Operational Programme (Priority1 - Supporting the sustainable development of cities - urban growth poles), aimed at reducing congestion in the city and reduce pollution from exhaust emissions and noise reduction. Also, through these projects will enhance the quality of public services (ambulance, fire) will create optimum conditions of business to carriers in the area, better access to health services, educational, administrative, legal for people from area. Also, will there be an increase in the volume and quality of transport and a better satisfaction of citizens' travel needs and improve the environment.

In addition to the fact that local authorities have invested in infrastructure, I can boast that the county is in a favorable geographical position, the pan-European Corridor IV is crossed by road and trans-European road and rail TEN-TEN-R and F, has a greater density of public roads from the national high proportion of road National (9 tracks, including a European road E-81).

We can say that the local authorities have managed to have successful projects in terms of sustainability, which has attracted European funding in a context where the budget State can not expect any support. Concern for human life is the most important public benefit in any society. (Henry, 2004, p. 20) Locally, only local authorities are responsible for protecting citizens. Where locally the achievement of protection of citizens' negative conclusion is imminent.

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**China's Strategic Investments and  
Its Relations with Developing Economies**

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**Abstract:** 2010 brings news regarding China's economic strategy. It has strengthened its trade relations with emerging economies, making significant investments, plus significant imports and exports, proving again that it is the first commercial power in the world. China, considered being "the manufacturer of the world", along with Brazil and Russia, major exporters of raw materials, and India, the country which offers the cheapest technology services, has made the world organization, named as BRIC. In 2009, China has consolidated its position as the main trading partner with Brazil, a position that enabled it in 2010 to become the largest investor in the Brazilian territory. One of the most important Chinese strategies is the monetary one, through which China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. It is expected that Yuan will become the main currency in Asia, main goal that will be achieved by the constitution of large reserves of Yuan on the Asian territory. Knowledge of Chinese economic policy and relations with emerging economies is essential, since 2010 shows the economic power of this nation, the largest trading power in the world, which has led the economists to study China's economic situation. We used for this study, data extracted from UNCTAD and ASEAN's reports from 2010, plus various U.S. studies on China's geostrategic position. China's geostrategic position is an important one, especially compared with the other BRIC countries, making energy investments in the Middle East, strategy that was adopted also by India and Russia; so Russia and China created ESPO project, Eastern Siberia - Pacific - Ocean, through which China is making huge investments in energy and Russia is trying to stand out for European markets. Through this paper, we tried to evidence China's financial and trade relations with USA, European Union and emerging economies, in the context of a severe economical crisis, named by Nouriel Roubini in his book, White Swan.

**Keywords:** Foreign Direct Investments flows; GDP per capita; economical crisis; emerging countries; monetary strategy

## **1 Introduction**

Jim Rogers, an investor whose name is linked to the index of market goods<sup>1</sup>, namely the Rogers International Commodity Index, one of the most successful investors and the cofounder of the Quantum Fund, draws attention to the opportunities that China offers at the moment. This orientation encourages investments in Chinese mainland, counting on long-term profit opportunities offered by China.

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<sup>1</sup> International Market, Information about the Global Economy, No. 41, 11 oct. 2010, Bucharest, pp. 4.



Currently, under the impact of global economic crisis, we can say that this country has become an increasingly attractive market. Since 2002, China began to liberalize financial markets through programs such as Qualified Foreign Institutional Investor and Qualified Domestic Institutional Investor. In August 2010, China announced that it would continue the liberalization of capital markets, something that according to experts will lead to the development of Chinese financial markets, almost at the same level as Western ones. Strategically speaking, China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. This can be explained by the fact that the Chinese national currency has begun the single currency in South – East Asia cross-border trade, but also in some trade agreements that China concluded with its partners.

Thus, in 2011 China wants to achieve two strategic objectives, namely financial market liberalization and increasing importance of the national currency. These two strategic steps are primarily aimed to reduce the dependence on the U.S. dollar in foreign trade transactions. According to experts, financial market liberalization will lead to a significant increase in FDI flows in financial markets in China.

## **2 Chinese FDI Flows Evolution**

One of the most important effects of the financial market liberalization is the development of the inward and outward FDI flows. Analyzing the Foreign Direct Investments realized by China, but also the FDI attracted by China is essential in our study. Our main goal is to analyze the Chinese strategic steps adopted in times of financial crisis.

In 2006, developing countries from Asia, in front with China, represented a major area attraction for foreign investors so that they have owned more than two thirds of total FDI flows to this group of countries. FDI inflows to South, East and South – East Asia have reached a new record of \$200 billion, meaning an increase of 19% from a year earlier. At the sub regional level, the transfer in favor of South Asia and South East continued, while countries that were the biggest attraction for FDI in the region, namely China (including Hong Kong) and Singapore continued to keep ahead. (Huidumac – Petrescu et ali., 2011, pp. 166-175)

The development of FDI flows during this period led to a significant economic development of China. High corporate profits have increased the transnational mergers and acquisitions. China and India, two members of BRIC organization, were during this period the leaders in developing investment projects, especially in the service sector. Nowadays, China, the “world's manufacturer” and India, the “cheapest technology services provider”, are two emerging countries with great potential, countries that offer great opportunities in business developing projects.

In 2006, the developing countries and the economies in transition have developed the number of mergers and acquisitions on the global market. Investors from emerging countries with fast economic growth from Asia and Eastern Europe (especially from China, India and Russia) have been noted on the international market, especially due to their important mergers and acquisitions. In China, the biggest companies are those which activate in oil and natural gas market. So “China National Petroleum Corporation” had acquired PetroKazakhstan for \$4.1 billion in 2005, while Sinopec has bought “Russian-United Kingdom joint venture Udmurtneft” for the amount of \$3.5 billion in 2006<sup>1</sup>. These are only two examples of investors which have made important mergers and acquisition on the global market.

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<sup>1</sup> UNCTAD, World Investment Report 2007.

Among the indicators of international production, a special relevance for host countries is the number of employees in foreign subsidiaries; this indicator reflects the impact of FDI on labor market.

In 2007, FDI flows to South, East and South – East Asia were higher than ever, achieving \$249 billion. Most sub regions and countries have received greater investments, thanks to favorable perceptions of business course, progress towards deepening regional economic integration and facilities supported by a number of countries. China and Hong Kong (China) remained the top choice, but important FDI have turned to India, ASEAN countries, Afghanistan, Cambodia, Sri Lanka and Timor – Leste. There has also been a record level on FDI outflows, approximately \$150 billion. Intra and inter – regional investments were more representatives, but also flows to developing countries increased, including acquisitions and mergers. The stock of FDI out of this area suddenly jumped from \$1.100 billion in 2006 to \$1.600 billion in 2007.

What has happened in 2008, globally and in China? Globally, FDI flows declined by about 10% in 2008 compared with the record level registered in 2007, standing at approximately \$1.870 billion. 2008 marked the end of a cycle of increasing international investments which began in 2004. (Huidumac – Petrescu et ali., 2011, pp. 166-175)

This situation has generated a considerable reduction of the cumulative value of cross – border mergers and acquisitions, from 29% in 2008 to approximately \$1.200 billion. FDI decline was more pronounced in the developed countries, almost 12%, up to about \$1.500 billion. In the transition countries, a reasonable growth of around 14% has maintained, with a volume of \$58 billion. FDI growth in developing countries fell to only 2% to \$ 274 billion. Table 1 presents the evolution of inward and outward of FDI flows in China.

**Table 1. Inward and outward foreign direct investment flows, 1990-2009 in China**

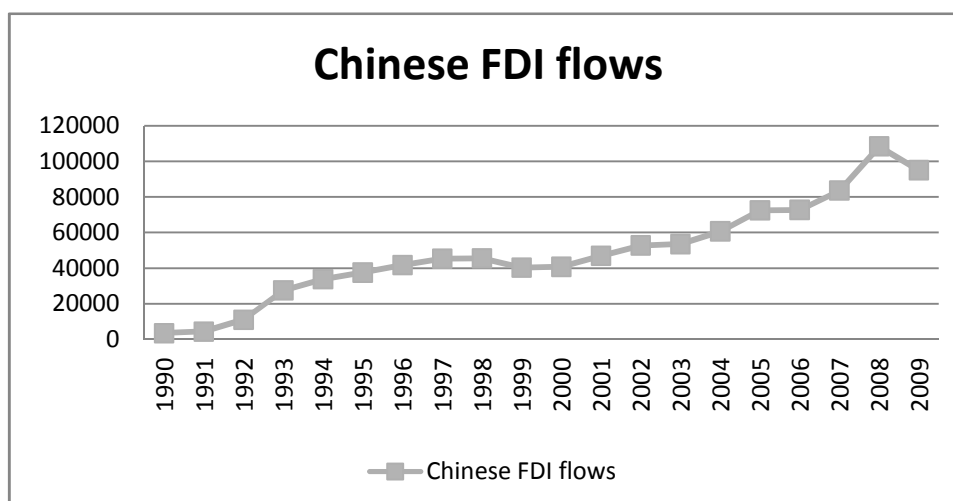
Measure: US Dollars at current prices and current exchange rates in millions

<i>Year</i>	<b>Value</b>	<i>Year</i>	<b>Value</b>
<i>1990</i>	3.487	<i>2000</i>	40.714
<i>1991</i>	4.366	<i>2001</i>	46.877
<i>1992</i>	11.007	<i>2002</i>	52.742
<i>1993</i>	27.514	<i>2003</i>	53.504
<i>1994</i>	33.766	<i>2004</i>	<b>60.630</b>
<i>1995</i>	37.520	<i>2005</i>	<b>72.406</b>
<i>1996</i>	41.725	<i>2006</i>	<b>72.715</b>
<i>1997</i>	45.257	<i>2007</i>	<b>83.521</b>
<i>1998</i>	45.462	<i>2008</i>	<b>108.312</b>
<i>1999</i>	40.318	<i>2009</i>	<b>95.000</b>

Source: Data extracted from UNCTAD statistics (<http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88>)

As we can see, China has not been very affected by the financial crisis. From Table 1, we can observe that the cycle 2004 – 2008 is a period of continuous growth of FDI flows, 2008 being the year in which the highest value of FDI flows has been reached.

For a better illustration, we also tried to realize a graphical analyze, in Figure 1.



**Figure 1. Chinese FDI flows between 1990 and 2009**

Source: Table 1 - Inward and outward foreign direct investment flows, 1990-2009 in China

Figure 1 shows that 2008 was the peak year of any prejudice in terms of value of FDI flows. The conclusion we draw from this graph is that in China the inward and outward of FDI flows have had an increasing trend. Even in 2009, a year of global economic recession, their value is higher than in 2007; this fact indicates that China has not been so affected by the global economic crisis. To explain this affirmation, we extracted from UNCTAD statistics, the Chinese GDP from 1990 to 2009, macroeconomic indicator that we correlated with FDI flows values, so we could see the direct relation that exists between the two of them.

**Table 2. Nominal and real GDP, total and per capita, annual, 1990-2009**

Measure: US Dollars at current prices and current exchange rates in millions

<i>Year</i>	<i>Value</i>	<i>Year</i>	<i>Value</i>
1990	404.494	2000	1.192.836
1991	424.117	2001	1.316.558
1992	499.859	2002	1.454.040
1993	641.069	2003	1.647.918
1994	582.653	<b>2004</b>	<b>1.936.502</b>
1995	756.960	<b>2005</b>	<b>2.302.719</b>
1996	892.014	<b>2006</b>	<b>2.779.871</b>
1997	985.046	<b>2007</b>	<b>3.460.288</b>
1998	1.045.199	<b>2008</b>	<b>4.327.024</b>
1999	1.100.776	<b>2009</b>	<b>4.699.911</b>

Source: Data extracted

from UNCTAD statistics

(<http://unctadstat.unctad.org/TableViewer/tableView.aspx>)

From Table 2, we can observe that beginning with 2004, the Chinese GDP has an upward trend. 2008 was the year when for the first time China has achieved a GDP of \$ 4,327,024 dollar, which in 2009

was higher, achieving the value of \$ 4,699,911 dollar. Comparing the evolution of FDI flows with the GDP evolution, for this period of time, we could state that in 2009 the FDI flows have decreased comparing to 2008, but the GDP has increased to a higher value comparing with the same year (Figure 2). Even if, between the FDI flows and GDP value there is a direct relation, 2009 shows that in case of China the economy is so strong that a decreased number of FDI flows doesn't mean a decreased GDP.

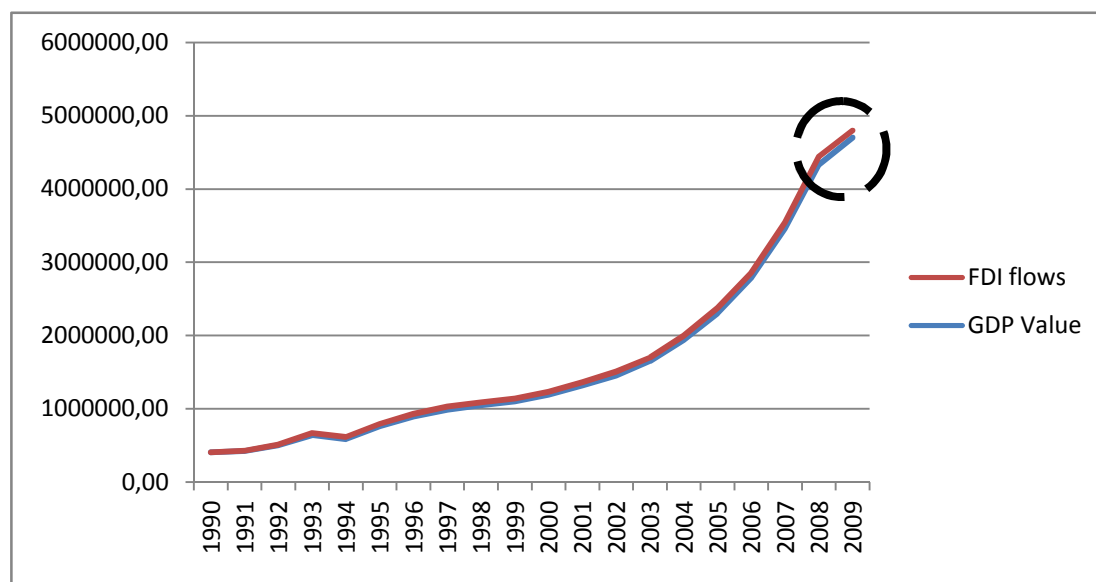


Figure 2. FDI flows vs. Chinese GDP

How could we explain this difference between the FDI flows and GDP evolution from 2008 to 2009? Figure 2 shows a significant difference between the two economical variables. There are a lot of economical factors, but also some strategic steps that China has adopted in their political and economical strategies. Some of these factors are represented by the different policies that China has adopted to overcome the global crisis. So, in our opinion, the Chinese restructuring and modernization programs in selected industrial sites have had a benefic effect on the Chinese economy, providing an economical growth. Also, due to the global crisis, the inward of FDI in China were less than in 2007. In the next step of our analysis, we tried to explain some of the main ideas of the Chinese restructuring and modernization programs.

### 3 Chinese Restructuring and Modernization Programs

Through these programs, China has not done anything but trying to overcome the global economic crisis. These programs are based on four main ideas:

- government incentive policies to stimulate the economy to avoid a downturn; (Jin Bei, 2009)
- implementation of adjustment programs adapted to the new economic environment and to restore competence in more and more companies<sup>1</sup>;
- robust growth of some industries;
- international market recovery and return to a normal growth, not too accelerate, not to low, a normal one<sup>1</sup>.

<sup>1</sup>International Market, Information about the Global Economy”, No. 43, 25 oct. 2010, Bucharest, pp. 3.

Nowadays, China is trying to overcome the crisis, even if the GDP has showed a very high value for 2009, year of full economic crisis. The Chinese government is aware that the industrial restructuring and modernization is the key of success. So, there are a lot of uncompetitive companies' bankruptcies, which are willful accepted by the government, thereby supporting competitiveness of the private market. Those economic agents with a high efficiency potential are supported to strengthen their position in the business economical environment. The government took steps to relax regulations on foreign firms participating in mergers and acquisitions. Even if these strategies have been adopted, the international economic environment has decreased the number of FDI flows attracted by China, so this is how we explain the decreased number of inward.

China began to encourage companies in industrial sectors considered essential for continued sustainable development, through supporting government programs. There have been selected 10 industrial sectors for this type of development: automobile industry, steel industry, shipbuilding industry, machine industry, petrochemicals, etc.

China has also developed great relationships with other emerging countries, such as Brazil, Mexico, India and Russian Federation. It is very important to underline that China has become in 2010 the most important investor in Brazil. Concerning Asia, China is trying to grow Yuan's importance, transforming its national currency in an exchange currency. As we can see, these countries, politically and strategically reunited in BRIC organization, are trying to emerge their economic influence in all the continents, not only in the Asian one. There are many economists that don't believe in this organization, but its potential and its opportunities are great.

#### **4 Conclusions**

In 2011, China offers a lot of business opportunities. Most of the world's investors encourage investments in Chinese mainland, counting on long-term profit opportunities. Under the impact of the global economic crisis, we can say that this country has become an increasingly attractive market.

China announced that the liberalization of capital market would continue, according to experts this will lead to the development of Chinese financial markets, almost at the same level as Western ones. One of the most important effects of the financial market liberalization is the development of the inward and outward FDI flows. Strategically speaking, China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. In Asian territory, Yuan has become an exchange currency in trade markets.

China has adopted several strategies to overcome the global crisis, based on restructuring and modernization programs in some selected industrial sites; this strategic step has created a benefic effect on the Chinese economy, providing an economical growth. So, there have been some industries that the Chinese government encouraged their development, such as: automobile industry, steel industry, shipbuilding industry, machine industry, petrochemicals, etc.

We consider that China's position in BRIC organization, China as "the manufacturer of the world", along with Brazil and Russia, major exporters of raw materials, and India, the country which offers the cheapest technology services, will help it in keeping the actual position as trade leader, and probably will transform it in the world economic leader, overcoming USA.

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<sup>1</sup> This is the main key of all the Chinese restructuring and modernization programs.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

**Fiscal Federalism: a Solution for the  
European Union during the Crisis?**

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**Abstract:** Addressing the cumbersome state-level fiscal crisis in the EU can be made and on the lack of a fiscal federalist its architecture. Fiscal federalism is, inter alia one of the principles of European fiscal policy, redistribution of political responsibilities between independent countries. This article survey the potential capacity of a system compared to that of the EU fiscal capacity of a system from a state with a federal organizational structure, as the U.S., addressing eight areas in crisis prevention and combating tax. This comparison helps to establish priorities for the European fiscal system, leading to the conclusion that a more federalist is not the most important measure to be adopted to combat state-level fiscal crisis in the EU.

**Keywords:** redistribution of political responsibility; tax policy; fiscal crisis

## 1. Introduction

Theory of fiscal federalism, is how best allocation of tasks at different levels of government. Exhaustively examining this issue would reach areas such as politics, sociology, national identity<sup>1</sup>. "The traditional theory of fiscal federalism establishes a general legal framework for the allocation of functions at different levels of government and appropriate fiscal instruments to achieve these functions" (Richard Musgrave, 1959, Oates, 1972 cited in Oates, 1999: 1121). The fiscal operations of government at federal and regional levels and through direct fiscal transfers between regions, the federal tax system provides usually redistribution (permanent transfers from richer regions to poorer ones), stabilization (anti-cyclical policies adopted federal government tax when all regions are affected by a common shock) and the risk-sharing transfers (temporary when only one region and some regions are specific to the region hit by a shock). In practice, various forms of fiscal federation (see, for example, von Hagen and Eichengreen, 1996, Ahmad and Brosio, 2006; Gichiru et al, 2009; or Bloechliger et al, 2010), even though the United States has always been primary point of reference. The euro area is facing a crisis quite pronounced, although the overall fiscal situation and prospects in this area. Focusing on eurozone crisis is a result of Greek solvency problem, the fear of contagion,

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<sup>1</sup> These are the three models of legitimacy of the European fiscal policy presented in the literature: the EU as a problem solving entity, the model community of shared values as sources of legitimacy and the EU as an entity model based on political rights.

Greek problem is a political answer ambiguous institutional deficiencies. Finally, a higher level of fiscal federalism would strengthen the euro area, as it could help increase the responsibility of Member States in terms of fiscal policies at the state level, would allow the banking problems, and could help some more fewer conflicts of interest. Current tax reform proposals as well, strengthening the current rules, a better coordination of policies and an emergency financing mechanism, where they will be implemented should lead to some improvements. However, implementation could be deficient or lacks credibility, and could lead to disputes and a significant political risk.

However, huge differences in the centralization and redistribution, not saying much about the potential role of EU tax systems in the prevention and management of state-level fiscal crisis.

The second section of this article analyzed the potential role of the European fiscal system in the current crisis, comparing the euro area with a federal system. This section is followed by a presentation of ways in which a federalist system would help the EU in prevention and management state level fiscal crisis. The findings and results of the article should be able to respond if such a system applied in the EU fiscal policy would help in terms of current fiscal crisis.

## **2. The Potential Role of a EU Fiscal Federalist System in a State-Level Prevention and Management Crisis**

Huge differences in the centralization and distribution did not show necessarily the potential ability of the tax system and one federalist EU, such as the U.S. fiscal management and crisis prevention. Comparing, however, these two systems can be found three areas that a federal system, can help prevent crises, three areas where there are similarities between the EU and the federal fiscal crisis resolution and two fundamentally different between the two areas systems that have an influence on fiscal sustainability.

The three areas that a federal tax system, have an active influence on the prevention of fiscal crisis refer to:

In terms of *fiscal rules in a federal system*, they tend to be more stringent than in the EU. Thus, nationally there were more responsible behavior from this point of view. If we relate to the classic example of the federal system, as the U.S., according to a study shows that in 50 states, 36 states have set specific rules in their constitution prinvind achieve a balanced budget four requirements poor, and 10 fall between these two groups (National Conference of state legislatures, 1999 Snell, 2004). However, as shown in some studies, Defa credit swap (CDS)<sup>1</sup> on the bonds in some U.S. states reached much higher values during the crisis than any country in the euro area, after the collapse of Lehman Brothers in September 2008 and currently CDS state in the U.S. are similar to those in Ireland, Italy, Portugal and Spain, although none reached the levels recorded in Greece ("California is a Greater Risk Than Greece, JP Morgan chief Warns" )<sup>2</sup>.

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<sup>1</sup> Credit default swaps (CDS) is a derivative instrument that aims to transfer the risk of exposure to fixed income financial instruments (loans, bonds) between two parties. This type of derivative has been launched by JP Morgan in 1997. A CDS buyer is protected against the risk of default of that fixed income instruments (default risk), while the CDS seller guarantees the creditworthiness of the title's subject to the swap. The risk of default is transferred from the title holder fixed income swap seller. If, for example, an investor owns a bond (assuming that it will be redeemed at nominal value) and buy a CDS, it is the buyer of the swap and receive the face value of the bond if the issuer is in the situation could not pay the related coupons and enter default. CDS is like an insurance swap because it offers buyer protection against default risk, downgrade, or any other event that adversely affects the perception of creditworthiness of the issuer (and thus the price of bonds issued by it).

<sup>2</sup> <http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7326772/California-is-a-greater-risk-than-Greece-warns-JP-Morgan-chief.html>



As regards *the scope for state or local debt in a federal system*, it is more limited because a large part of revenues and expenditures are centralized and state-level fiscal rules designed, in general, strict expenditure national, even if, in an irresponsible way, they have the potential to lead to a huge debt relative to GDP. Indeed, the combined debt of U.S. states and local governments amounted to about 22% in 2010, on average there are reasonably small differences between countries: from 9.3% in Wyoming to 33% in Rhode Island (Source: [www.usgovernmentspending.com](http://www.usgovernmentspending.com)). While the euro zone and the debt-GDP ratio in 2010 ranges from 19% in Luxembourg to 124.9% in Greece (European Commission, 2010). However, even if the differences between national debt and local debt are lower in the U.S., GDP can be reached in less revenue, because a considerable part of income tax should be transferred to the center.

*A federal stabilization policy* can help to avoid pro-cyclical. There are good reasons to centralize a countercyclical fiscal policy (IMF, 2009, Martin, 1998): this would be better or easier coordination of policies should exploit economies of scale based on a large tax base and better loan conditions, and would also provide opportunities for sharing risk. We are again with reference to the U.S. example, indeed, during the current crisis, the federal government has allowed automatic stabilizers to operate, and adopted a major stimulus discretion including direct aid from the state budget. In the EU, such countercyclical policies were left to each Member State, with some attempt at coordination. Comparing the results of such policies in the U.S. countercyclical fiscal policy directed at the center led to fiscal consolidation at the state level. McNichol and Johnson (2010) have calculated an indicator of the state budget deficit (the difference between projected revenues for each year of reference and current services in the base year), which reflects the national tax before taking actions to eliminate the deficit. In the EU, Member States use a combination of measures to eliminate deficits, including the deployment of incentives from federal funds, budget cuts, tax and increased stocks. While the U.S. state budgets have received direct federal support through the American Rehabilitation Act and reinvested (ARRA)<sup>1</sup>, and Member States could rely to some extent on reserves accumulated in their funds, but reductions spending and tax increases could not be avoided. In the EU, during the first phase of the crisis, in 2008/2009, almost all euro area Member States have adopted discretionary fiscal measures. Exceptions were Cyprus, Greece, Italy and Slovakia (according to European Commission, 2009). Also, in 2008-2009, primary balances have deteriorated in these countries, which means that, at least, the automatic stabilizers were allowed to proceed. In 2010, Greece adopted a series of fiscal austerity programs, and Portugal and Spain have accelerated also, fiscal consolidation, while Italy has announced plans for 2011. More recently, France and Germany have set plans for 2011 and beyond. France and Germany should not rush to fiscal consolidation measures at a time when Europe is still fragile recovery and redemption of debt in the private sector is not over yet. However, in 2010, the fiscal stance was expansionary in most euro area countries, including Germany and France. Arguably, there are countries in the euro area would have had to adopt a pro-cyclical fiscal policy during the crisis, and that there are countries that could benefit from an anti-cyclical fiscal policies. Therefore, in terms of actual results can not establish the superiority of a federal policy of stabilization, comparing the EU to a federal system like the U.S.

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<sup>1</sup> American Recovery and Reinvestment Act of 2009, abbreviated ARRA (Published in OJ L 111-5 and commonly referred to as the Recovery Act is an economic stimulus package adopted by the U.S. Congress, 111 in February 2009. Recovery Act contains measures to create jobs and promote investment and consumer spending during the recession. In the act of state Keynesian economic tradition which holds that government budget deficits should be used to cover production shortfalls created by lower consumer spending during the recession. The measures are in nominal value of 787 billion dollars. Act includes federal tax incentives, extension of unemployment insurance and other social provisions and domestic spending on education, health, and infrastructure, including energy sector.

Proceeding with the comparison, are discussed three areas where there are similarities in the resolution. Vis-a-vis it can be said that neither the Member States of the EU nor the U.S. ***there is a default mechanism ordered***, although, according to Gelinias (2010), the U.S. has a default mechanism for lower levels government, even if it is based on the rules stricter than those for private corporations.

At least before the crisis there ***was no guarantee from the central level***, short-term funding mechanisms in the euro area governments. Lately, however, Europe has implemented a formal procedure to facilitate emergency loans and the European Central Bank (ECB) began to buy government bonds of the Member States in danger due to the current crisis.

Another measure worthy of consideration in the current crisis conditions, ***refer to the currency devaluation and the real value of debt reduction***. However, euro area countries have not considered the option of devaluation, although it may stimulate economic growth as a sustainable fiscal aid, or to generate inflation, reducing the real value of public debt.

Another aspect taken into account in comparison with a federal system of the EU, something that is in favor of the latter refers to ***the power of the banking system***. According to Veron (2010), has implemented effective measures to improve its banking system, while Europe did so. In a federal fiscal system, where regulation and banking supervision are also centralized and therefore cross-border banking issues are not relevant when determining the financial system is certainly an easier process.

In terms of production and ***labor market flexibility***, the U.S. is closer to an optimum currency area than the EU in these respects. The answer to this problem is that a federal system like the U.S., the common currency can work well even when there is severe recession, as labor markets are more flexible than a system like Europe today.

### **3. Ways in which a federal system in the EU would help to prevent and resolve state-level fiscal crisis**

The manner in which a fiscal federalist system in the EU would help to prevent and solve crises are varied and cover:

- Increased policy coherence in the euro area;
- Possibility of greater redistribution, risk sharing, and a federal anti-cyclical fiscal policy that could alleviate the effect of consolidation in those Member States which says that the policy of consolidation began in 2010;
- Reducing the possibility of a crisis at the state level by the national fiscal rules more stringent pre-crisis;
- Contributing to strengthening the banking sector in the euro area wide scheme would be introduced banking resolution.

Many solutions have been presented to the fiscal crisis in the eurozone. Governance reform in the euro area should include, in most of the following:

1. Better enforcement of fiscal discipline, which in turn will likely have two key components: strict enforcement of current rules that will suffer, in part, other amendments, greater fiscal coordination.
2. The 440 billion euros of European Financial Stability Facility (EFSF) allocated for a period of three years, can be transformed into a permanent emergency financing mechanism for the euro area member states, financed or guaranteed mechanism, primarily national contributions and the European

Stabilization Mechanism (ESM) worth 60 billion euros can also be transformed into a permanent mechanism.

3. Active involvement of the ECB at the state level to manage national crises.

4. Surveillance of private sector imbalances and a greater harmonization of economic policies.

Since the EU has a different architecture than the model policy of the U.S. federal system, and because the level of government debt in euro area Member States is very diverse, European solutions to the current crisis must not follow the American model.

At the same time as the current EU reform progress, the proposals would improve the safety policy within the euro area than that existing before the crisis. There are two main reasons to have doubts: credibility (which mainly relates to the discipline of implementing fiscal instruments) and risk policies (which mainly relates to the involvement EFSF<sup>1</sup> and ECB).

Introduction of Eurobonds to cover up to 60% of the GDP of Member States would lead to much higher levels of fiscal discipline than any other proposal would create an attractive market for Eurobonds, and lead to a powerful message about the irreversibility of European integration.

Taking into account all aspects of fiscal policy aimed at EU-wide tax can be said that anti-crisis measures, focused mainly in the euro area Member States to protect the European Monetary Union (EMU) and the other Member States are have left full sovereignty in this respect.

#### **4. Results and Conclusions**

In the EU, primarily from the risk of current fiscal problems and a fear that a single country to infect other countries and banking system, which is perceived as a fragile at the moment. These fears were exacerbated by the responses in the form of ambiguous policies and institutional weaknesses of governance in the euro area. But the origin of the euro area fiscal crisis is not the lack of a federal fiscal institutions with greater redistribution of risks that are typical activities of a fiscal union.

Measures of fiscal policy to be applied in all Member States not only in the euro area, especially in the countries that joined the EU, such as Bulgaria and Romania. Bulgaria stands out as a country that did not increase during 2010. In Bulgaria, was reported to the euro currency, the boom led to an overheating economy, with high salary growth and double-digit inflation and private sector external debt amounting to about 100% of GDP at the end of 2008 (IMF 2009). However, the situation was disastrous, because the Bulgarian currency reserves amounted to € 5 billion, and it was a large fiscal surplus. Also, most banks in Bulgaria are held by foreign institutions, and thus they were supported from abroad. The situation in Romania was more dramatic, however, so much so that the Romanian government had to resort to the international community for assistance. Unlike Bulgaria, Romania had a budget deficit before the crisis. The country also suffered a significant depreciation of its currency before entering in crisis exchange rate fell by more than 15% against the euro. Before the crisis, Romania currency stability a priority, and therefore had to sacrifice control over monetary policy and tolerate also higher inflation and a contraction in the domestic market. However, Romanian banking system remains well capitalized and very liquid. However, the fact that the European economy is

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<sup>1</sup> European Financial Stability Facility (EFSF) was created by the Member States of the euro area, following decisions taken on May 9, 2010 the Ecofin Council. As part of the overall rescue package of 750 billion €, EFSF is able to issue bonds guaranteed by the Member States of the euro area up to € 440 billion for lending to euro area Member States in need, the conditions negotiated with the European Commission is be approved by the Eurogroup. EFSF is a company that was founded by 16 countries sharing the euro and was registered in Luxembourg in accordance with Luxembourg law on 07 June 2010.

recovering faster than other regions affecting Romania and in this regard a return to positive growth is delayed and somewhat weaker than was originally anticipated (IMF 2009).

Thus, incentives must satisfy three basic requirements to ensure their sustainability in terms of taxation: they must be temporary, timely and targeted.

In conclusion, fiscal federalism architecture should be the main solution to the crisis when EU states, although it would help in the prevention and control by the state debt and allow easier settlement of the problems the banking system would be also a signal of policy coherence in the euro area does not mean that the eurozone is not viable without such an architecture.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
**EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES**

**Corporate Governance and International  
Financial Reporting Reference (Ifrs)**

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**Abstract:** Between corporate governance and IFRS there is a causal relationship. Financial reporting is based on managerial accountability. Corporate governance is the economic branch who studies how companies can become more efficient through the use of institutional structures such as: incorporation, organization and legal framework. This branch is limited, in most cases, to studies on how shareholders can motivate executives to benefit the company through their efforts, resulting - finally - dividends. Starting from the global nature of the current crisis, we have considered as being necessary to point out its effects on the financial reporting and, implicitly, on the requirements for the corporate governance consolidation in order to ensure the economic and financial stability desired. The macro-economic context favored the start of the crisis, but the analysis made by experts showed other reasons for this, out of which some of the most important are the corporate governance weaknesses and the insufficient means for protection against risks. We consider that these are reasons which ask for an objective analysis and a correct assessment of the regulatory process but also of the practice in the area corroborated with an invitation for a responsible behavior both of the entities management but also of the representatives of the accounting profession so much involved in the correctness of the accounting reporting and therefore in the financial health of the entities.

**Keywords:** financial reporting; corporate governance; internal control; accounting conformity; accounting convergence

## **1. General Issues Concerning the Financial Reporting and the Corporate Governance**

The concept of corporate governance emerged in 1992 as a result of the Cadbury Report in the United Kingdom of Great Britain. It is a discussion of the concept of „social responsibility of the company”. If in 1970, Milton Friedman's „Theory of stock-holder” believed that maximize financial results of the dividends paid to shareholders is the greater social responsibility of a company, subsequently the conceptions changed. At present it is considered that a company belongs more to the community where it operates, she became a „citizen of the community” to which he has some rights and a lot of obligations. IFRS have a key role in completing the corporate governing. Corporate governance is a little-known concept in Romania. It describes all the rules by which a company is managed and controlled (corporate governance is defined as a relationship management of a company with shareholders and with society, at large). Set of annual financial statements are based on corporate governance.

The beginning of the third millennium we can say that it is really sounding by the events that characterize it. We can say that the financial scandals from Enron, WorldCom and Parmalat, as well as other big and very big companies which largely affected the managers credibility concerning the capacity for a good management of the entities but also the financial reporting relevance remain insignificant in comparison with current global crisis which affected the economic life of the planet by destroying balances which sometimes were largely and forever established.

In most of the countries worldwide there are a lot of efforts and actions are developed with the purpose to reestablish the economic-financial balances starting from identifying the reasons for the current global situation. More than ever, group of experts from the international organizations in the area reached conclusions almost unitary concerning the real reasons for the current worldwide crisis which started in the financial market (bank and credits), its reasons being deeper like for example the macro-economic and micro-economic mechanisms. It is also pointed out the paradox of the crisis, which consist in the fact that although the liquidities seems to be sufficient, these can not be found at the right place and do not circulate in accordance with the economy needs, this crisis taking by surprise almost all the players in the economic environment by the amplitude and the rapidity of its expansion at the global level starting with the fourth quarter of the year 2008.

Principles of corporate concern: information transparency, protection of shareholders, board responsibility. Nothing can be achieved without the annual financial statements, without complying with the five components: balance sheet, income statement, statement of changes in equity, cash flow statement and explanatory notes, the purpose of expressing an accurate picture of assets under empire of corporate governance, which is a modern and effective management tool for social economic entity.

We consider as being representative the fact that, as result of the analysis of the reasons for the crisis, it could be seen that one of the most important reason is the insufficient corporate governance and risk management.

Therefore, the results of ACCA (**Association of Chartered Certified Accountants**) research, in cooperation with different groups of experts to identify the reasons for the crisis, showed that among the main factors that led to the situation created we can mention:

- the major discrepancies between the business risks and the budgetary provisions concerning the financial incentives awarded to the managers;
- excessive risks assumed, doubled by the short term approach of the remunerations and incentives granted to the managers;
- existence of some areas of the risk management which lack the power and influence;
- lacks in information reporting on the current and potential risks and on the transactions they refer to;
- inappropriate supervision of business by the executive directors and the lack of a proper supervision of thee by the administrators and the supervision commissions;
- lack in regulations on the responsibilities inside the organizations, and between these and their management, or the lack in exercising this responsibility.

For the emerging economies in countries like for example Romania, where the main challenge is to overpass the effects of the crisis together with a sustained effort for continuing development and implementation of the measures meant to ensure the convergence with the other European countries economies and to maintain the macro-economic stability, knowledge, understanding and implementation of the corporate governance and management risk principles represent a must.

The changes brought to the Company law between 2006-2008 have the purpose to also adapt it to the principles of the Organization for Economic Cooperation and Development (OECD) in relation to the companies corporate governance. In this framework we would like to point out the provisions of the above mentioned law on the companies management either in one tier or two tier system, the requirements concerning the establishment of the consultative committees (audit committee, remuneration committee, etc), establishment for the board of directors of some tasks which can not be delegated to the administrators, establishment of the shareholders rights, etc. At the same time, by the Order of the minister of public finance the requirements of the Directive 2006/46/CE, concerning the entities which securities are admitted to transaction on a regulated market and to present information on the corporate governance have been implemented in the Romanian legislation.

A realistic assessment of the legal provisions, both in the companies legislation area and in accounting area, shows that to date these contain minimal requirements on corporate governance but we consider that yet the provisions on the responsibilities in the area and especially in as far as concerns the internal control, the protection mechanisms against the risks and last but not the least the responsibilities of the executive directors and of those with tasks in the coordination and supervision area are not yet clear enough. The developments and additions concerning the accounting regulations which are to be in force starting with 2010 bring a necessary plus in regulations, new requirements and responsibilities concerning the accounting policies and treatments, internal control organizing, its objectives, how to develop the internal control procedures and to perform periodic assessments of the internal control performance in order to ensure that the internal control is adequately adapted to respond to the new risks that appear.

As far as concerns the provisions of the economic entities legislation, we consider that these should be developed further especially in the area of the provisions concerning the responsibilities of the executive directors and of the management, considering that detailed elements on corporate governance organizing and functioning can be developed in corporate governance codes and regulations of some specialized bodies in the area.

## **2. Crisis Implications on the Entities Accounting and their Financial Reporting**

Notwithstanding that the current crisis did not started or it has not been significantly favored by the accounting information quality or by the quality of the audit engagements, the accounting profession in general (bookkeepers, accountants, auditors) is concerned by the difficult period the economy witness, this period pointing out once more the importance of the professional services they provide.

Considering these concerns, we believe that the proceeding of the International Conference „The Financial Crisis and Its Implications on The Financial Reporting Architecture and the Financial Stability” organized by UNCTAD in Geneva at 1st July 2009 are very significant and the agenda contained issues like debates on the credit crisis implications on the corporate financial reporting in the context of the current challenges to the financial stability (attended also by representative of the Romanian profession). The importance of the issues on the conference agenda and the fact that they covered problems to date in the financial reporting area are also outlined by the following: the realism in approaching the role of financial reporting in ensuring the financial stability and intensification of the economic development; requirements on fair value evaluation considering the crisis; requirements on professional ethics and transparency, the independence of the regulatory bodies; the statutory audit in the context of the crisis; increased role of the rating agencies in order to ensure the financial stability and progress; presentation in the financial reporting of the information on corporate

governance; reporting of how the responsibilities that flows from the corporate governance are met and ensuring the financial stability considering the application of the International Financial Reporting Standards etc. Also the International Federation of Accounts, the two Romanian professional bodies are full members to– CAFR (Chamber of Financial Auditors of Romania) and CECCAR (The Body of Expert and Licensed Accounts of Romania)-, in its report on 2008, recently published, outlines the initiatives to rebuild the global financial stability and appreciates that one of its main activities, namely, international standards and guidance development, become more relevant and necessary than ever considering the current economic environment, pointing out also the need for convergence to global standards.

In the same context of the convergence to the global standards, at the European level, in the Conference on „Financial Reporting in a Changing World” organized by the European Commission in Brussels on 7-8 May 2009, the IASB representative announced the acceleration of the completion of the draft replacing the IAS 39 „Recognition and evaluation of financial instruments”, with the purpose to introduce some changes mainly on:

- fair value evaluation on the liquidities markets;
- reducing the complexity of the rules on the financial instruments;
- increase in the transparency and comparability of information.

The urgent nature of these measures is also pointed out by the fact that the USA body for the accounting standards development (FASB – Financial Accounting Standard Board) recently published in April this year a series of changes to the accounting standards and there is a risk for the appearance of some non-equivalent accounting treatments.

Concerning the status of the financial reporting regulation in our country we would like to point out the conformity with the European directives in the area concerning the individual financial statements of all the categories of entities, as well as the conformity to IFRS for the consolidated financial statements of the entities admitted to transaction on a regulated market. The totality of the measures developed in order to be applied starting with 1st January 2010 for the individual financial statements bring, on the one hand, a more convergence to IFRS, and on the other hand to strengthen the responsibilities on adoption and application of the accounting policies, organization of the internal control and ensuring the credibility and relevance of the financial-accounting information.

In order to analyze the effective application in practice of the financial reporting and corporate governance issues, recently it has been completed a research in the area, based on a questionnaire sent to some public interest entities from Romania (credit institutions, insurance-reinsurance companies, national companies and entities). The results of this research are meaningful especially considering that this category of entities is subject to some regulations of a special nature in which the requirements in the area and the responsibilities are better pointed out. We can say that at the level of this category of entities the objectives concerning the relevance, credibility, completeness and opportunity of the financial and management information become a priority. The internal control of the respective entities assumed its responsibilities in the area of: ensuring the conformity of the published financial information to the applicable accounting regulations; application of the accounting policies and procedures established by the entities leadership, protection of the entities assets; preventing and detecting the frauds and accounting irregularities etc.

The audit committees which become functional in most of the public interest entities started their activity in modernizing the financial reporting process in accordance with the provisions recently adopted by the EGO no. 90/2008 on statutory audit.



### 3. Conclusions

We consider that the development and consolidation of responsibilities in the financial reporting area should become a priority for all the categories of entities, especially considering the current global economic environment. Also, we consider that it is necessary to promote the international professional knowledge by the staff of public companies in Romania and their theoretical and practical improvement through international cooperation and standardization (see standardization already existing in accounting, auditing and financial reporting - IAS / ISA / IFRS ).

Among other proposals that we could have, we underline:

- establishment of a National Institute of corporate governance, as well as some specific standards according the existing models;
- transparency, financial reporting, internal control and risk management including corporate information system;
- establishment of a causal relationship between corporate governance and actuarial accounting;
- establishing causal relationship between corporate governance and the cyberspace of electronic accounting.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES

## Social Insurance in Romania - Concern for Governors

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**Abstract: Objectives:** the comparative research of the public and private insurance systems is important as it provides financial benefits to the individuals who have lost their income due to their old age, along with their decreased labour ability caused by disabilities, disease, motherhood, work related accidents or unemployment, and the resulting benefits are conditioned by the due contributions; **Prior Work:** this work continues previous research conducted for the PhD thesis called “Improving Management in the Public and Private Insurance Systems in the Market Economy”; **Approach:** the main methods that have been used in surveys and observation of the population’s behaviour; **Results:** in order to reduce the financial restraints that the public insurance system has to cope with, the concrete implementation of a social insurance system based on the needs and value scales of the Romanian state is necessary; **Implications:** academics and researchers interested in the Romanian social insurance system management and its long run effects on the population; **Value:** the insurance systems determines the quality of life for most of the population and strongly influence the economy, especially the labour market and the capital market. This is why social security is a common challenge for all European countries.

**Keywords:** social protection management; social insurance; finance

Worldwide, the financial difficulties, that the social insurance systems face, are primarily generated by an aging population, and for balancing the budget there are adopted measures to increase the contributions or reduce the prestations or a combination thereof.

Primary income derived directly by market mechanisms can characterize the collective welfare. Market manifests itself a number of limitations that prevent achieving desirable levels of welfare in society. Explanation is given that the economy based on market laws, property characterizing collective welfare, especially the public or social, tend to be produced in a proportion insufficient. Therefore, intervention is necessary corrective mechanisms (redistribution of wealth) and supporting people who are actually covered by social policies.

Transfers are made according to strict criteria established by law and have a double target: vertical when financial resources are transferred from those with high incomes to those with low incomes (such as transfers from social assistance system) and horizontal according needs - from the healthy to the sick (if the public system but health insurance and social assistance), from those working on the unemployed or retired (if public systems of unemployment insurance or pensions) . Some horizontal transfers are interpreted as vertically (if the public pension system where the older generation is financially supported by the currently active generation and will be supported by future active generations - intergenerational transfers).

Thus social policies are carried out around several specific objectives (promotion of public goods, social development) but focus their interests on social protection. Social Protection is all actions taken by society to prevent, mitigate and remove consequences of events as "social risks" who put their mark on the standard of living and quality of life of the population. Disease, ignorance, poverty is the fundamental human risks which may be mutually generate or may become centers generating new ones.

This is why social protection system is a set of social programs that are designed to protect individuals from state interruption or loss of earning capacity. Social security is a special form of protection that society attaches to its members. They provide support to counteract the effects of various economic risks (eg loss of income due to illness, the reduction in work capacity in old age due to unemployment). Therefore, on social security is said sometimes that is a type of social security and sometimes that is a sector of social policy, the more it considers that, in fact, these two terms are interchangeable.

Almost all nations of the world have developed complex social insurance programs. These vary from country to country but, overall, they follow four common sizes:

- relate to "social risks" that may materialize during the life of an individual;
- are established by law;
- provide financial benefits to individuals who lost income due to old age correlated with reduced capacity to work due to disability, illness, maternity, accident or unemployment (when the risk becomes manifest);
- obtaining benefits is subject to contributions.

**Pension systems** are a challenge (Dogan, Pelassy, 1993) for each country because they have primarily aimed at providing income security to those who, due to old age have lost their working ability. It can be subsumed those two secondary objectives of the system: redistribute saving or investment.

Redistribution mechanisms have dominated for a long period of pension systems in developed countries. But over the past decades, there have been strong critics against them, the most important being grouped under the financial constraints faced:

- the benefits sufficient at present can not meet future needs if one takes into account that future events will have the same trend as in the past (current calculation does not meet future needs);
- Ageing population change report employees / retirees so that employees will have to pay for a larger pension;
- the nature of the system has a low rate of return and negative effects to the economy and work motivation.

To mitigate these problems were proposed and implemented several directions of reform: the introduction of specific elements accumulation fund traditional public pension systems and/or partial or full privatization of the pension insurance system. However, no public funding schemes only gradually, pay as you go-PAYG (pay as progressive situation occurs) or the fully funded private systems are the ideal systems (Davis, 1998). Therefore, most countries have created or will create a system that contains elements of both schemes.

Concept (Cangiano, Cottarelli, Cubeddu, 1998) widely used today (proposed by the World Bank) is "pension scheme based on three pillars. The three pillars differ from each other by objective principles relating to contributions and benefits, public or private, optional or compulsory nature, which enables

combination of different elements in the most appropriate ways. Practical design of a pension system depends on the needs and capabilities of society and value systems of a particular state.

The first pillar is normally a public pension, compulsory PAYG system. Its purpose is to guarantee everyone a certain extent, returns to cover needs arising from old age. If there is a general consensus on the need for a system of compulsory public pension insurance, insofar as this pillar should ensure that revenues may vary. If the system is based on testing requirements, only those who need to receive support should receive. In case of a universal base should be equal for everyone. The first pillar must be public because the state has the option to tax, transfer and payments index, which is essential for low income.

Second pillar is mainly focused on providing an incentive for individuals to distribute evenly lifelong consumption. There are various options in the design of the second pillar. This system can be used either in public or in private system, the PAYG system or through a fund, a defined benefit plan or defined contribution. There may be parallel private and public pension systems, where individual choice is considered important. The choice between schemes with defined benefit and defined contribution depends on the extent to which risks should be shared.

The third pillar is a voluntary funded scheme based on defined contribution and ensures that any individual can accumulate additional savings to the mandatory system, the choice and possibilities of each. However, there are certain aspects which the State must consider: tax exemptions and the shape or size they may take. To be successful a reform of national social security system must be grounded in substance. For this to succeed, social policy makers should take into account the system design process, critical dimensions, and public and private sector must be strong enough to meet its appropriate role in this process.

One of the most delicate issues of pension reform is to finance the transition period (Barr, 1994). Normally, the reform is carried out gradually, requiring a longer time to reach maturity, and during this period the State must conduct two parallel systems. There are two basic ways to deal with the situation: reducing consumption or increasing revenue. Consumption could be reduced by increasing the retirement age or reduce the value of pensions. Lowering the value of pensions to current retirees is incorrect, throwing their weight on. Increasing the retirement age would solve a problem to some extent, but since the population is an aging, is unlikely to increase retirement age to facilitate financing during the transition. In increasing revenue, reform can be financed either through taxation or through claims. If you choose financing through taxation, it can be considered invalid for the current generation, which has suffered a difficult task anyway. Debt financing may be considered more politically attractive, since it allows taxes to remain constant and does not place additional weight on the present generation, however, transferring the costs to future generations.

Unemployment insurance is a special form of insurance designed to compensate for the lack of revenue for a limited period of time. Unemployment insurance programs were originally created to provide financial assistance to those who have lost their jobs and are seeking another.

Differences that arise between countries in the unemployment insurance systems are related to different ways of financing benefits they cover. Even if both employers and employees contribute to fund insurance (main source), consisting of both differences in their methods of calculation (percentage they contribute) and the presence or absence of additional source, usually the government is. Also, differences are observed when dealing with the typology of social support mechanisms and measures for the unemployed. Such benefits for the unemployed, which varies according to each country's legislation, fall into two sets of measures: passive and active.

On European social model is proposed for unemployment insurance in the modern social policies are based on the idea of developing a modern market conditions and an economy to function successfully. Therefore, specific labor market policies are priority targets unemployed protection actions to counteract the effects caused by the spread of poverty phenomenon in relation to that country and market development. This model is seen as a universal system of unemployment insurance viable in a world of both globalization and individualization. Beginning premise of this model is that labor markets are characterized becoming more "internal risks (need to change the job or geographical area due to various personal issues or professional reasons) or" manufactured "combined with "external risk" (low cyclical downturn in the economy or natural disasters). Since the "internal risks" are increasing, social policies should be directed towards risk management. Social risk management aims to combine logic with rational choices of insurance during life of individuals (such as career planning) and appropriate risk taking. That unemployment insurance should be redesigned and combined with elements ensure mobility. Together with effective measures taken in the active labor market policies these three pillars will strengthen a coordinated system of employment insurance to support the transitional labor market segment (Răboacă, Bucharest).

Transforming traditional system of unemployment insurance in a system of employment insurance general perspective emphasizes the social management of risk characteristic of the transitional segment of the labor market. If this change is concurrent with reform of the pension and health insurance when consistency, rationality and even security systems could be real, and system performance indicators (aggregate) social security would reach considerable value. The transition from unemployment insurance to employment insurance does not necessarily involve public extension. Such an employment insurance system is formed from a low public component to the basic function (hedge loss due to involuntary unemployment wages).

A second component consists of individual insurance is strictly related to employment relationships that the individual mobility. Contributions, gradually covers a first step, classical unemployment insurance costs (unconditional solidarity) and the second stage, the costs imposed by individual mobility (its value may be required by law or may be negotiated collectively, reaching as negotiated solidarity). The third component includes active labor market policies (publicly funded) programs that include active and selective for the unemployed. Interest in the **health services sector** can be partly explained by the fact that it consumes a considerable amount of resources. Based on demographic facts on the background of technological development, the health insurance system is in a strong dynamics. Health care system forms a special type of market with a number of characteristics that differentiate it from others. Market is the uncertainty surrounding the timing of disease but also knowledge and information disparity between the various stakeholders. Health care market does not have mechanisms for pricing and products / services are heterogeneous. Demand is driven by governments through prevention services segment as healthy individuals reduces future health care needs, use the "tools" for awareness raising (through specific campaigns) but can be induced to offer health care providers conduct their own economic interests pressure .

Both the organization and functioning health care system based on specific funding mechanisms. Although theoretically the funding mechanisms have advantages and disadvantages in practice it is possible to combine elements of several systems for achieving the desired objectives (Vlădescu, 2000). Methods of financing health care do not appear in pure form but are tailored to the specific conditions of each country.

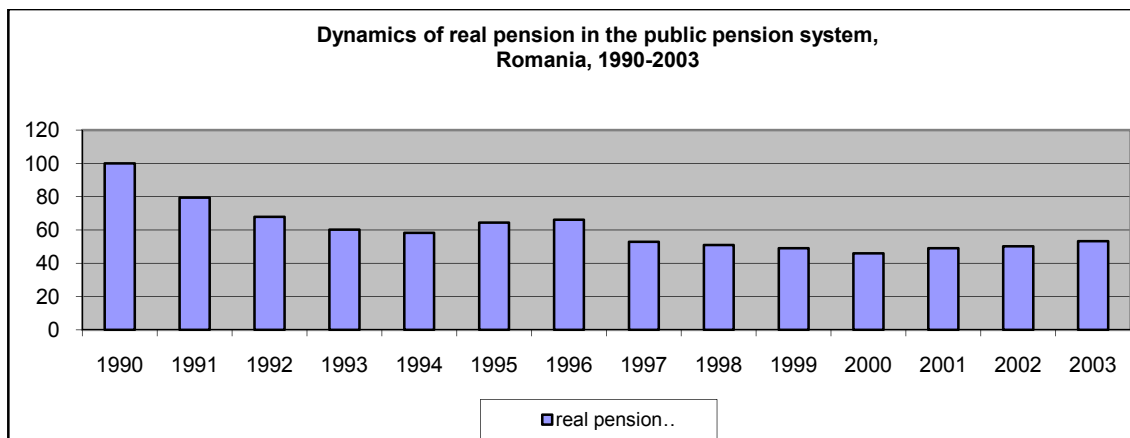
### Community Acquis Concerning Security System in the European Union

Becoming a member of the European Union for Romania was a key objective. To align with EU norms and standards (acquis relevant to this sector is represented mainly by Chapter 13 - Social Policy and Labor Force) should accelerate the reform process in this area. Romania has opened this chapter in the second half of 2001 and closed in the first half of 2002, without requiring transitional periods or derogations. Efforts were made to meet the entry criteria and end all negotiation chapters. Officials responsible for policymaking in this area were more active than ever, trying to meet deadlines for implementation of the reform process. Law occupational pensions (third pillar) has been adopted by Romanian Parliament in July 2004 and then repealed and replaced by voluntary pension law transposing EU directives on the protection of supplementary pension rights. Law on private pension funds was adopted by Romanian Parliament in October 2004, as amended in 2007 (Pillar II). Pillar II participation is mandatory for persons aged 35 years, while the third pillar is voluntary. These two pillars are integrated into the National Pension system is based on publicly managed mandatory pension (first pillar). From the perspective of social security and pension system, Romania has developed a social protection system that can compare to those of Member States. There are obvious differences in the effective functioning of the institutions involved, something that causes the need for training programs for staff involved in implementing the reform.

Key institutions responsible for implementing the acquis in this direction are:

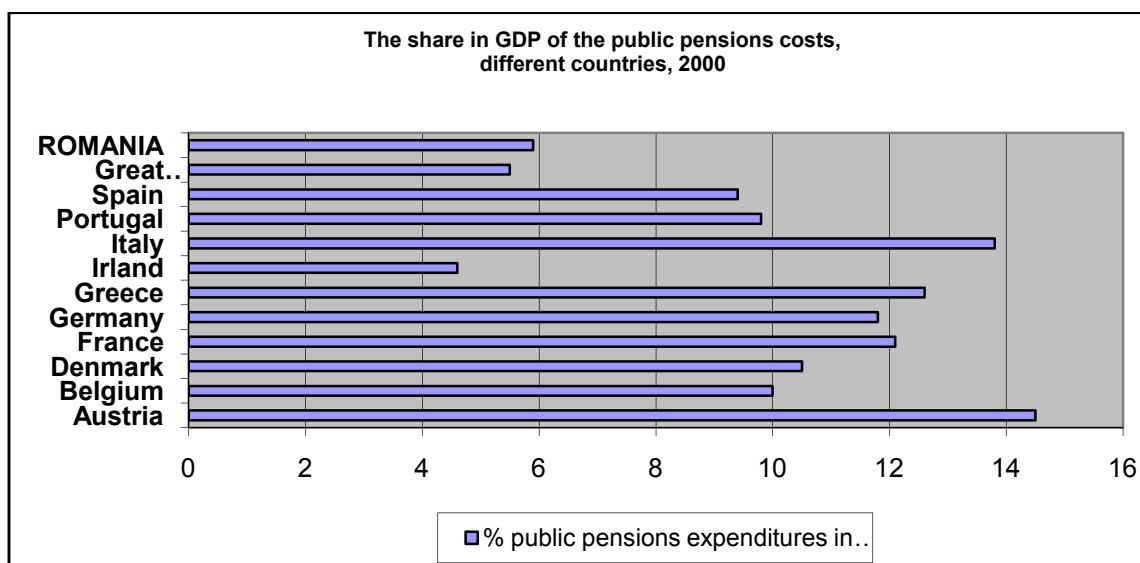
- Ministry of Labour, Family and Social Protection, the institution develop and implement policy and legislation on social security measures;
- National House of Pensions and Other Social Insurance Rights (NHPOSSR) is the institution which operates under the authority of the Ministry of Labour, Family and Social Welfare and which administers and manages public pension system and other social insurance rights.

Although spending on pensions in Romania hold an important share of total social security expenditure in GDP, though the living standard of pensioners has not improved the purchasing power of pensioners is reduced on average by ca. 50%.



Source: CNPAS

Compared with similar international data on the share of pension expenditure in GDP, Romania was only in 2002 close to the worldwide average level recorded in 1996 (6.6%), being much below the European average in that year (12.1%). As well, in 2000, the share in GDP of the pensions expenditures in the Romanian public system was still below the level in other European countries with similar systems.



Starting from the premise that social security provides, in most cases, a minimal level of protection, each nation has decided - in some stage - encouraging private insurance, the individual savings, namely the granting of tax relief, so that ensure greater social protection, concern that has to deal with more and Romanian Government.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
**EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES**

**Covering Risks in the Public Administration – an In-Depth Analysis of the  
Regulatory Changes in Romania**

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**Abstract:** The paper aims at analyzing in a trans-disciplinary manner the institutional and functional changes of the public administration under crisis. The current analysis looks in depth of the financial, economic, and, more importantly, social crisis in relation to the reforms imposed by both the internal and external stakeholders. The decision-makers have not taken into account the risk factors, triggering legislative incoherence and instability due to the challenging and approval as non-constitutional of many such normative acts by the Romanian Constitutional Court. The research **objectives** search to clear up the measures' coherence in the context of a declining public budget and a negative growth period, when the shrunk public funds need to be properly allocated. Therefore, the answer that our research is looking for should pertain to the following concern: can the government's actions be considered solutions to the problems raised by the current context? The answers shall aim at both restoring the legal and economic balance, as defined in the working hypothesis. The lax fiscal policy of the expenditures brings about an involuntary fiscal contraction in the event of an economic downturn (Rosen and Gayer, 2010), as it was the case in Romania. Those lack of prudence shall be addressed in our analysis, with specific reference to the already established literature explanations involving the decision-makers trust in the „good days shall be around forever”, which triggers a belief that the expenditures' expansion can be permanent. Regarding the **paper methodology**, this study is proceeding via bibliographical research, so that the reasoning behind the paper is clearly underlined as this research is actually triggered by the radical changes made by both legislatures and practitioners as a response to crisis. Further, the manuscript makes use of direct observation and legislative analysis and extensive documentary research of national tax policy and statistics relevant for the timeframe 2009-2010. Further, a comprehensive analysis of several interviews made with top officials of the Romanian Central Bank and the Romanian Government is to be taken into account.

**Keywords:** regulations; risks; resource allocation; decisions of Constitutional Court

## **1 Introduction**

The frequent legislative changes as well as the lack of coherence of the normative acts generated by their challenge to the Constitutional Court and the provisions' ruling as unconstitutional creates organizational and functional instability, both on the central public administration level and on the local level.



In our analysis, we take into account the legislative changes made due to both Romania's international agreements and to the observance of the principle of ensuring the balance between the social dynamics and the national legislative framework.

## **2 Situation Analysis**

In functional terms, Romania's economy is a critical entity because its components (blocks) have poorly interacted, have not interacted, or have had contrary trends. The neo-monetary philosophy of the Washington Consensus, a major political option at the beginning of the transition, stressed out the declutching of the symbolic economy from the real one: the measures of macroeconomic pegging, a priority of the political decision, left the real sector to act on its own. The domestic production of goods not only rapidly dropped, but it was affected by the dissolution of some sectors or branches, the disappearance of products and loss of sale markets. From the very first years of the economic transition, the economy has non-functionally layered in the following manner: the legal inertial layer of the underground economy, the layer of the substitute economy (arrears) and the layer of the subsistence economy. The Romanian economy knows all the three forms of inefficiency: allocative, productive and organisational. The feature of the weak structuring of the economy is set by adaptive expectations and is resistant to the long term objectives, relatively high inflation, decapitalisation due to the monetary policies, the feud around the budgets, the lack of predictability of the evolutions as a consequence of the legislative and institutional chaos, the inconsistencies in defining the property right, the political control of public economy etc. The economic crisis, a world phenomenon that is structurally affecting the Romanian economy, enforces the adoption of some exceptional measures that, through the efficiency and promptness of their application, would lead to a reduction of its effects and would create the premises for the national economy re-launch. Also, these measures must ensure the fulfilment of certain obligations resulted from the Memorandum of Agreement concluded between the Romanian Government and the European Commission and the Stand-By Arrangement concluded between Romanian and the International Monetary Fund.

**Growth perspective remains uncertain.** The economic situation has become worse since the last IMF evaluation in January 2010 and the team has reviewed the GDP growth prognosis from +0.8 percent to -0.5 percent. Nevertheless, the high frequency indicators suggest that the recession is moving towards the end and the expectations are aiming at a positive growth for the remained period of time.

**The unsatisfactory performance in the 1<sup>st</sup> quarter of 2010 required the adoption of supplementary adjustment measures.** The fiscal deficit target was not reached for a small margin as well as the ceiling of the internal overdue debts. Without a supplementary adjustment the team estimated an increased deficit of 9.1 percent of GDP until the end of the year, as opposed to the 5.9 percent target. In order to take into account the cyclical deterioration of the economy, the IMF team and the national authorities have agreed to reviewing the deficit target for the Stand-By Arrangement to 6.8 percent of GDP, and the national authorities have chosen a **measures' package** that includes the expenditures' reduction with approximately 2 percent of GDP in order to reach the new deficit target.

**The fiscal reform progress has been resumed.** The Fiscal Responsibility Law has been passed. The Government is working on the amendments to the Local Public Finances Law in order to improve the financial control upon local governments, as well as other reforms aiming at combating tax evasion. The legislation on the reform of the pensions' system has been approved by the Government and submitted to the Parliament for emergency debate and approval. All the same, a supplementary fiscal

consolidation is necessary in the years to come in order to sustainably reverse the imbalances that allowed Romania's vulnerability in the crisis. (IMF, European Department, 2010: 5)

### **3 Legal Documents' Review**

In this regard, there are a number of legal documents on the reorganization of certain authorities and public institutions, rationalisation of public expenditures, supporting the business environment and fulfilling the framework-agreements with the European Commission and the International Monetary Fund, which propose numerous solutions.

In order to clarify the setting that triggered certain measures, we must keep in mind certain general aspects of Romania's Stand-By Arrangement with IMF (IMF, European Department, 2010: 13):

- Access: 11,443 billions SDR.
- Duration: 24 months.

Stages: 4.37 billions SDR were made available after the agreement has been approved by the Executive Committee on 4<sup>th</sup> of May 2009 and the second tranche of money of 1.718 billions SDR has been made available after the completion of the first evaluation in line with the Stand-By Arrangement on 21 September 2009. The third and fourth tranches of money of 2.175 billions SDR were released after the combined evaluations 2 and 3 on 19 February 2010. The fifth tranche of 2.412 billions SDR is conditioned by the outcome of the following quarterly evaluations, starting from the second half of September 2010, second half of December 2010 and second half of March 2011.

- Conditionality

#### *Quantitative performance criteria*

- a. A ceiling for net external assets' variation
- b. A ceiling of the internal overdue debts of the consolidated budget
- c. A ceiling for the cash balance of the consolidated budget
- d. A ceiling of the consolidated budget 's guarantees
- e. Non-accumulation of arrears on the external debt

#### *Quantitative target guideline*

- a. Current primary expenditures of the consolidated budget
- b. The operational balance of the 10 state owned enterprises with the greatest losses

#### *A consultation margin around the consumption prices' inflation for a 12 months period*

#### *Preliminary actions*

- Approving the fiscal measures agreed for 2010 (described below in accordance with the Letter of Intent). *Preliminary actions targeted by the Board in the 4th evaluation.*

#### *Structural reference criteria*

- a. Passing the fiscal responsibility law until *31 March 2010*
- b. Approving the amendments to the legislation on banks and banks' liquidation until *31 March 2010*
- c. Approving the fiscal administration's reforms Aprobarea reformelor administrativei fiscale until *30 April 2010*
- d. Legislative modifications on improving the monitoring and control of the state enterprises until *30 June 2010*

- e. Approving the reforms in the field of local public authorities' finances until *30 June 2010, with proposal to dealy until 30 September 2010*
- f. Approving the reviewed legislation on pensions until *30 June 2010*
- g. Approving the legislation for implementing the law on public sector payment system until *30 September 2010*
- h. Reform measures for the financing regime of the Deposit Guarantee Fund with a proposal until *30 September*
- i. The methodology reform of the fiscal administration on high-income individuals
- j. Integrating the accounting reporting system with the Treasury payment system with a proposal until *31 March 2011*

In accordance with the above presented agreement and with the paper's aim, actions were taken by the Romanian Government and Parliament, which took the form of legal documents, as follows:

In the **fiscal field**<sup>1</sup>, the actions taken were the following (IMF, European Department, 2010: 98-104):

A main objective is to strengthen Romania's commitment with regard to sustainability of public finances through the fiscal deficit limitation and its credible reduction on medium term. In this regard, the 2010 budget was set to reach a deficit of almost 6% of GDP, with approximately 1.5 percentages of GDP lower than in the previous year. Unfortunately, more factors have threatened this objective. Firstly, the downward revision of the estimated GDP means that the initial targets will lead to a budgetary deficit as GDP percentage higher than the initial one. Secondly, the economic recovery under expectations has reduced the revenue collection and has increased the expenditures for the employment aid, especially in the first quarter. Thirdly, there seem to be problems of tax evasion growth, as the revenue collected is very low for more important taxes (especially duties and VAT). The cumulated fiscal revenue is considerably low in comparison to the anticipated one (with 0.8% of GDP at the end of April). The 2010 budget foreseen non-fiscal revenue of 2.4 billions RON coming from the reimbursement of the credit given to Rompetrol (oil company). However, the actual payment is uncertain. The negotiations on the reimbursement chart will be completed until the next evaluation. Finally, though the expenditures of the general consolidated budget have been maintained far below the programmed levels in view of reaching the fiscal targets agreed with the IMF and EU for the 1<sup>st</sup> quarter, the existent pressures on the current expenditure side continue to grow, especially on the pensions' side, social transfers and goods and services. These pressures have determined the overdue debt of the consolidated budget to exceed and have generated a low availability of resources for investments. All these factors threaten the achievement of the budget deficit target in 2010. In a basic scenario, without policy changes, the fiscal deficit would reach 9% of GDP until the end of 2010, with approximately 3 percentages of GDP higher than the estimated one.

Considering the uncertainties on the international markets and the need to prove Romania's firm commitment for a sustainable budgetary policy, the government shall undertake further difficult measures, but necessary to reduce the fiscal deficit to 6.8% of GDP (corresponding to 6.5% of GDP before its revision). On the expenditures side, the Government, through the Letter of Intent, signed on the following no later than June 1<sup>st</sup> : (i) a 25% reduction of salaries, benefits and other quasi-salary payments for all the public sector employees (1% of this year's GDP); (ii) a 15% reduction of pensions and social transfers (1% of GDP) - below the consequences of this commitment are commented in the Triggered Risks chapter; (iii) the reduction of the transfers to the local authorities (0.3% of GDP) and (iv) the further reduction of the heating subsidies (0.03% of GDP). Further savings

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<sup>1</sup> Provisions expressed in the Letter of Intent to the IMF, 16 June 2010

shall be made through the temporary freezing of early retirements, strict controls on newly granted invalidity pensions and through the improvement of a new system that regulated the “incentives” payment (non-salary payments granted to certain ministries). The number of the budgetary sector employees has already been reduced with approximately 20,000 persons in 2010 and it shall be further reduced in the months to come. The structural changes from the health system, pensions, education and local public finances will also generate savings. In order to increase the budgetary revenue, the following measures are to be taken: (i) enlargement of the tax base for the revenue tax and the social contribution base (as it is stated in the Technical Memorandum of Understanding); (ii) the introduction of a clawback (tax on turnover) for the medicine distributors. Applying these measures on expenditures and the measures for the tax base enlargement will be a preliminary action for the evaluation’s completion. Also, in the following months further actions shall be taken for the reduction of the number of public sector employees. Should these actions prove to be insufficient for reaching this year’s deficit target, further measures shall be taken, including measures on tax increase depending on the needs.

In order to protect the more vulnerable members of the society, the minimum salary and pension will remain the same, and no salary or pension shall be reduced under this level (please see the Triggered Risks chapter for the comments on this decision). At the same time, the social assistance programs shall be reformed in view of improving their efficiency and for them to better target the poor and destitute. In this context, the Guaranteed Minimum Income scheme, which is one of the best targeted programs, shall be excepted from the 15% cut-off, while other less efficient programs shall be reduced with more in order to accomplish a complete expenditures reduction. More specifically, the single-parent allocation and the complementary children allocation shall be reduced or better directed, as it was agreed with the World Bank. At the same time, other flaws in the Guaranteed Minimum Income program shall be corrected, as well as in other social programs in order to increase their impact on poverty reduction.

## **Fiscal Reforms**

### **Law on fiscal-budgetary responsibility<sup>1</sup>: a major reform of the budgetary process**

The current budgetary process in Romania limits the Government’s capacity to carry on a prudent fiscal policy. The budgetary process is mainly built on unrestricted expenditures and it is annual. The fiscal result control is not strong enough, with a unsatisfying prognosis on revenues and expenditures, the absence of a mandatory and credible expenditures’ ceilings and a large number of budgetary revisions during one year. The Government uses a national framework for medium-term expenditures because the budgetary process starts from zero each year, without giving the necessary importance to the forecasts for the previous year’s expenditures in order to set the ceilings and make the proposals. Also, often during the year additional budgets are approved (five times in 2008), through which resources are usually transferred from capital expenditure to current expenditure, leading to even greater deficits.

The Fiscal Responsibility Law was approved by the Parliament at the end of March 2010 and is meant to strengthen the fiscal discipline, provided that there is a political commitment in this regard. The law will contribute to the improvement of medium term planning, of budget design and execution, budgetary process transparency and accountability, through the following key elements:

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<sup>1</sup> Law no. 69/2010 of 16 April 2010, published in the Official Gazette no. 252 of 20 April 2010

- **Fiscal rules implementation.** The fiscal rules as well as the expenditure ceilings and the fiscal balance margin will help the government in the expenditures' budget design process. Therefore, the government must agree to the expenditures' prioritization process, especially if an upward revision is desired. Also, during the economic cycle, the fiscal balance must be positive or zero, thus forcing the government to a prudential fiscal policy during good times that can compensate the deficit during the recession periods.
- **Request for supplementary budgets.** With two supplementary budgets per year, the budget planning and execution should be improved. The first budgetary revision can be forwarded no later than July of each year, without having to increase the total budget.
- **Improving the reporting requests and increasing the responsibility.** The reporting requests will allow the Government to analyse the implementation of the fiscal policy with a proper policy adjustment, as well as the transparency and responsibility. In the current form, the data are collected and presented, but the analysis is missing. The semi-annual and annual reports on the economic and budgetary perspective should provide a platform for the evolutions' analysis and changes' proposal, should they be necessary. The establishment of an independent Fiscal Council should contribute to the responsibility growth.

There is a firm commitment to implement the Fiscal Responsibility Law approved by the Parliament at the end of March 2010. The Fiscal Council is in the process of establishment. Also, the Fiscal Strategy for 2011-2013 has been drafted and it is being presented to the Parliament. This strategy shall comprise the objective of reaching a fiscal deficit target of no more than 4.4% of GDP in 2011 and shall eliminate the 13<sup>th</sup> salary paid to the public sector employees. The salary fund shall be limited to 39 billions RON in 2011 and a limit of 1.290.000 public sector employees shall be set for the beginning of 2011. In order to encourage the budgetary discipline, the priority based hierarchy of the projects and the efficiency increase the Ministry of Public Finances shall set guiding expenditures' limits for the main credits' ordinator for the Fiscal Strategy process design. A connection between the Fiscal Strategy and the annual budgetary process shall be established and a Analysis Team shall be gathered in order to support the Chamber, which will analyse the budget proposals coming from the ordinating ministries, and push these ministries for the improvement of their proposals and the productivity growth, improving the quality of the provided services and of the regulations in accordance with the requests of the Fiscal Responsibility Law, and drafting a report on reducing the efficiency generating expenditures that shall be embodied in the 2011 budget.

In order to improve the fiscal discipline of the local authorities and to maintain the macro-fiscal stability the local public finance law must be amended. The amendments shall include: (i) changes of the juridical definition of the balanced budget, from a definition based on *budgeted* revenues and expenditures to one based on *accomplished* revenues and engaged expenditures; (ii) designing a single law for all the regulations on contracted loans on a local level and introducing further prudential limits like the debt stock margin and the condition of having a surplus in the years before contracting the loan; (iii) approving the multi-annual limits for the loan and for the investments' transfers from the state budget, in view of improving the multiannual capital budgeting; (iv) introducing relevant sanctions from the Fiscal Responsibility Law (structural performance criterion for the end of September 2010). In order to be in line with the Unitary Salary Law we shall establish limits for the salary fund in accordance with the personnel standards on the local authorities level.

More fiscal administration efforts are necessary in order to combat the issue of the collected revenue decrease during the recession period. In the first stage, the efforts shall be focused on fraud and non-

observance of the law on VAT, through a better growing fiscal overdue debts' management and through increasing the great taxpayers' control; the regulation framework necessary to support these efforts was approved by the Government in April 2010. In the second stage, a focus shall be put on taxpayers – individuals with large revenues and methodologies of direct control shall be developed that will complete the existent control techniques in view of identifying the undeclared revenues. Primarily, the Fiscal Code and the Fiscal Procedure Code shall be amended as follows: (i) giving the National Agency for Finances Administration the right to access the bank evidences and tertiary parts' evidences, after proper notification and subsequent process following, so to allow the proper revenue setting; (ii) revising the definition of the revenue in order to allow the imposition of revenues from any other source non-exempted by law; (iii) strengthening the obligation to declare the income; (iv) strengthening the control right in view of identifying the undeclared income (structural performance criterion for the end of November 2010). A special service shall be established that will have to coordinate the fiscal aspects of the high income individuals and to develop the initiatives and identification projects, quantification or improvement of conformity for the high income individuals.

In order to fight the tax evasion and the smuggling and to improve the tax collection, certain measure had to be taken:

- With regard to VAT (i) common minimum standards for the registration and removal of taxpayers who are carrying out intra-community operations, especially goods' purchasing, and (ii) a registry of the intra-community operators is to be established;
- Collateral guarantees for the intra-community procurements of high fiscal fraud risk products;
- The regime of operators' authorisation who are carrying out activities involving goods under a suspensive duties' regime shall be revised by introducing stricter conditions including the establishment of a mandatory collateral guarantee for these goods' production, processing and storing;
- The transfer of the social parts/actions in the companies shall be revised, as well as of the regulations that govern the administrators' accountability, and that of the stake-holders and third party individuals in view of combating the risk of fraud;
- The legal framework governing the trade of duty-free goods, also by setting a quantity margin for certain goods subjected to duties, by strengthening the surveillance of duty-free shops through the introduction of the obligativity to label the goods subjected to duties traded in the duty-free shops, by strengthening the authorisation terms for the duty-free shops and those for keeping the authorisation already granted, by revising the facts that trigger the authorisation revoking and the increase of the operating charges.
- The improvement of the legislation concerning the use of electronic registers houses;
- The improvement of legislation concerning the organization and conduct of gambling, and
- The strengthening of the legal provisions to secure greater legal protection for public sector employees in performing their duties in good faith.

Progress has been made in the field of monitoring and controlling the state- owned companies that generate the biggest losses. Nevertheless, there is still a need for further action in terms of their budgetary costs and their overdue debts. Therefore, the Government shall aggressively activate its privatisation program, especially in the following fields: industry, energy, transport, tourism and agriculture.

- The unitary payment law was approved and it is enforced<sup>1</sup>; its results can already be seen in terms of the reduction of the pressures to increase the salary expenditures through the bonuses' elimination and ceiling- setting. The legislation for the implementation of this law, namely the implementation of the new unified salary scale for the entire public sector. The International Financials institution shall be informed in advance, before the law reached the Parliament at the end of September 2010 (structural reference criterion).
- The law on pension's reform will generate significant savings in the years to come, helping to bring the pension system to a more sustainable financial statement. However, in the recent months the pension costs have increased due to a surge in the number of people who have early retired and due to the disability pension applications. Recipients of disability pensions is about 4 ½ percent of the workforce, and this number has increased rapidly in recent years. It is anticipated that the increase in demand for retirement pension will increase the budget deficit this year with over ½ percent of GDP, reaching over 2 ¼ percent of GDP. In order to restore a better control of the system's financial situation on short-term, legislation must be approved allowing the granting of new disability pension if they have previously been approved by medical evaluation teams from the Ministry of Labour. On immediate term, the early retirements are also to be banned until the entry into force of the new law on pension reform in 2011.

#### 4 Triggered Risks

In June 2010, the provisions of the Law on measures needed to restore budget balance were attacked in the Constitutional Court by a number of 30 senators and 60 deputies, thus Decision nr.874 of 25 June 2010 was adopted on the complaint of unconstitutionality provisions of the Law on measures needed to restore budgetary balance but also by the High Court of Cassation and Justice - United Divisions requesting the Constitutional Court to rule on the constitutionality of provisions of the Law on measures needed to restore budget balance being adopted Decision Nr.872 of 25 June 2010 relating to the objection of unconstitutionality of provisions of the Law on measures needed to restore budgetary balance.

The object of the constitutionality control is described in the provisions of the Law that, in essence, provides:

I. Decrease by 25% of the following budget expenditure:

1. gross amount of salaries/ allowances / monthly employment benefits - but not below the minimum threshold of 600 RON - as well as other salary type rights in the public sector;
2. amount of duty / care costs, medications and dentures;
3. lump sum payment of entitlements for people employed in the offices of parliamentary deputies and senators;
4. measures in item 1, 3 also apply to the personnel of the National Bank of Romania, the National Securities Supervisory Commission of Private Pension and Insurance Supervisory Commission;
5. amount of state support for clerical staff salaries and neclerical;

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<sup>1</sup> Framework Law no. 330/2009 on the unitary payment of personnel paid from public funds was published in the Official Gazette, Part I, no. 762 of 9 November 2009.

6. monthly allowances provided for in Article 12 par.(1) of the Law no.45/2009 on organization and operation of the Academy of Agricultural and Forestry Sciences "Gheorghe Ionescu-Șișești and the research and development system in agriculture, forestry and food industry ;
7. amount of allowances granted to members of the Romanian Academy, members of the Academy of Scientists from Romania, members of the Academy of Medical Sciences of Romania and members of the Academy of Technical Sciences of Romania.

II. The 15 percentage decrease of the following budgetary expenditures:

1. unemployment aid, social benefits from the state aiming at encouraging the unemployed to find a job;
2. pensions, as well as the benefits for companion-persons for the 1<sup>st</sup> degree invalid retirees (article 9 of the Law). That text has the following content:

*"(1) From the entering into force of the present law, the gross percentage of the earned pensions or those in the process of being payed, as well as the benefit for the companion-persons for the 1<sup>st</sup> degree disabled retirees is decreased by 15%.*

*(2) For the establishment of the gross percentage of pensions, as well as the benefit for the companions of the 1<sup>st</sup> degree disabled retirees, which will be established or granted starting with the date when the present law enters into force, the value of the pension point used is 622.9 RON."*

3. the state's obligations resulted for the collective labour contracts as a result of the lay-offs through collective lay-offs;
4. the allowance for child care, yet not below the 600 RON threshold;
5. the percentage of the allowance granted to the descendents of the members of the Romanian Academy, members of the Scientists Academy of Romania;
6. monthly aid granted to the surviving
7. merit allowance provided by Law no. 118/2002 on the establishment of merit allowance;
8. the allowances provided by the Law on the gratitude towards the martyr heroes and fighters who contributed to the victory of the Romanian revolution in December 1989 no. 341/2004.

III. According to art. 17 par. (1) of the law, the measures for expenditures' decrease are to be applied until 31 December 2010. Also, par.(2) of the same legal text states that *"(2) starting with 1 January 2011 social and personnel policies are to be applied so that to ensure their integration at the level of budgetary expenditures resulted after the application of the reduction measures adopted during 2010, under Framework-law no. 330/2009, as well as respecting the provisions of the state budget law and of the state;s social insurances for 2011"*.

The constitutional provisions allegedly in breach are those of article 1 par. (5) on the Constitution supremacy and the obligativity to respect the laws, those of article 11 on the international right and domestic law, article 16 par (1) on the equality, art. 20 on the international treaties on human rights, art. 53 on restricting the exercise of a right or freedom and of art. 56 par. (2) on the fair establishment of taxes. At the same time, international acts are considered to be in breach<sup>1</sup>.

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<sup>1</sup> - The Human Rights Declaration, namely art. 17 on the right o property, art.23 p.3 on the right to a fair remuneration and social protection and art.25 p.1 on the right to a decent living standard;



In support of the unconstitutionality objection the following arguments have been brought:

The law on certain necessary measures for the reestablishment of the budgetary balance are, in fact, as a regulatory objective a series of constraints of the exercise of certain fundamental rights, as it follows: a restriction of the right to work, due to the restriction of the right to salary – through the 25 percentage decrease; a restriction of the right to pension, due to the 15 percent decrease of pensions; a restriction of the right to unemployment aid due to the 15 percent decrease of the unemployment allowance, as well as a restriction of the right to social assistance measures due to the denial of aids or allowances on retirement and due to the 15 percent decrease of the allowances granted through the Government Emergency Ordinance no. 148/2005 on family support for child care. Through Law no. 329/2009 on the reorganisation of certain authorities and public institutions, rationalisation of public expenditures, supporting the business environment and fulfilling the framework-agreements with the European Commission and the International Monetary Fund, published in the Official Gazette of Romania, Part I no. 761 of 9 November 2009, by invoking the same crisis situation, the Government has appealed to the provisions of art.53 of the Fundamental Law in order to restrict the exercise of the right to work. Also, by ignoring the Decision of the Constitutional Court no.1.414 of 4 November 2009, published in the Official Gazette of Romania, Part I, no. 796 of 23 November 2009, the same reason is being invoked – the economic crisis – aiming at restricting for the second time in the past 6 months the exercise of certain rights granted by the Constitution. Or, the systematic restriction of certain rights' exercise, which tends to be a pattern in the behaviour of the public authorities adopting this measure, is outside the constitutional framework designed by the provisions of art.53 of the Fundamental Law.

The temporary character that the restriction of certain fundamental rights' exercise must embrace is not clear from the provisions of art.17 of the Law on certain measures necessary for the reestablishment of the budgetary balance. Thus, while art.17 par. (1) stipulates the restriction of the right to labour, pension, unemployment allowance and other measures of social assistance applicable until 31 December 2010, par.(2) of the same article stipulates that “from 1 January 2011 there shall be applied social and personnel measures that ensure the observance of the budgetary expenditures' level resulted from the application of their reduction measures adopted during 2010, under the Framework Law no.330/2009, as well as the observance of the provisions of the state budget and the state social insurance budget for 2011”. Therefore, the provision of art.17 par.(2) not only breach the temporary character of the measure, but allow the restriction of the exercise of all these rights to continue also after 1 January 2011, turning from a temporary restriction to a permanent restriction that loses its constitutional legitimacy. In this context, the ambiguous wording of the provisions of art.17 par.(2) are in breach of the demand for law predictability and accessibility and do not allow the recipients of these provisions to know the way in which they shall benefit of human rights like the right to work, the right

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- art.2 of the International pact on civil and political rights – on the recognition by the signatory states of all rights guaranteed by the Pact for the persons situated on their territory;  
- art.6 for the Treaty of the European Union on the recognition of rights, freedoms and principles resulted from the Charter of Fundamental Rights of the European Union;  
- Charter of fundamental rights of the European Union, namely art. 1 on human dignity, art.17 par.(1) on the right to property, art.25 on the elderly people rights, art.34 par.(1) on the social security and social assistance and art.52 par.(1) on the length and interpretation of rights and principles;  
- art.15 on derogation in case of an emergency and art.18 on the limitation of the use of rights' restriction from the Convention on Human Rights and Fundamental Freedoms, as well as art.1 par.(1) of the additional Protocol to the Convention on Human Rights and Fundamental Freedoms on the protection of property;  
- The Social European Charter, namely art.1 p.2 and 4 on the right to work, art.4 on the right to a fair payment, art.20 on equal opportunities for workers, art.23 on the elderly right to special protection, art.24 on the workers' protection in case of dismissal and art.F from the Vth part on the derogations in case of war or public danger.

to pension, the right to unemployment aid and the right to measures of social assistance after 1 January 2011.

Also, it has been underlined the fact that the provisions of art.1 par.(5) of the Constitution are violated because the measure of reducing the state salaries is equivalent to establishing a new tax that exceeds the area of the taxes expressly regulated by the Fiscal Code. It is being shown that the regulated taxes stipulated by art.2 of the Fiscal Code is limitative, any other tax or charge owed to the state budget or to the social insurance budget could not be established by law. At the same time, it is being argued that this genuine new tax imposed by the challenged law is in breach of art.56 par. (2) of the Constitution, because it is being paid by only a part of Romania's citizens. Therefore, the state employee will pay as tax to the state budget 41 percent of its monthly income, while the other employees only pay a 16 percent share of their salary under this title, and, as a consequence, the constitutional provision of art.16 and 44 are also breached. We consider that the issuance of the challenged normative act did not take into account at all the maintenance of the standards of living of the social layers affected by the austerity measures, so that its recipients are situated under the lower limit of subsistence.

The allocation of insufficient funds for the payment of salary rights and social security benefits and their lack of correlation with the inflation growth is not likely to protect the purchasing power of those who live only on these sources and nor to improve their lives. However, a social marginalization of the population segment covered by the complained law is being reached. The decrease of the amount of rights that make up the concept of decent standard of living directly determine the breach of art.47 of the Constitution. The increase of home maintenance costs as well as of the pay rates on loans contracted represent grounds to support the formulated objection. Also, the salary-setting objective criteria are canceled, meaning that, at the lower level of salaries practically the salary will flatten to the amount of 600 RON.

By examining the claim of unconstitutionality, the Court held that in what regards the unconstitutionality criticism aimed at the unconstitutionality of reducing the salary percentage of the state employees, it is unfounded. Thus, the Court held that the 25 percentage reduction of salary/allowance/benefit, as a corollary of the right to work, is provided by the criticised law and it is imposed for reducing the budget expenditures. Thus, 25% reduction of salaries does not constitute a state budget income, but a reduction of the costs the state must bear. In other words, the state does not pay its financial obligations at their face value to protect the budget, but without establishing a new source of revenue to the budget in the form of tax. Moreover, it appears that, by default, as an effect of reducing expenditures, the state budget revenues also drop, for example, income tax collected by the state suffers. As such, the Court can not retain the breach of article 1 paragraph (5) and art.56 par. (2) of the Constitution.

The Court found that in the explanatory memorandum of the criticized law it is argued that, in accordance to the European Commission assessment, "Romania's economic activity remains weak and, contrary to initial expectations, most likely, the economic growth remained negative in the first quarter of 2010. [ ...] By the end of 2010, the inflation is being expected to fall further to around 3.75% due to the weak domestic demand and the implementation of prudent monetary policies. The weaker recovery of domestic demand reduced the imports, and is now being forecasted a current account deficit of about 5% of GDP for 2010 compared with 5.5% initially".

It is also shown that "the assessment mission carried out by the Commission services with the IMF and World Bank's experts during April 26 to May 10, 2010, to review the registered progress regarding the specific conditions attached to the third tranche of EUR 1.15 billion in the financial assistance

program, resulted in the fact that, under current policies, the fiscal deficit target for 2010 of 6.4% of GDP, will not be fulfilled due to deterioration of economic conditions, difficulties in collecting revenue and slippages on the expenditure side. The Romanian Government is committed to take additional compensatory measures that must be adopted and implemented before the release by the Commission of the EU's third installment of the loan. [...] It also states that if these actions are not implemented until June 2010 or do not lead to early consolidation additional measures will be implemented to increase budget revenues, including measures to increase rates tax, to eliminate any anticipated budget gap".

As a consequence, the Court found that this threat to economic stability continues to be maintained so that the Government has the right to take appropriate measures to combat it. One of these measures is to reduce spending, a measure related, *inter alia*, to reducing the amount of salaries/benefits/allowances by 25%. Regarding the proportionality issue that caused the restriction, the Court found that there is a proportionality between the means used (25% reduction in the amount of salary/benefit/allowance) and the legitimate aim (reducing expenditures/rebalance the state budget) and that there is a fair balance between the requirements of general interest of society and protection of fundamental rights of the individual. The Court found, however, that the challenged legislative measure is applied without discrimination, meaning that 25% reduction applies to all categories of state employees in the same percentage and in the same way. Referring to the unconstitutionality criticism of reducing the percentage of pensions, the Court found that it is based on the following grounds: Pension is a form of social security benefit monthly paid [art.7 para. (2) and article 90 par.(1) of Law no. 19/2000, published in the Official Gazette, Part I, no.140 from April 1, 2000] by law, inherent and intrinsically linked to the retiree, obtained under a retirement decision, respecting all legal requirements imposed by the legislature. According to the article 1 of Law no. 19/2000, the right to social security is guaranteed by the state and is exercised, under law, through the public pension system and other social insurance rights. It is organized and operates, among others, on the contributivity principle according to which social security funds is based on contributions from individuals and legal persons participating in the public system, the social security benefits being on accordance with the social security contributions paid [Article 2 letter e) of Law no.19/2000]. This means that the pension, as benefit of the public pension system, is under the contributivity principle.

Article 9 par. (1) first sentence of the challenged law regulates the decrease with 15% of the gross amount of pensions in due payment or pending; also, article 9 par. (2) first sentence of that law provides that the value of the pension point used to determine the gross amount of pensions to be determined or granted since the entry into force of the law is 622.9 lei. Therefore, obviously the aforementioned provisions concern the contributory pensions in payment or pending and those to be determined or granted.

The Court found that pension is a right preestablished during the individual's active period of life, as he is required by law to contribute to social security budget as a percentage relative to the level of income. Correspondingly, the state's obligation to be incurred during the individual's passive life to pay a pension whose amount is governed by the contributivity principle, as the two obligations are intrinsically and inextricably linked. The pension's aim is to compensate during the passive life period of the insured individual the contributions paid by that person to the state social insurance budget under the contributivity principle and to ensure the livelihood of those who acquired this right by law (contributory period, retirement age, etc.). The state has a positive obligation to take all measures necessary to achieve that objective and to refrain from any conduct likely to limit the right to social security.

Although the amounts paid as social security contributions do not represent a deposit and therefore can not give rise to any right to claim against the state or the social insurance funds (the Constitutional Court Decision nr.861 of 28 November 2006, published in the Official Gazette, Part I, No. 45 of January 22, 2007), they entitle the person who received income and which has paid its contribution to social security budget to receive a pension that reflects the income earned during active life. The amount of pension established according to the contributivity principle shall be an earned right so that its reduction cannot be accepted even temporarily. Through the amounts paid as contributions to social insurance budget, the person basically has earned the right to receive a pension in the amount resulting from application of the contributivity principle: so, the contributivity, as a principle is of essence like the right to pension, and the exceptions, even temporary, on the state's obligation to pay the amount of pension resulting from the application of this principle affect the substance of the right to pension. The Court also found some shortcomings in the wording of the text of article 9 of the law. According to article 9 par.(1) of the challenged law, a reduction of 15% of the due pensions or those in payment, which, in conjunction with article 17 par.(1) of the law, leads to the conclusion that such a reduction is temporary - until December 31, 2010. But on pensions to be determined or granted, even the pension point value was weakened, so corroborating the legal text of the article 17 par.(1) of the Law no longer appears as clear, meaning that for those benefits the legislature should then adopt, after 1 January 2011, a law to bring them to the level of pensions that were paid at the time of entry into force of the challenged law. Otherwise, it would create an impermissible treatment difference between pensions in payment and those to be determined or granted. Furthermore, proportionately, pension point value in article 9 par.(1) of the law would be less than that covered by article 9 par.(2) of the law, which is also unacceptable.

The Court also found that state social insurance budget problems can not be opposed to the right to pension in the negative sense, even temporarily, the amount of pension, the constitutional right to pension cannot be affected by that budget mismanagement by the state. The Court also found some considerations of principle related to the right to pension in the jurisprudence of other constitutional courts<sup>1</sup>. Therefore, given the high degree of protection afforded by the Constitution to this right, for the reasons shown above, reducing the amount of contributory pension, regardless of the percentage, regardless of the period, cannot be achieved. Hence, art.53 of the Constitution may be invoked as grounds for restricting the exercise of the right to pension.

In practice, the implementation of the Law on measures needed to restore the budget balance has determined the public sector employees to receive a salary under the minimum amount of RON 600 stipulated by law. Also, in practice, the Central Bank's employees will remain with their full salary because the Government had to amend the law through which their salaries were reduced in order to avoid sanctions from the European Commission (risk overlooked).

The Executive agreed that the law be amended in September, at the beginning of the parliamentary session. Experts from the Ministry of Finance are taking into account two types of changes in the law. A safe manner through which EC sanctions can be avoided is considered, namely the rapid elimination by emergency ordinance of the article which states that wage reduction also applies to the central bank employees. Alternatively, the law must be completed with an article stipulating that the savings from

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<sup>1</sup> Thus, the Constitutional Court of Hungary, through the Decision no.455/B/1995 established that pension calculated according to the rules of social security system may be affected, and through Decision no.277/B/1997 held that the unilateral amendment of the amount pensions is unconstitutional, referring to the inability of the legislature to reduce high pensions to increase low pensions. However, the decision no.39/1999 (XI 1.21), the same constitutional court ruled that pension (contributory) is a right earned and purchased a large extent so that changes its nominal amount is unconstitutional. Moreover, similar considerations are found in Latvia Constitutional Court Decision-no.2009 43-01 of December 21, 2009.

reducing wages in the National Bank will not be directed to the state budget, together with a joint letter to the EC by the Minister of Finance and Central Bank governor to show that the decrease was made with the central bank's agreement. According to the supplementary letter of intent to the stand-by arrangement signed by Romania with the International Monetary Fund, the Government is committed to revise the measure to reduce salaries with 25 percent for the National Bank of Romania, the Insurance Supervisory Commission, the National Securities Commission Supervisory Commission and the Private Pension System. European Central Bank also showed in early July that reducing NBR salaries is a direct financing of the budget deficit by the central bank, a situation which contravenes Article 130 of the Treaty on European Union<sup>1</sup>, and recommended amending the law.

## 5 Methodological Aspects

This study proceeded via bibliographical research, so that the reasoning behind the paper was clearly underlined as this research is actually triggered by the radical changes made by both legislatures and practitioners as a response to crisis. Further, the manuscript makes use of direct observation and legislative analysis with regard to the public decision-makers' knee-jerk response to crisis. A qualitative study was used for an in-depth exploration of the announced hypothesis. Following the context analysis, a review study was conducted as it pertains to the targeted legal documents. Based on the outcomes from the review study as well as the evidence from the risk management literature, proposals are made with regard to actions' impact. The proposals are in line with the ISO standards previously underlined. In order to reach our research objectives, we adopted a CAR (Challenge-Action-Result) approach for the six challenges emphasised in the beginning of our manuscript:

- Increasing the probability to reach the objectives;
- Creating awareness of the need to identify and manage the risk on the level of the central and local public administration;
- Improving the threats and opportunities recognition;
- Observing the regulatory legal requirements;
- Improving the financial reporting procedures;
- Efficiently allocating and making use of the resources in order to eliminate the risk factors.

The methodology chosen and the selected legal documents enabled some form of understanding as to how decision makers perceive the concept of risk management. However, it should be taken into consideration that the size of the legal documents' sample was small enough to potentially condition any generalisation of the results obtained. Hence, it would be highly relevant to replicate not only this study on other measures and connected legal documents but also to carry out this study within a cross-state framework so as to be able to make a comparison between different national measures that were actually triggered by the same challenges.

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<sup>1</sup> Article 130 of EU Treaty states that in exercising powers and performing their tasks and duties conferred by the Treaties and the Statute of the ESCB, European Central Bank, national central banks or members of their decision may not require or instructions from the institutions, bodies, offices or agencies of the Union, the governments of Member States or any other body.

## **6 Results' Analysis**

### **a. Preliminary Analysis**

From all the principles for managing risks enumerated by ISO 31000 our papers mainly evolves around the following:

Risk management helps decision makers make informed choices. Risk management can help prioritize actions and distinguish among alternative courses of action. Ultimately, risk management can help with decisions on whether a risk is unacceptable and whether risk treatment will be adequate and effective. (Draft ISO 31000, 2008)

ISO 31000 describes voluntary risk management guidelines, as it does not represent a prescriptive compliance requirement, or a legal requirement. This specific standard is not intended for certification. Nevertheless, the public entities often assume activities with a high risk degree that private firms would never take into consideration - from public gatherings to police departments, solutions to disasters and water supplies - without receiving a decent return to offset the risk. In the public sector, for projects that should be go through a formal evaluation, most approaches to risk management continue to be intuitive rather than strictly apply the risk management standards. However, the good thing is that agencies assess the need to adopt a positive approach to effective risk management. While issues such as systematic approach to risk identification, risk assessment, risk prioritization and treatment are approachable, the major problem lies in how different risks are treated, risks faced by the organizations in order to give security (internal and external) to the operation and the results obtained. The real problem is the implementation stage. Our research developed around the public decisions, belonging to different public authorities, namely Government, Parliament or Constitutional Court. No matter the decision-maker, risk management is always an element vital for the decisions' outcome.

There are five key aspects of risk management that has been identified by Bourn (2004) and that our paper is making use of. These key aspects are considered to contribute to more qualitative and efficient public services:

- Risks must be given sufficient time, resources and commitment from management.
- Responsibility and accountability must be clear and exposed to scrutiny.
- Assessments of risk must be based on solid information and the current time.
- Risk management should be applied through distribution networks of government departments.
- Departments should develop understanding of common risks and work their treatment.

### **b. Testing the Hypothesis**

In accordance with the above described reasoning, our paper sought to analyse the risks involved in the decision-making process of the Government, as it pertains to its decisions related to the economic crisis. If the Government were to do it by the book, it should have looked into what is referred to as Consequence analysis. This analysis estimates the impacts upon objectives, assuming that particular events situations or circumstances have occurred. An event may have a range of impacts of different severity and affect a range of different objectives and different stakeholders.

Consequence analysis should:

- take into consideration existing controls to treat the consequences together with all relevant contributory factors that have an effect on the consequences;
- relate the consequences of the risk to the original objectives;

- consider both immediate consequences and those that may arise after a certain time has elapsed, if this is consistent with the scope of the assessment;
- consider secondary consequences, such as those impacting upon associated systems, activities, equipment or organisations. (Final draft IEC/FDIS 31010, 2009)

With regard to how risk assessment will actually affect the internal organisation and management of administrative bodies, our research underlined a number of proposals for restructuring, reorganisation, merging or even dissolution of certain Ministries or public authorities under the Government, not to mention measures affecting the personnel. All these should have occurred after a careful analysis taking into consideration the risk's consequences and the objectives set.

In the most delicate case tackled in the paper, the one of the unprecedented Government decision with regard to the 15 percent pension reduction, the analysis should have been focused on the two aspects:

- Consequences of the risk which refer to both the direct impact of the decision upon the targeted population segment, as well as to its vulnerability in the decisional hierarchy;
- The original objectives which has been set to be pulling out of the state of crisis.

A sharp analysis emphasises what has been also stated throughout the entire paper. There was no search for connection in what regards the two aspects. In particular, for the decision on pension's reduction, no other state who proceeded to income reduction has not argued that the reason lays in the safety and national security concerns. With this type of reasoning, the Government only proves contempt for the law and rule of law, which is reduced to just an executive power. Moreover, the Government did not respect the principle of non-discrimination, as the measure was taken for only a part of the population. At the same time, for the magistrates particular case on pensions, the Government seeks to undermine the judiciary power who in fact is the one protected the safety and national security and not to eliminate the effects of the crisis, as this measure is clearly non-legal due to its permanent and not temporary character, as the state of crisis would require.

What has been aimed through this paper's argument is the fact that the authorities should not rush into criticizing risk management tools but make more and more use of them because with only a brief analysis like the one chosen in our paper the decision's confidence will definitely increase and the hesitation, which led for most of the presented decision to multiple changes or annullments, will disappear.

## **7 Concluding Remarks**

As stated at the beginning of our manuscript, this is a work in progress mainly due to the fact that the selected field of research is constantly changing. The unstable economic environment and the fuzzy decisions taken to try to re-establish balance cannot reach their objective unless they are filtered through certain mechanisms or manipulated with the help of certain tools like the ones proposed in our paper.

Even the hypothesis test cannot be declared complete unless the entire targeted decisions' circle closes. As we speak, this circle grows bigger and probably it will do the same unless the actions taken in view of covering the crisis effects and moreover the requests of the international bodies who joined this circle having the upper hand.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

## The Absorption of European Funds Premise of Romanian Business Environment Development

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**Abstract:** The main **objectives** of this paper is to emphasize the important role played by Structural and Cohesion Funds for business environment development, especially in times of economic downturn when the financial resources are difficult to access. **Prior work** regarding the promotion of good administration of structural funds in new member states was carried out by NGOs. The main **methods** employed for capturing the research evidence consists in comparative analysis of the related work, and also in studying the capacity of absorption of European funds in the case Romania, especially from the SMEs perspective. The main **results** show that European Funds absorption is delayed and negatively influenced by a series of factors. The importance of European financial assistance through Structural and Cohesion Funds is undeniable, especially in times of financial crisis, so **implications** of this study are important to entrepreneurs, especially for SMEs but also to policy-makers, because they can design the procedures of accessing this funds in order to easy this process. The **value** of this paper ensues from the original approach of contradictory role played by European funds for Romanian business environment, because it represents the mirage of overcoming economic crisis.

**Keywords:** SMEs; economic crises; European financial assistance; cohesion

### 1 Introduction

Difficult macroeconomic context characterized by negative and unpredictable developments has amplified the instability of Romanian business environment, with a strong negative effect on the SME sector development.

The world economic crisis, although it quickly spread to Europe from the U.S., has entered in our country with a certain delay from the time of launching, due to the low level of openness of the Romanian economy. However, the crisis strikes, and the Romanian business environment has proved to be very vulnerable because of no taking advantage of cohesion and integration mechanisms into European structures.

### 2 Romanian Business Environment and the Global Economic Crisis

Turbulences in the world economy were felt in Romanian economy by the contraction of domestic consumer demand, the withdrawal of capital flows from abroad and also, by the sudden and sharp fall of foreign trade, both exports and total imports.

## 2.1 General Effects of Global Financial Crisis in Romania

In our country, the global economic crisis manifested by a substantial slowdown of economic growth (-7.1% in 2009), both immediate negative effects on the *population*, by reducing employment, and *business environment*, by reducing drastically sales volume.

According to the “National Bank Annual Report 2010” *apud* Fundatia Post-Privatizare (2010), global financial and economic crisis has manifested itself in Romania through:

- *Reduction of public procurement*, amplified by the lack of effectiveness in attracting European funds available for the programming period 2007-2013. Reduced access to bank financing sources stopped access to European funds, which for the current programming period, works on the principle of reimbursement.
- *Narrowness of major investment projects*, foreign investors displaying caution in doing business in Romania.
- *Decreasing of exports* due to reduction of export demand on foreign markets.
- *Decreasing of imports* due to diminishing domestic consumer demand.
- *Reduction of people's purchasing power*, both as a result of reduced consumer credit, but also as a direct consequence of the restructuring process in private firms and the government austerity programs in the state sector.
- *Drastic decline of property values*. Falling of real estate market has implicitly led to a significant devaluation of property guarantees related to lending.
- *The accumulation of large external deficits* by raising unjustified government spending during the election year.

## 2.2 Features of the Economic Crisis in Romania

The effects of global economic crisis has been exacerbated by “our national specificities”, characterized by political teasing, law instability and malfunction of Romanian justice. Romanian business environment has experienced a series of negative extremely diverse situations:

- *contractual indiscipline* by breaching the terms of payment between economic agents;
- *fiscal instability*, driven by the need to collect revenues to the state budget by increasing tax base;
- *the policy of commercial banks* to increase interest rates on loans in progress and to stop the offer for new credit;
- *infringements*, even by *state firms* which are not honored on time payments to private providers or have not complied with the obligations of repayment of taxes owed to economic agents;
- *competition for access to domestic banking market* between the state and the SME sector.

In the category of disruptive factors, related to the external environment, the **legislative instability** and **financing offer** are key factors that increase the vulnerability of the SME sector.

Legislative instability and malfunction of Romania justice are very serious problems facing our country and on which the European Union warned repeatedly. But the aim of this work is SMEs access to finance, especially SMEs access to European funding.

### 3 Sources of Funding Available to SMES

SME sector development is directly dependent on access to finance. Economic recovery after a period of financial crisis is possible only by making investments. At first glance, the chart of financing sources available to SMEs seems very diverse and includes: private loans, commercial loans, bank loans, leasing operations, micro-credits, European financial assistance, securities issues on capital market, etc. However, loans from banking sources were the main source of financing for SMEs in the years 2007 - 2008, when a large part of banks were specialized in financing the SME sector. The global financial crisis has negatively influenced the supply of credit addressed to SMEs, the downward trend in lending being an issue stated at European level in "Access to finance – Euro-barometer Analytical Report 2009" carried out by European Commission and ECB.

#### 3.1 Internal sources of SMEs funding

*Government Strategy for SME Development 2011-2013* provides the system's strengthening of guarantee funds for SMEs and the increasing accessibility to micro-credit funds.

**Table 1 The frame of credit guarantee institutions**

<b>Funds that provide guarantees to SMEs</b>	<b>Acronym</b>	<b>Features</b>
Romanian Credit Guarantee Fund	RCGR	It addresses private entrepreneurs
Rural Credit Guarantee Fund	RCGF	It addresses a specialized sector: agriculture. Guaranteed loans submitted by individuals and legal entities (agricultural producers and processors of agricultural products) to manufacture, stockpiling, but also the investments.
Export-Import Bank of Romania	EXIMBANK	Plays a dual role: bank and insurance company for export credit. Guarantees low loans and letters of guarantee contracted by SMEs, both lending for exports but also those incurred for the projects in priority development areas.
National Credit Guarantee Fund for SMEs	NCGFSME	Provides direct financing for SMEs, and guarantees for the financing instruments contracted by SMEs from commercial banks.
Romanian Fund Counter	RFC	It is a financial institution specialized in counter-guarantees granted by financial instruments guarantee funds for SMEs obtained from commercial banks and other sources.

Microcredit enjoys a strong promotion at European level<sup>1</sup>, because, in addition to financial services for micro-entrepreneurs, provides guidance and technical assistance. Microfinance lies in providing small loans of up to 25,000 Euros, needed for entrepreneurs for starting a business or for making small

<sup>1</sup> JASMINE European Project (2009 - 2011) aims to develop microfinance institutions in the EU, in order to facilitate SME access to finance.

investments, as well as for adjusting various cash flow problems. Microfinance institutions do not require collateral guarantees and are guided by the “loan cycle”<sup>1</sup> politics.

### **3.2 European Funds for SMEs**

Community financial assistance available to Romania between 2007 -2013 programming period is a great opportunity to be exploited, especially by the SME sector, for economic recovery.

19.67 billion Euros are allocated to Romania by the European Union under the EU cohesion policy 2007-2013. This financial assistance grant is available in Romania through three structural instruments: the European Regional Development Fund, European Social Fund and Cohesion Fund.

Concrete measures for SME financing are provided by the Operational Programme “Increase of Economic Competitiveness” (axis 1, 2, 3 and 4), Regional Operational Programme (Axes: 4 and 5) and “Human Resources Development” Operational Programme (Axes: 3 5 and 6).

Additionally to Cohesion Policy, Romanian SMEs, according to their specific activity, may receive funding under the Common Agricultural Policy through the European Agricultural Fund for Rural Development (Priority Axes 1 and 3 of the RDP), and also under Common Fisheries Policy through the European Fisheries Fund (Priority Axis 2 of OP Fisheries).

## **4 Absorption of EU Funds and Romanian Business Environment**

Starting with 2005, organizations of civic society (e.g. Transparency International Romania, Media Monitoring Agency, Pro Democracy Association, Open Society Institute, Soros Foundation Romania) become involved in activities aimed to increase the transparency, responsibility and the effectiveness of structural funds management.

In accordance with “Transparency of EU funds in Romania; Monitoring and analysis Report of European funding”, a study carried out by Media Monitoring Agency and Pro Democracy Association in 2007, the main *problems identified in the absorption of EU funds* are:

- *Administrative incapacity* generated both by the lack of qualified staff but also by the overload of employee;
- *Corrupt practices and conflicts of interest* manifested by awarding contracts to “Preferred Clients”, or by guidance the potential beneficiaries to certain-“agreed” consulting firms and by the existence of a *developed network of influence peddling* that monopolize the market for consultants or service providers in different areas;
- *Poor information* resulting from the lack of training of persons involved in the process;
- *Lack of transparency*, the opacity resulting from the reluctance of authorities to assist the beneficiaries in obtaining information or from the need to protect their “preferential clients”. It was also noted *the lack of consultations and formal consultation* between the local community and local authorities and between them and the authorities from “the center”, which makes European funds often do not come to meet the real needs of beneficiaries. This situation is due to the *outdated mentality and disrespect for citizens*;

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<sup>1</sup> The first loan has a lower value, and after reimbursement, beneficiaries may request another loan, whose value is up to double the first loan, the procedure is reiterating up to a maximum of 25,000 Euros.

- *High rates charged by consulting firms* and the lack of training of personnel working in some specialized companies have generated irregularities and impeded the access to funding, although projects were viable;
- *Media* do not allocate enough space to inform about the European funds, practicing instead, educational and cultural genocide through programs promoted;
- *Bureaucracy*;
- *Scarceness of co-financing funds*.

Meeting the problems identified above, Romania Consultants Association for Accessing European Funds has made a series of “*Proposals for Improving the Absorption of EU Funds*” ([www.acrafe.ro](http://www.acrafe.ro)):

- *Rapid and “smart” use of reallocation mechanism<sup>1</sup> available to the Romanian authorities* because, for some on specific programs, there are hundreds of projects declared eligible, but who, for various reasons, are on the waiting lists, because there is no money for financing, meanwhile there is unused money in the same program, at a similar measure on the same axis or on a different axis.
- *Launch of all financing measures according to a rigorous annual calendar*, because in the current system, Applicants Guidelines appear, in the final version, just a few days before the start of the session<sup>2</sup>, the beneficiaries not being able to lay their projects due to the short time to obtain new various approvals (terms related to legal proceedings) and time spent on actual development project becomes shorter.
- *Establish a framework of cooperation between Management Authorities and Banking System in order to facilitate funding of projects financed by EU funds*. Nowadays, banks, not knowing in detail the procedure for work or wanting to ensure better risk management projects require different information to beneficiaries under the MA certification, information often rejected by the latter. Consequently, these projects are removed from the funding.
- *Establish a framework of transparency and regularity regarding the issuance and amendment of procedures for accessing the funds*. The dossiers are evaluated by non-transparent rules. Under the argument, “we’ve realized something, let’s change the procedure”, the beneficiary is asked to submit overnight documents and new information which changes the submitted files or the project is downgraded because the criteria for selection are restored on the last minute.
- *Set clear deadlines for response to specific situations arising during the execution of projects and empowering Management Authorities leaders for the terms* in order to address the current situation when to many of the requests submitted for clarification the answers are vague and do not correspond to information requested, occurring in a very long time interval from the date of transmission when the projects deadline submission has already expired.
- *Simplification of procedures documents*. If, in the European Union, most projects are transmitted electronically, the original documents being checked during site visits, in Romania, the project shall be submitted within 2-4 copies on paper and stamp and signature on each page. Also, when calling for tenders for procurements, some documents are requested in original and the releasing costs of such documents are prohibitive for many bidders at the auction and thus restrict competition between providers of certain services.
- *Creating a framework for training and motivation of civil servants involved in the management and evaluation of EU funding projects*. Blockages occurred during the evaluation and

<sup>1</sup> Using 10% margin for reallocation between the axes, to direct money to priority areas where there are viable projects.

<sup>2</sup> Launch session takes place only once a year and filing period is approx. 4 weeks.

implementation of projects due to the incompetence of experts which are evaluating the project for all phases of its implementation. Many experts have large gaps in understanding the economic phenomena and even the simple understanding of procedural issues, which, theoretically, work daily. This is due either to lack of real competition in filling these positions or to the education system, which has certified such jurisdiction.

## **5 Conclusion**

The importance of European financial assistance through Structural and Cohesion Funds is undeniable, especially in times of financial crisis, but, unfortunately in Romania, the absorption of European Funds is delayed and negatively influenced by a series of factors, such as: low development of administrative capacity, corruption, poor information, lack of transparency, lack of experience of consulting firms, pecuniary embarrassment, bureaucracy and etcetera. The negative effect on Romanian business environment development is very difficult to count. One thing is certain: it is time for a change, a change of our mentality. Some organizations of civic society (e.g. Transparency International Romania, Media Monitoring Agency, Pro Democracy Association, Open Society Institute, Soros Foundation Romania) already started getting involved in activities aimed to increase the transparency, responsibility and the effectiveness of structural funds management. These are only preliminary steps, but we hope that represent “small steps for now and a giant leap for tomorrow”.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES

## The Spreading of Financial Crisis: Effect of Investor Behavior or of Economic Channels

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**Abstract: Objectives** It is very important to quantify the influence of various factors in the development of financial crisis. Once these factors can be determined we can attempt to stop this phenomenon or at least minimize its effects. **Prior Work** Previous studies have shown that the phenomenon of globalization makes extremely disturbing phenomena quickly transmitted from one market to another, provided that these markets will be connected. But what is the explanation when countries not linked in any way react in same way at the appearance of disturbances in one of the country? **Approach** We study the phenomenon of contagion by comparing the economy and financial market evolution, in Romania, during the last global financial crisis. **Results** We can conclude that the Romanian market actually reacts to the behavior of investors while the in the real economy effects are felt much later and/or have a weaker intensity. **Implications** For investors it's important to follow their expectations of the market evolution much more than the current economic conditions. **Value** Knowing the influence of various factors in the evolution of financial markets we will know what steps must be taken so that these crises will not be felt in the real economy or their impact will be reduced.

**Keywords:** financial crisis; investor behavior; linkages

### 1. Introduction

Tolstoy observed that "Every family is happy just the same. But each unhappy family is unhappy in its own way." Paraphrasing we could say that "Every financial crisis is different and involves its own distinctive features." There are however some elements that are common to many emerging markets' financial crises.

An international financial crisis is a substantial worsening of the international situation, an impairment that should not occur in a closed economy. By this definition, is not underestimating the major role that weak internal features can play in triggering a crisis.

The diffusion of international investments and cross-border capital movements marked the financial markets' evolution and changed the correlations' profile between assets denominated in various

currencies that are traded in markets separated geographically. The volatility of the single market reacts to innovations in other markets as a result of financial integration, which raises the question whether these markets react to crises.

The incidence of financial crises in recent decades has made the research of financial crisis' spreading across borders a top issue and also a very important one, with a focus mainly on the contagion behavior. In order to model contagion developed methodologies showed that normal interdependencies between markets that must be taken into account before the crisis spread through the channels of contagion can be determined.

Links, becoming a channel for the crisis, are in fact fundamental links between countries, such as:

- financial links: arise between financial markets of two economies that are closely linked (or forming part of the financial system);
- real links: marked by fundamental economic relations between the two economies, i.e. a similar evolution of macroeconomic indicators and macroeconomic policies of the same type;
- political links: given the political relations between countries or their membership of a regional political group. Usually this type of links appears in geographically defined regions (European Union, NAFTA, ASEAN, etc.).

Changes in the same direction and of the same size that occurs in quiet periods reflect the economic and financial interdependence, such as trade links, systematic capital flows and linkages between banking systems, and these changes are transmitted in both directions. Contagion on the other hand is a component that can not be explained and is unexpected. This view is consistent with some of the research in the field including Masson (1999), where interdependence is equivalent to what he calls "monsoon" and "spillover" with the residual being contagion, Calvo and Reinhart (1996) and Kaminsky and Reinhart (2000) arguing that there is a difference between contagion based on "fundamentals" (interdependence) and pure contagion, and Mody and Taylor (2003) article which states that vulnerabilities are interdependence and contagion is given by unexpected links.

We might also add that the spread of financial crises can be determined by the behavior of investors and especially as the effect of "herd behavior" (copying the actions of other investors), the asymmetry of information or "cascades" of financial information.

## **2. The Economic Crises**

The crisis that began in the summer of 2007 came as a surprise to many people. However, for others it was not a surprise. John Paulson, a hedge fund manager, has correctly predicted the subprime market debacle and earned 3.7 billion U.S. dollars in 2007, as a result.<sup>1</sup> The vulnerabilities of the global financial system have been discussed in Bank of England Financial Stability Report.<sup>2</sup> The effects of that this crisis had on financial institutions and markets have not been estimated. Particularly, what was perhaps most surprising is the role played by liquidity in the current crisis.

To examine how the international financial crisis has spread, we chose to pay attention to Romania, namely the conduct of its financial market starting with the financial crisis outburst.

The synthetic indicator which shows the situation in Romania in 2008, the year that followed the outbreak of the crisis, is the Gross Domestic Product, which was 503,958.7 million, expressed in

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<sup>1</sup> Financial Times, 15 January, 2008 și 18 June, 2008.

<sup>2</sup> Bank of England (2006) & (2007).



current prices, an increase of only 7.1% over the previous year. However this increase was the largest increase recorded by a member of the European Union, the Community average being of only 0.9%. The analysis will be clearer if we follow the evolution of GDP in first and second quarters of 2009, a period deeply affected by the economic and financial crisis with a decrease of -4.6% the previous quarter. Thus GDP for the first quarter of 2009 was EUR 22,998.8 million, with less of 6.2% than the previous year, and the GDP for the second quarter of 2009 was 27272.2 million, with less of 8.7% than the corresponding period of last year.

Macroeconomic indicators have registered a downward trend starting with the till the end of 2009. Thus, GDP registered a reduction in five successive quarters, the unemployment rate crossed the threshold of 7.5%, foreign direct investment fell dramatically to 9.024 million euro, the external debt increased, the domestic debt increased, the balance of payments recorded a huge deficit, the households income trend decreased as the average gross earnings reached 2.023 lei, with 9% more than the previous year, and the average monthly pension reached 593 lei, the national economy different domains registered declines or stagnation, the general government budget has become volatile due to uncertain low incomes etc.

The foreign trade deficit (FOB exports / CIF imports) was 22,708.9 million representing 13.4% of GDP, the highest recorded by our economy so far, although exports registered a growth that outrun imports, respectively 113.8% compared to 109.8%.

We must take into account in our analysis of Romania in 2008 the actual situation our country recorded, so there were various negative factors such as net exports, i.e. the difference between exports and imports had a negative effect over GDP, -1.8% of GDP. The GDP evolution until July 2009 followed the same trend since the early months of 2009 were all 2008 effects. Thus, GDP decreased with 7.6% compared with the same period of 2008, all economic domains had more negative contributions which showed the beginning of a deeper crisis.

## **2.1. Romanian Economy**

The Romanian capital market, being an open market, a market where investors have free access, can be influenced by external events, that is, by definition, can be contagious. Although in the real economy contagion effects occur after a certain time and thus would require a waiting period to assess the degree of contagion, and the effect of a shock in one country is transmitted through several intermediaries that will distort the initial shock, the effects over the capital market are felt immediately on the second capital market as a effect of rapid transmission of information. To measure the contagious influence on Romania during the current financial crisis, we should nevertheless consider classical financial crises' channels of transmission, namely: commercial links, or macroeconomic policies that if Romanian financial market reacted at a turbulence in one of those countries with strong links toward Romania, it does not show the phenomenon of contagion but only shows the interdependence between Romania and those states.

So set the GDP as our benchmark, we can see from the chart below that the evolution of this indicator across the European Union and in Romania is not similar, a normal situation as Romania has a growing economy and most of the European Union countries are countries with mature economies.

Following the inflation trend (Figure 2) we can see that the trend of this macroeconomic indicator for Romania and the European Union is not the same. Thus while the inflation rate in Romania is declining, inflation in the European Union registered a slight increase, ranging from 1.7% in 1997 to

3.7% in 2008. This upward trend is probably due to the waves of accession of new members in 2004 and 2007. However due to Romania's desire to enter the euro zone, its rate of inflation is declining, this being one of the condition of convergence. We can therefore infer that the inflation rate in Romania is approaching in the long term the European Union's as a whole, leading to such a macroeconomic link given by this indicator.

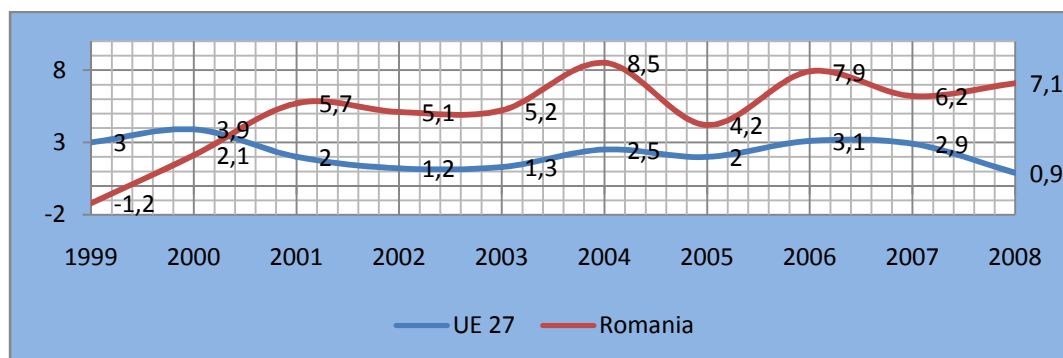


Figure 1 The rate of real GDP growth between 1999-2008 for the EU-27 and Romania <sup>1</sup>

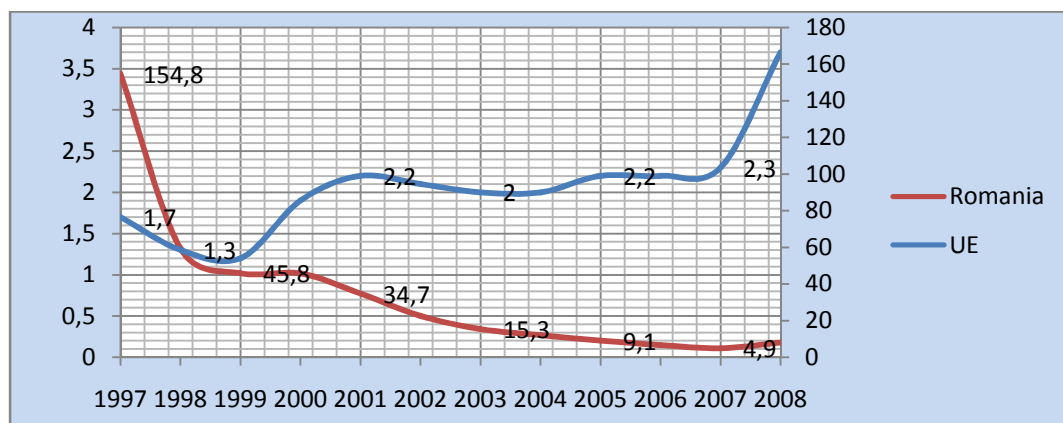


Figure 2 Average evolution of annual inflation rate between 1997-2008 for Romania and EU <sup>2</sup>

To see if any contagious influence reached Romania during the crisis, we have chosen to compare changes in prices of securities traded on the stock market. For this we used BET and Euronext-100 indexes. BET index is reflecting the evolution of the Bucharest Stock Exchange in terms of the evolution of the ten “biggest” actions by capitalization, and Euronext-100 index which add up most important and liquid shares. In this study we considered to be the Euronext the one that represents all the influences of EU capital markets, the 100 companies in the Euronext 100 holding over 80% of its market capitalization. To achieve better comparability of data we referred to BET in Euros, and to make graphs easier to interpret we moved it's chart below (by dividing BET values with 10).

The data collection period is of 2 years, from 21 February 2007, 19 February 2009. We used this period to include both a pre-crisis period and a period after the last fall of the capital markets, i.e. 15 October 2008.

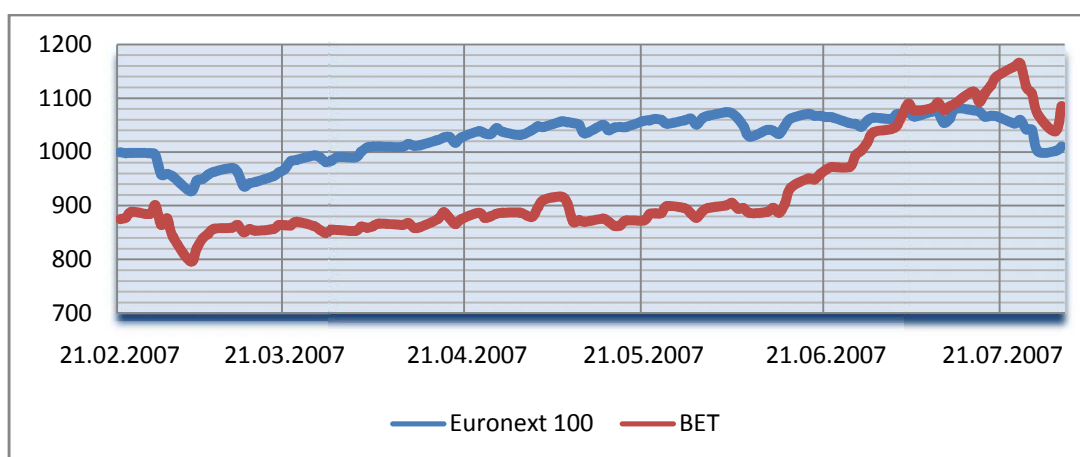
We divided the total period of data collection in three sub-periods from February 21st 2007 to August 1st, 2007, a period that does not include major events, from August 1st 2007 to June 1st 2008 the

<sup>1</sup> Processed data, based on available statistics on [www.europa.eu](http://www.europa.eu).

<sup>2</sup> Idem 3.

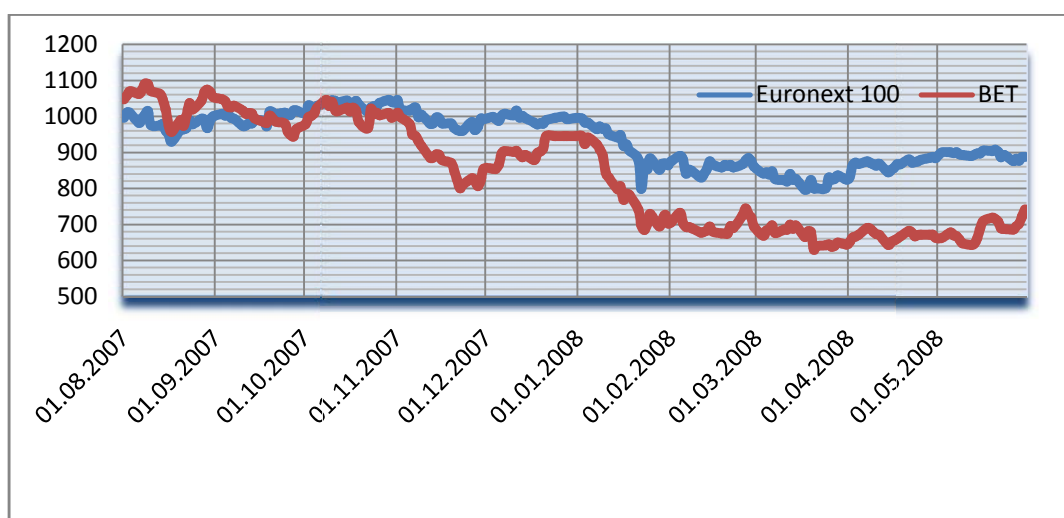
beginning of the crisis period that shows the repercussions on other markets, from June 1st 2008 to February 19th, 2009, a period that includes last fall down in equity markets worldwide.

We can see from Figure 3 that although the general trend of the two indices is the same, namely an upward trend, the two indices do not evolve in the same way. There are common points only to sudden price drops, and the last part of BET's is growing higher than Euronext's. This is consistent with our theory, namely that the two markets are interdependent and that interdependence becomes stronger only when there has been a shock, a sudden drop on one of the markets. Calculating the correlation coefficient between the two indices in this period we obtain a value of 0.56, the value characteristic for normal time.



**Figure 3 Evolution of the two indices between 21/02/2007 and 01/08/2007<sup>1</sup>**

Following the evolution of BET, note that the Romanian market depreciation of assets is more intense. This is normal because the Romanian capital market is a growing market and can not cope with shocks as well as Euronext, a developed capital market, a very strong one. It is also possible that an important role in these impairments on the Romanian market to have investors who may react to investors' actions on the European stock market, but the different characteristics of the two exchange markets leading to different results.



**Figure 4 Evolution of the two indices between 01/08/2007 and 06/01/2008<sup>1</sup>**

<sup>1</sup> Statistic data on [www.bvb.ro](http://www.bvb.ro) and [www.euronext.com](http://www.euronext.com).

Figure 4 shows that after the outbreak of the crisis on sub-prime market in the U.S. (first fall down of the chart), changes in the two indices are much more similar than in the pre-crisis period, and in the second period (early 2008), when the financial crisis began in Europe, changes in the two indices are almost identical.

This clearly demonstrates the Romanian market contagion (the reverse is probably impossible because the financial power difference is too big) since the economic or financial crisis was not felt in our economy. In addition the correlation coefficient between the two indices for this period became 0.91.

In the first part of Figure 4 we see that the Romanian stock market index has not the same trend, probably because the Romanian market has no direct links with the U.S. market or that such ties are not strong enough. Given this, initial shock has passed from the American market to Euronext, which were the strong linked, and after a couple of days the shock was transmitted by the European stock market to the Bucharest Stock Exchange.

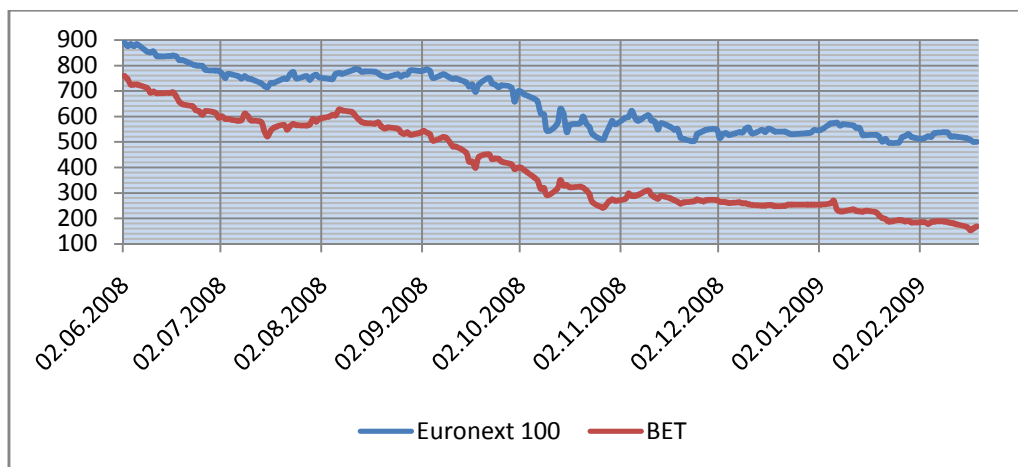


Figure 5. Evolution of the two indices between 01/06/2008 and 02/19/2009 <sup>2</sup>

As shown by Figure 5, starting with awareness of the financial crisis in Europe, and until the collapse of stock markets around the globe and then on September 17 and October 15 2008, points that are very visible on our chart, the two indices had similar patterns, but after October 15 2008, the Romanian market continued its decline while Euronext has managed to maintain. Besides the correlation coefficient for this period amounted to 0.98, showing a clear contagion of the Romanian market.

Since other elements of the interdependence equation have probably remained the same, the sharp decrease registered on the Romanian stock exchange can only occur due to the phenomenon of contagion. Probably the contagion's effect is the action of investors which either wanted to cover losses on other markets or chose to withdraw its investments on the Romanian market, the Romanian market being less developed than Euronext. Euronext hadn't the same trend as it is a highly developed market, and investors know they can trust this market. They had to cover their losses and then it is reasonable to assume that they decided to withdraw from those markets that are too volatile (such as the Romanian market) to be able to provide more secure profits in other markets, such as Euronext. A massive withdrawal of these investors has led to sharp falls in asset prices traded on the Bucharest Stock Exchange, thus leading to the paradoxical situation in which assets are traded on the market at a certain value, smaller than their economic value.

<sup>1</sup> Idem 5.

<sup>2</sup> Idem 5

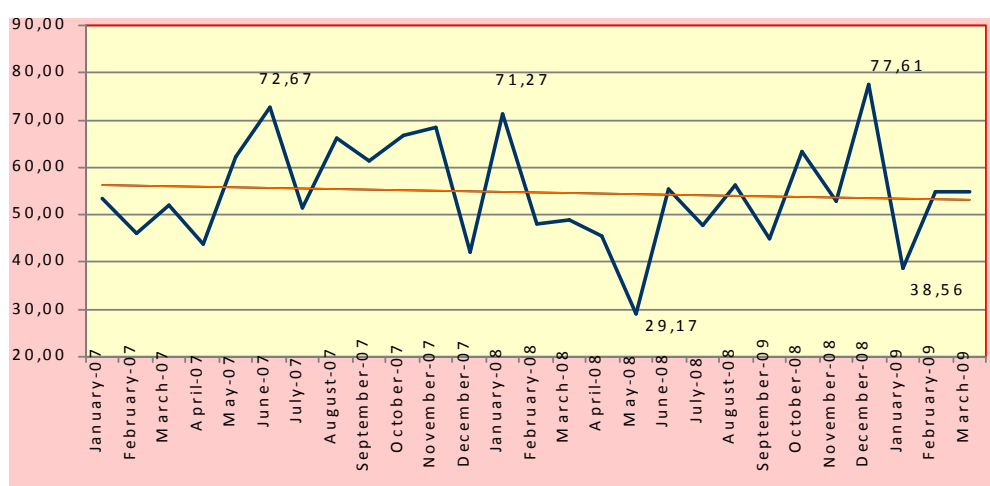
## 2.2 Investors Behaviour

### 2.2.1 Ambiguity Adversity

Intolerance to ambiguity could cause investors to demand higher risk premium, especially when investors are presented with new financial opportunities, for the economic environment and the uncertainty of revenues.

If the financial crisis, intolerance to ambiguity is demonstrated by rapid transactions made by those who wish to sell shares that have massive losses, without waiting for the situation to clarify. This phenomenon can be observed only when the capital market is declining.

So, in order to support the above stated, we monitor reaction of Romanian capital market investors (Bucharest Stock Exchange - BVB) - during the U.S. subprime market collapse. Preceding the crises, in July 2007, the market situation shows that the only ones that traded and by doing it lost were resident institutional investors with a total loss of RON 135,448,730.06. But the Romanian market totaled a net gain of RON 105,075,202.12. In August 2007, when the crisis began, the only ones who have won were resident individual investors with a total of 86,789,243.70 lei. In August, market losses totaled RON 86,089,428.64. Thus, the situation of this fast transactions, made the Romanian market to decapitalise as a result of this investors' behavior.



**Figure 6 Percentage of institutional sales belonging to non-resident companies**

For this period, residents companies had an average 54.67% of the total sales transactions made by companies participating in transactions on the Romanian market. In the figure above, we also see the trend, and these non-resident companies are moving somewhere between 60 and 50%. Calculating the standard deviation we obtain 11.35, this means that most of the values will have a deviation of  $\pm 3.37$  percentage points from the average. In the chart above is easy to see the highest and lowest value, i.e. 77.61% in December 2008 and 29.17% in 2008, making it seem that our standard deviation too high.

So we can draw some conclusions from this chart:

- Non-resident companies do not follow a long term strategy, they follow a short term one (hence the large oscillations that appear in the chart);
- Non-resident companies are intolerant to ambiguity, as the largest percentage of sales they have is in November 2008 when the Romanian capital market, like others,

was affected by stock markets crash and the Romanian economic and political climate has proven to be unstable.

2.2.2 Sentiments and mood swings

Aversion to risk, suffering or loss may reflect a calculated avoidance of unpleasant future feelings. However, moods and emotions felt by people today affect their perception of the tomorrow's risk election. In general, tempered people are optimist about their options and their decisions, compared with bad-tempered ones. Decision-making may also be affected by sensory and cognitive senses experience.

Affective states contain information that can be used to draw conclusion about our surroundings. For example, it is possible that a person in a better state to be patient, to make better decisions when the market is falling, knowing that changing the content of the portfolio should be made when the market is growing.

Again we can illustrate with the Romanian market evolution. If in the charter below we observe that monthly net transactions in that year (2008) of individual investors, whether residents or nonresidents, will have ended with losses in 11 oh the 12 months.

If we take brief look at figures 7 and 8 we conclude that resident individuals traded based on moods and feelings. Why? Because the range of purchasing values is between 87.29% and 97.04% of total individuals, but the range of values of sales is between 91.38% and 97.63% in all individuals.

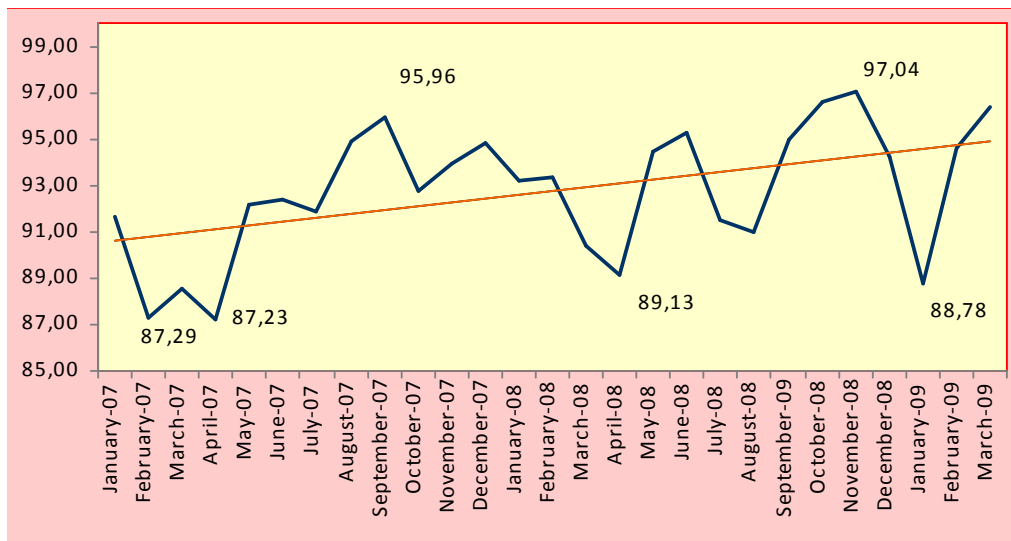


Figure 7 The percentage of purchase transactions of individuals resident in all purchases transactions of individuals

We can see that large purchases of one month were followed by massive sales, such as we see in September and October 2007, showing that Romanian investors were 95.96% of individuals buying in September and October when the crisis began to propagate and were mostly the ones which soled or the entire period of analysis.

Considering the above, we can draw an important conclusion about the international capital market, namely investors' behavior has an important influence on the evolution of this market and more so in times of crisis, when certain types of behavior are extremely emphasized. This can only mean one

thing: it must be examined more closely the investors' behavior, we should consider their behavior in addition to other factors affecting global financial markets. If we identify each type of investor behavior and how it influences market development, we can say that we have half of the solution for the present crises. The next step would be to know how we can limit this type of behavior or the way of predicting it.

### 3 Conclusions

Even if we can be sure that there is an influence of the investors' behavior in financial crisis spread and sometimes even starting them would be very interesting to quantify their exact influence so that we may prevent contagion. Since financial markets are increasingly integrated, the contagion phenomenon that occurs during the outbreak of a crisis or even of simple shocks is very natural. Capital markets fully demonstrate this, and the fact that shocks propagate from one market to another makes us believe that those responsible for the immediate dissemination are often the investors. The hard part is the anticipation of decisions that they will take. However it is noted in the analysis of existing correlations before the crisis and those that influence their behavior during the crisis that is not very high (about 10%), but it can make the difference between loss and gain.

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[www.europa.eu](http://www.europa.eu)



THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES

**Stages of the Economic Integration and the Level of International  
Competitiveness. Optimization Methods. The EU Case**

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**Abstract.** The paper highlights and discusses the concept of integration optimum. For this reason, there are analyzed aspects related to the stages of integration and the level of international competitiveness as well as the relationship competitiveness - integration – second-best optimum. The integration's benefits and costs are outlined in various stages of the EU enlargement, emphasizing the importance of combining national resources, performances towards competitiveness and the dynamics of dimension efficiency. The paper also includes an analysis of integration in different areas (Latin America, Northern America, Asia and Africa) and the degree of institutionalization in relation to competitiveness.

**Keywords** Integration, optimum, competitiveness, institutionalization, costs, benefits

## 1. The Process Of Integration and EU's Level Of International Competitiveness

*“By its size – the largest in the world – the single market with no frontiers represents an invaluable value for the revitalization of our business and for making them more competitive. It is one of the main engines of the European Union”*

*Jacques Delors, July 1987*

### 1.1. Market Dimension and Economies of Scale

“European countries are too small – as Jean Monnet wrote in 1943 – to give their citizens prosperity that is now possible and therefore necessary. They need larger markets”.

Therefore, the market size matters. Since its inception in the 50s, an important premise backing the European economic integration was the belief that the unification of the economies of the European countries, by allowing access to a larger market for European companies, will make European firms become more efficient and thus lead towards lower prices, increased quality and toward gaining competitiveness on foreign markets.



*Competitiveness* remains an ambiguous concept in the literature in the field, firstly because of the manifold ways to define and measure it, and secondly because of insufficient theoretical substantiation, being taken from the business environment and showing a pregnant applicative character. From a macroeconomic point of view, competitiveness is analyzed at national level and describes the “economic capacity of a nation to produce a rapid and sustained improvement of living conditions”. (Global Competitiveness Report, 1996).

This conceptualization of competitiveness represents a shared vision of the World Economic Forum and the European Commission (2000-2004), but still adds the wording according to which competitiveness is the „ability of economies to ensure a high standard of living of the population and an employment rate on sustainable basis”.

As it results from the definitions of competitiveness listed below, the objective of competitiveness lies in maintaining or increasing the population’s standard of living (particularly through increased income and employment), while simultaneously increasing the participation of a country's share in international markets.

- *”competitiveness represents the degree to which a nation can produce, under the conditions of the free market and fair competition, goods and services able to pass the test of international markets, being able to simultaneously maintain or increase the real income of citizens”<sup>1</sup>*
- *„...a country's ability to achieve its core objectives of economic policy, especially the growth regarding income and employment, without putting out the balance of payments”<sup>2</sup>*
- *“competitiveness represents a country’s ability to maintain and increase the market share which it has on international markets, while improving the population’s standard of living”<sup>3</sup>*
- *„...the ability of companies, branches, regions, nations and supranational associations facing competition to ensure a high relative cost of production factors and high relative levels of employment on a sustainable basis”<sup>4</sup>*
- *from the macroeconomic perspective, the essence of international competitiveness resides in price-based factors, the microeconomic perspective considering individual performances regarding the competitiveness of companies or branches of an economy (business strategy, behavior towards competitors, differentiation, specialization, innovation, technology, etc..). According to the first perspective, competitiveness translates into ensuring internal and external balance at national level and focuses on the effect of factors on competition. It highlights the links between changes in the balance of payments, the real exchange rate developments, reallocating resources among different economic activities and changes in competitiveness and its ultimate purpose is to increase the real income of citizens. The level of macroeconomic competitiveness can be seen as an aggregate export performance of the companies of a nation.*

The European idea of competitiveness translates into the ability of economies to sustain high rates of productivity growth. Since the Lisbon Strategy, set out to make Europe the most competitive and dynamic world economy, competitiveness has become one of the priorities of EU policy. The need for a competitive European industry and of a competitive market generally comes from the desire to achieve the economic, social and environmental objectives, and ensuring an increasing level of social

<sup>1</sup> President s Commission on Industrial Competitiveness, Global Competition: The New Reality, Wahington DC, Government Printing Office, 1985.

<sup>2</sup> J. Fagerberg, International Competitiveness, The Economic Journal, 98/1988.

<sup>3</sup> F. Fajnzylber, International Competitiveness: Agreed, Hard Task, CEPAL Review, 36/1998.

<sup>4</sup> European Commision, EU Sectorial Competitiveness Indicators, 2005.

welfare. The need of the European economy to adapt to structural changes,, the redistribution of resources and jobs towards new industries, the relocation of the industrial activity towards emerging economies and the risk of the de-industrialization process can be addressed by promoting competitiveness at EU level. Competitiveness in the European Union's vision means to excel in terms of research and innovation,, information and communication technologies, entrepreneurship, competition, education and training, and depends on the capacity, the outlook and behavior of the “branches of economic activity of European countries to achieve structural adjustment towards achieving performance in those areas”.

Each country or region sets priorities according to what can mostly contribute to increasing competitiveness and productivity in the stage where they are. To put activities / elements inconsistent with the country's economic conditions could mean that the first one failed in reaching that goal (more competitive), and secondly a waste of resources. Obviously, there is a logical sequence of these stages, and logical links between competitive conditions. What must be present in all cases and at all stages is to maintain economic macro-stability. The need for a competitive European industry and of a competitive market generally comes from the desire to achieve the economic, social and environmental objectives and to ensure an increasing level of social welfare. The need of the European economy to adapt to structural changes, the redistribution of resources and jobs towards new industries, the relocation of the industrial activity by emerging economies and the risk of the de-industrialization process can be addressed through the promotion of competitiveness at the level of the European Union<sup>1</sup>.

Regarding *the European integration in terms of the economic equilibrium theory, we can say that it fits better the details of economic equilibrium in a dynamic vision*, according to which the economic balance is a stage of the economic change (if the integration is intended as a step registering positive effects in the long run), changes caused by some disturbance factors/elements (international environment), state to which the system may return after having been adopted and implemented appropriate adjustment measures (European policy response). We can even talk about achieving *a high or low "economic integration", and hence the problem of establishing the optimal level of "economic integration"*. However, the idea of degree or factor of integration makes us think of the possibility of its quantification, measurement or estimation, which is still very difficult. The theory of Second Optimum or the Optimum of Second Range is characteristic to suboptimal situations. Suboptimal cases are explained by the effect of not meeting some conditions in the sense of the paretan optimum. A sub-optimal situation which meets all the paretan requirements with one exception only is not better than another situation that also satisfies all conditions except one. Also, *the rule of Second Optimum, if applied to forms of integration, allows drawing conclusions according to which, if all steps of integration are sub-optimal, in terms of competitiveness, they lead to the same results.*

The rule of paretan optimum applied to integration formulas allows drawing the following *conclusions*:

- the Customs Union falls within the criterion of Second Optimum, compared to the global free trade;
- the optimal situation should not be reduced to static effects.

The European experience in particular, but also that of other regional unions, highlights *the dynamic effects*, such as:

- Economies of scale are achieved as a result of market growth;

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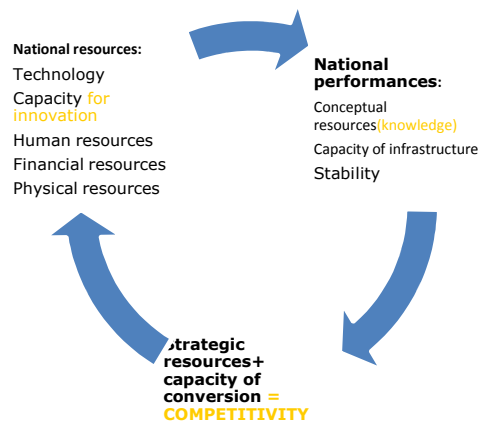
<sup>1</sup> Wziątek-Kubiak, A., On Essence and Measurement of Changes in Competitiveness of the Accession Countries. Critical Review of Literature, Studies & Analyses No. 321, CASE – Center for Social and Economic Research, Varşovia, Polonia, March 2006)

- Renewal of the structure and quality of supply, following competitive challenge of the opening of markets;
- Increased domestic and foreign growth of firms in the integrated space.

*The presence of dynamic effects and especially the economies of scale put forward the creation of regional unions (free trade areas, customs unions, common markets), especially between countries with similar specialized structures.*

Since the accession in the period 2004 - 2007 there has been great progress in the fields of justice, freedom and security. Recently, the focus of attention is on economic competitiveness. Certainly the way the EU works can always be improved. Internal reforms must be driven and it is also necessary to intensify the efforts towards peace and welfare, as they serve the basic interests of the EU and its inhabitants.

Also, special attention should be given to the significant link between the available national resources, national performance and achieved competitiveness, as shown in Figure 1.



**Figure 1. The method of combining the national resources and performance for competitiveness**

The national internal environment contains all the elements on which the industry or the sector has a decisive influence on and, theoretically, has full control over. The study of the internal environment should establish which are the resources available for different sectors and if it would be able to follow the chosen strategy. Understanding the internal environment is the first necessary step in formulating a strategy. Studies on resources generated a conceptual framework of analysis - the study on the industry sector based on resources, used to explain the elements that create competitive advantages. The performance of an industry or sector is associated with a configuration of its resources whose value is fixed by comparison in a foreign context.

In the literature in the field, the term resource is associated with other concepts: skills or capabilities. Thus, the essential basic skills and collective experience of the industry are manifested particularly in combining the various skills associated with the production and integration of multiple technology streams.

Any management of a strategy requires two sub-systems:

1. *Strategy Formulation:*
  - Strategic planning;
  - Long-term plans;

2. Implementation and strategy assessment:

- Operational annual budgets;
- Periodic reports and statistics;
- Performance assessment;
- Policies and procedures.

From the implementation process of the strategy the double loop control should not miss, as shown schematically in Figure 2.

But there are barriers that may prevent the control strategy:

1. *Systemic barriers* - deficiencies in the design and management control system;
2. *Behavioral barriers* - conventional thinking, organizational culture, cognitive limitations, resistance to change;
3. *Other barriers* - inability to agree upon a strategy and to allocate resources, its lack of acceptance by those involved or affected by it, the hiding of inappropriate results.

The strategy will lead to increasing the competitive advantage of EU Member States:

- a) Economy of scale -> lower costs and thus lower prices;
- b) Economy of learning -> same good solution can be extended;
- c) The effective use of existing capacity;
- d) Management and organizational efficiency;
- e) Increase of solidarity by the construction of a more transparent society, bringing citizens closer to the public services and their elected representatives, by developing new educational tools, by facilitating the finding of jobs and dissemination of administrative initiatives.

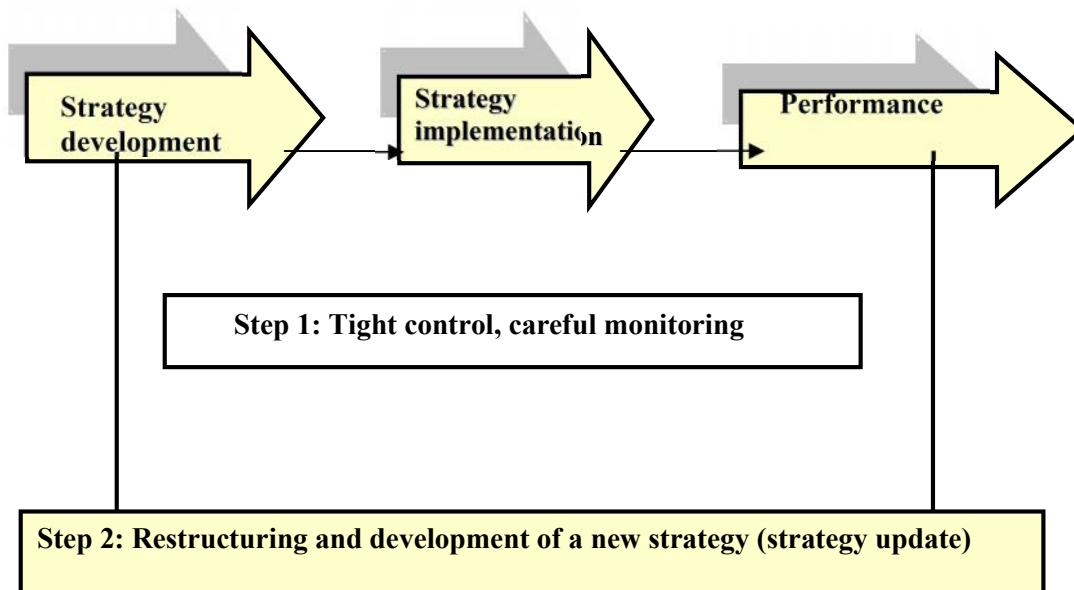


Figure 2. Steps of control process for the strategy of sustainable economic development in the context of country competitiveness

It is considered that, from a certain stage, the scale's performances are exhausted. Thus, if the quantity of factors continues to grow and the amount of products increases less than proportionately with that quantity of factors of scale, it is estimated that performances are decreasing. Given these conditions of production, unit costs begin to rise. From now on the phenomenon called diseconomies of scale will occur. The economic theory explains this phenomenon based on the combination of a fixed factor and a variable factor which necessarily leads to decreasing performances.

Graphically, the cost curve, called the *long-term cost curve*, reflects the evolution of unit costs of production depending on the quantities of factors used. The „U” shape of the curve shows the successive emergence of economies and diseconomies of scale in relation to the evolution of the performance (ascending or descending). The „G” point represents the optimal level of activity, separating the advantages and the disadvantages as a result of the dimension of the activities/work.

Each activity is represented by companies whose size can be considered optimal.

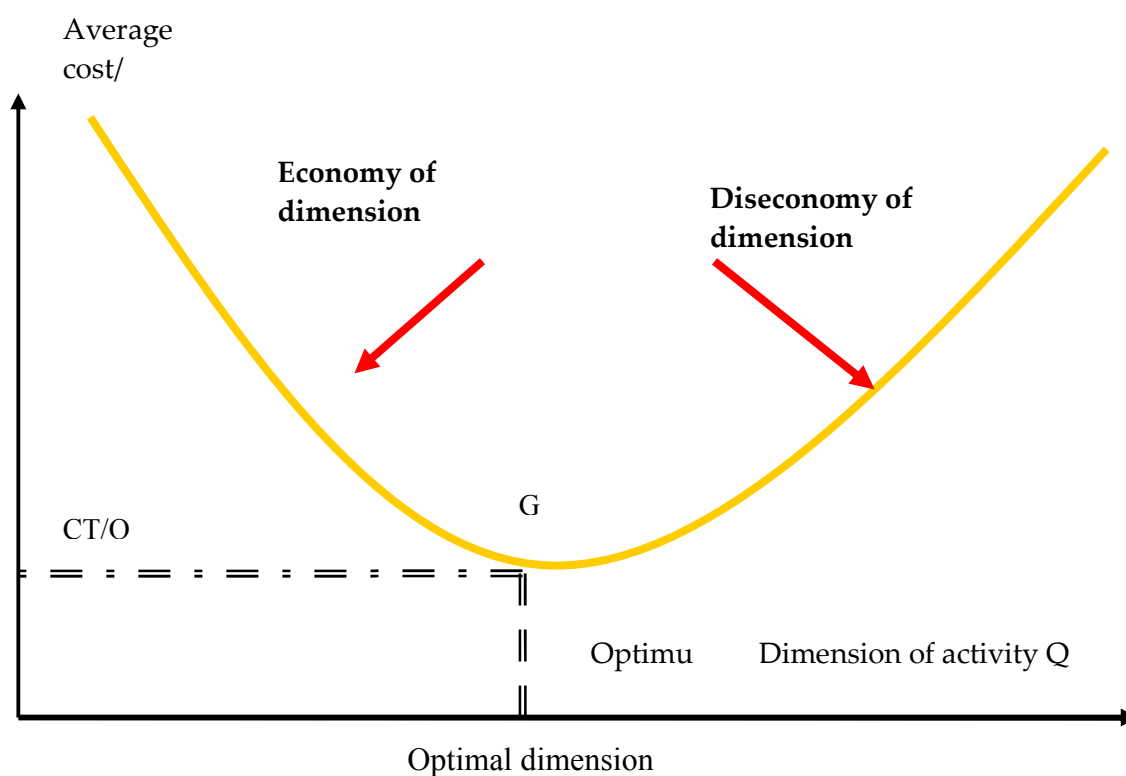


Figure 3. The „rule of the cup” or the long-term cost curve and the optimal dimension of activities

## 1.2. The Stages of Economic Integration. The Benefits and Costs of the EU Enlargement and their implications on European Compared to other Integrationist Structures

Economists agreed that economic integration is both a process and a state of fact determined through a concatenation of transformations. The consensus regards at least three aspects:

- "economic integration", in particular, refers to the division of labor and intra- and international specialization;
- "economic integration" implies freedom and mobility, the movement of goods, services and factors of production, or of all;

- it is in close correlation with differential or discriminatory trade treatment regarding the origin or destination of goods, services and production factors. This consensus does not mean that one unit integrates views about the definition of the concept.

The phenomenon of integration is a complex phenomenon that involves:

- The establishment of free trade areas in order to optimize the resource's allocation, increasing the efficiency of the productive mechanism and boosting the economic life;
- Formation of a new competitive space, large and favorable for the economy of scale and specialization according to comparative costs theory.

The stages of the economic integration can be grouped as follows:

a) free trade zone - established by eliminating tariff and non-tariff barriers between members, each member country maintaining a set of restrictions; the agreement may be limited to a few sectors, or may cover all aspects of international trade (e.g. NAFTA);

b) the customs union - including a free trade zone, and representing an agreement between the participating nations in order to eliminate all tariff and non-tariff barriers; the basic purpose of perfecting a customs union is to increase economic efficiency, namely the creation of political and cultural relations between member countries (e.g. the Benelux);

c) the Common Market – the Single Market - is a major step towards economic integration by removing all trade barriers between the Member States, namely the adoption of a common external tariff, permitting, in addition, the free movement of goods and services within the established market; the major benefit is represented by the free movement of production factors between the Member States, respectively their more efficient allocation, followed by additional growth in productivity (e.g. EU, since 1992);

d) economic and monetary union – representing a union in which the national, social and tax policies are harmonized and administered by a supranational institution – so that an agreement regarding the transfer of economic sovereignty towards a supranational authority becomes necessary; the final degree of economic union will be represented by the unification of the national monetary policies and the acceptance of the single currency.

Full economic integration is the final stage of the economic integration; political integration is a prerequisite in this respect, and in order to become truly effective all areas should be in the same stage of the economic cycle. Also, to reach this stage of economic harmonization, it is necessary to increase the degree of central control in order to implement a policy to control inflation and promote economic stability throughout the delineated area.

As noticed, originally the integration covered only the product markets, the markets for production factors, then extending to various areas of the economic policy. However, the complexity of forms of achieved integration brought forward the need of institutional redefinition. At the same time, the transition from one form of integration to the next and from one state to another is extremely flexible and can't usually be well defined. The first integrationist stages - free trade area and customs union - seem to relate solely to market integration, according to the classic laissez-faire theories, while more advanced stages - economic union, monetary union and economic and monetary union - involve a greater macroeconomic coordination.

The stages of integration have two common characteristics. They remove discrimination between economic agents within partner countries (the domestic purpose). Furthermore, in various forms, they

maintain or introduce certain forms of discrimination on economic agents in third countries (the external purpose).

In economic terms, the process of extending brings benefits for both new and old member states and to the Union as a whole. Trade between the old and new Member States have nearly tripled in less than 10 years (from € 175 billion in 1999 to around € 500 billion in 2007). These aspects are shown more clearly by the five-time increase in the volume of merchandise trade between the new Member States, from less than € 15 billion to € 77 billion in the same period.

This was a key factor that contributed to a steady annual increase of 1.5% in employment in the new Member States in the period between their accession in 2004 and the start of the financial crisis.

The economic crisis has shown that the expansion is not a problem; it is the solution that can revitalize the economy. We have a common destiny.

Regarding the influence upon the citizens it should be underlined that higher stability and peaceful development, to which successive EU enlargements contributed over the years, is a benefit for all Europeans, and not only. By including in the European internal market of over 100 million consumers with growing purchasing power, the demand for products from companies in the old Member States has intensified. This has led both to preserve and create jobs in the home country. As German citizens take advantage of each machine produced and sold by a German company in Poland, so each transaction of a Dutch bank in the new Member States intends benefit for the entire Dutch economy. Conversely it is equally valid.

The most important points in the last accession negotiations were food safety and animal health. EU has taken strict measures to bring new members to EU standards. Food processing plants, dairies and slaughterhouses that do not meet the standards were closed before accession, and only those meeting the established conditions were able to sell their products on the European internal market.

Implementation of specific directives on water led to improved drinking water quality and of water in general.

Also, nuclear safety has improved as a result of enlargement. Within the obligations of states imposed by membership, more nuclear power stations that pose a security risk were closed. The European nuclear safety has improved through the initiative of the new Member States to integrate into the European rapid exchange of information provided in case of radiological emergency situations.

Following enlargement, more countries joined the Schengen Treaty, which provides facilities regarding free movement to all citizens. Integration of new Member States in domestic air traffic in the EU has resulted in safer flight services and better service value. EU citizens can benefit from expansion by improving business opportunities and the possibilities regarding the study and work abroad.

Regarding *the costs of EU enlargement*, it should be stressed that EU financial assistance for new Member States is about 0.2% of the gross domestic product of the old Member States and it will grow by 2013 to 0.3%. The economic benefits for EU outweigh this expense by far. Money from these percentages is used so that the entire EU should take advantage. Construction of roads and other infrastructure projects in new Member States is often taken over by companies from the old Member States. The stability of the laws guaranteed by the state, reducing corruption and improving infrastructure are beneficial to companies throughout the Union. The funds used for the development

of national economies in the new Member States also create business opportunities for both the old Member States and for new ones.

However, it should be emphasized that the EU includes two internal spaces: the space of internal "periphery" and the internal "central" space; among the most prosperous regions and the least favored regions in the EU the gap is between 57% and 278% of the average GDP and GDP/capita established on regions are between 33 and 278% of the communitarian average.

Considered in terms of eligibility regarding structural funds, 60 EU regions are below the threshold of 75% of the Community average, of which 24 are located in the old Member States (Greece, Italy, France, Germany, Portugal and Spain) and 36 in the new Member States, without Slovenia and Cyprus.

All 36 regions represent almost entirely the 8 new Member States, except for three capital regions (Prague, Budapest and Bratislava). The internal "periphery" of the economic integrated space has increased in terms of enlargement in the period 2004-2007:

- a) In the case of the EU-15, the peripheral regions occupy 57% -75% of the communitarian average
- b) In case of the EU-25:
  - 6 of the poorest regions of the EU-25 are between 33-37% of the average (Poland, a Slovak region and 3 regions of eastern Hungary are included in this category). The regions in Romania and Hungary are between 31-34% of the EU-25.
  - The "Internal periphery" of the EU is to be divided into 2 areas: a "traditional" area characterized by a GDP/capita between 50-75% of the EU average, and another new area characterized by a GDP/capita between 30% and 50% of the communitarian average. The latter is characterized by a particularly low level of payment, infrastructure, investment and employment.
- c) In the case of EU-27:
  - 11 regions are located in the category 50-77% of the EU average
  - 25 regions (the majority) are in a new area, between 30-50%. (these areas represent a level of development that the EU did not know until the expansion in 2004-2007).

The integration theory shows that an integrated system works effectively if there is uniformity of structure. EU does not fall into such a system if we consider structural segmentation, respectively the two segments: „internal periphery” and „national center”.

## **2. The Integration Optimum. Methods of Optimization**

Before revealing the scientific aspects we consider it useful to present some considerations on the word “optimum”. The notion of “optimum” cannot equate “the best”, “the cheapest”, “the most ...” but can rather be considered as “the most convenient according to certain criteria in certain restricted conditions”. Hence the conclusion that the optimum is not necessarily an absolute maximum, but more a partial extreme determined under certain conditions (restrictions) and for previously set objectives. The issue of optimization can be treated as a separate entity or integrated into a systemic approach. The systemic approach should better reflect the frame and conditions of optimization integrating the inputs and outputs and the feed-back.



European expansion is a unitary and irreversible process which has no reason to being blocked by countries of the basic matrix; from an economic and social point of view the expansion process involves costs (both for the integrated and the integrator), but also benefits; the integration process should not be mistaken for the time of accession, a political act based on reason, analysis and well-negotiated agreements (at least regarding principle and public image), by both sides (the integrator and the integrated one); the process of integration includes accession, there being a before and an after stage of the integration, i.e. pre-, post accession. The activities included in the process of European integration are activities that involve the circulation of large quantities of various types of resources: human, financial, raw materials, strategic positions, key intangible assets, etc.

Therefore, the concern for continuous optimization of processes in this field is justified.

The microeconomics of the European integration shows that, after integration, there are three types of economic effects: a) the allocation effects, sometimes also called “static effects”, b) accumulation effects, also known as “growth effects”, they determining the impact of integration on the accumulation of economic resources, particularly of capital, and c) effects of localization, at European level, these representing geographical reallocation of resources, but in terms of the regional perspective they appear as effects of accumulating.

Once the benefits of future integration exceed costs, a higher level of integration (coordination or unification) will be released. Each successive stage of autonomy loss will make it more difficult for a state to adopt that economic strategy which should target specific objectives. Progress towards future integration depends on how rapidly gains appear and are perceived by as many interest groups and losses will be minimized. Gains derive from a common better allocation of production factors, from the stabilization policies of the economic growth and also from the equitable redistribution of income.

Costs will arise from the impossibility of granting national preferences to certain strategies, following a decrease in decision-making autonomy. Thus, by decision coordination or unification there will diminish:

- The ability to balance the revenue against budget expenditures, according to domestic spending;
- The possibility of budget deficit inflationary financing;
- The possibility of using monetary devaluation as a means of stimulating exports and decreasing imports;
- The possibility to use a consumer sequential protection, of some national health policies, the redistribution of income and the foreign policy.

As changes occur from one stage of integration to another, more national powers will be transferred to group level. The first will be those in the economic field, followed by the non-economic ones (cultural, social, foreign policy, defense).

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

## The Effects of Economic Crisis on Tourism

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**Abstract: Objectives.** This paper proposes a listing of the main effects of economic and financial crisis on tourism, followed by an analysis of key trends in tourism development and mutations occurring in consumer buying behavior of such services. **Prior Work.** All these have a significant impact on the strategies that should be used for tourist destinations, given that the last 20 years, tourism has made a great contribution to the global economy, being the fastest growing sector in terms of External revenue and create jobs, and economic and financial crisis that has affected the world economy in 2008, has led to decreasing the flow of both domestic and international tourists. **Approach.** In terms of sustainable development, a concern must be emphasized that tourism as a phenomenon, but also as an activity is unique in its kind that manifests itself by dependence on the environment, social environment and cultural values, that are found in areas of interest. **Value.** Because of this dependency, tourism has an undeniable interest in ensuring the sustainability of these values.

**Keywords:** economic and financial crisis; tourism; sustainable development; rural tourism

### 1 Introduction

The tourism industry is one of the sectors with the fastest global economic growth. This sector includes hotels, catering and tourism. In 1950, tourism industry has registered 25 million international tourist arrivals in 1980 there were 277 million international tourist arrivals. Tourism generates more than 9% of global GDP. It represents more than 220 million jobs, representing 6 to 7 percent of total employment (direct and indirect) and over 75 million direct jobs worldwide in the formal economy.

Tourism makes a major contribution to export earnings and provides significant opportunities in the areas of job creation, sustainable development, economic diversification, poverty reduction, investment, business creation and local empowerment. Tourism and travel industry was not immune to global recession. In 2008, international tourist arrivals reached 922 million and revenue rose 1.7% to U.S. \$ 944 billion. Travel and tourism demand is closely linked to economic conditions in developed and developing countries - a growing economy will produce, in general, increase trade and tourism spending. After several years of consecutive growth, a decline in international tourism began in the second half of 2008 and intensified in 2009. A drop in tourist flows, shorter stays, restrictions on business travel to destinations and spending restraint have led to a significant contraction in economic activity between regions. While tourist arrivals have remained stable in Africa, they have dropped dramatically in the Middle East.

Increased unemployment, decreased consumer confidence, market volatility, and strong reductions in household wealth have contributed to this trend. UNWTO, reported that worldwide international tourist arrivals fell by 4 percent to 880 million in 2009. For the first half of 2010, there was an overall

increase of 7%, international tourism arrivals compared with the values recorded during the same period of 2009. This confirms that the recovery process began in the fourth quarter of 2009 was continued in 2010.

## **2 Literature on Effects of the Crisis on Tourism**

From the earlier crisis - the Asian monetary crisis, the initial analysis of influence of the crisis on tourism and fired a warning at the conference focused on engineering, financial and other means of communication. In a short period of time, there were a number of books on this subject and academic press has tried to find answers to this problem. It has also emerged as a useful source of information website with over 1,200 references. References on this site include academic papers, newspaper reports, and links to government Web sites. Unfortunately, literature regarding the crisis on tourism has failed to highlight this issue, except for a relatively small number of journals, articles and conference papers. This is surprising, given the impact on tourism industry and the response of teachers in other fields, especially economy. Consequently, the causes and implications of the crisis for Asia as a whole and for each country were discussed at length from an economic perspective, but the impact on tourism are relatively poorly-researched.

Perhaps this is a reflection of the lack of extensive detailed economic analysis of the literature and tourism is a problem that needs more attention by editors of journals in the future, especially by detailing the problems. During the Asian financial crisis, tourism researchers have ignored the general crisis while studies from other disciplines have largely overlooked the impact on tourism. However, they begin to experience some research papers in the literature. Some researchers have assessed the impact on tourism hospitality industry, while others make an analysis of the crisis in a broader study of issues affecting tourism in Asia. Both studies found that the crisis was short-term negative effects on the viability of tourism in East Asia. There is also evidence that these studies were undertaken on the effects of the crisis on bilateral tourism involving Australia. Exemplified studies have found that the crisis had a negative impact on inbound tourism to Australia Indonesian and Korean. Outbound Travel from Australia to Indonesia has increased due to decreased amount of Indonesian rupiah, while issuing tourism from Australia to Korea, has declined due to cancellation of flights to Korea by international airlines, Qantas and ANSETT.

Some studies have identified the impact of the euro and the European Union Travel Directive which has caused local suppliers of products, responsible for shortcomings in terms of product promotion by the vendor in the country of sale, factors that have amplified problems of crisis. Regarding, the Australian Government's response to crisis assessment, Prideaux and Witt, as a result of investigations have found that the government has placed a low priority on tourism and has introduced a series of taxes that were unfavorable to encourage tourism receiver. Researchers conducting studies at the macro level, trying to provide information about the depth of the crisis, but researchers in the field of tourism in developing countries are not sufficiently involved in this process, even if the crisis comes from their countries.

### **3. Tourism in Europe**

Tourism is a major economic activity, with an overall positive impact on growth and employment in Europe. It is also an aspect which is increasingly important that European citizens increasingly travel more or leisure or for business. As an activity that affects the natural and cultural heritage, traditions and contemporary cultures in the European Union, tourism is a concrete example of the need to reconcile economic growth and sustainable development, including an ethical dimension. Tourism is also an important tool for Europe's image in the world, the design values and promote attractions European model, which is the result of centuries of cultural change, linguistic diversity and creativity.

European tourism has recently experienced a difficult situation, compounded by Eyjafjöll eruption, which has demonstrated both the vulnerability and resilience of the importance that Europeans attach to holiday travel. Economic and financial crisis affecting all economies in 2008, had a significant effect on the demand for travel. More recently, air traffic stop in April and May 2010, due to the presence of volcanic ash clouds, had a major effect on travel in Europe causing major disruption for airlines, travel agencies and tour operators and tourists alike. This difficult environment for the tourism industry has highlighted a number of challenges that European tourism sector must face. In this respect, it is essential that all operators in this sector to combine their efforts and work in a strengthened policy framework that takes into account new priorities of the European Union, established in the strategy, "Europe 2020. Europe must remain the No.1 tourist destination in the world, able to assert territorial wealth and diversity. European Commission intends to encourage a coordinated approach for tourism-related initiatives and define a new framework for action to enhance competitiveness and sustainable growth.

### **4. European Tourism Industry - Growth Important Element**

Tourism is an economic activity capable of generating growth and employment in the EU, while contributing to economic and social development and integration, particularly for rural areas and mountain areas, coastal regions and islands, outlying regions and outermost or those undergoing convergence.

Tourism is known as one of the major contributors to the global economy delivering 10.9% of world GDP in 1996 (UNWTO 2003). It offers economic benefits to industrialised and developing countries alike by satisfying society's curiosity of the unusual and people's need for leisure. It is one of the most visible global industries, physically linking opposite sides of the globe, involving all levels of society and supporting many industries. (Parpandel, 2009)

With 1.8 million businesses, especially SMEs, employment for about 5.2% of total employment (about 9.7 million jobs, a significant proportion of young people), European tourism industry generates over 5% of EU GDP, a figure which is steadily increasing.

Tourism, the third activity is therefore greater socio-economic, trade and distribution and after construction. Given that the sectors related to tourism, has even greater contribution to GDP is estimated to generate over 10% of EU GDP and provide about 12% of total employment. In this regard, noting the trend for the next 10 years, employment growth in the tourism sector was almost always more pronounced than in the rest of the economy. In addition, the EU remains the world's No. 1 destination, with 370 million international tourist arrivals in 2008, or 40% of worldwide tourist arrivals, 47.6 million arrivals in the BRIC countries (Brazil, Russia, India and China), a significant increase of over 4.2 million in 2004. These arrivals have generated revenues of approximately EUR 464

266 billion, of which 75 billion were from tourists who came from outside the European Union. In respect of movements of Europeans, they are estimated at around 1.4 billion euro of which 90% were from EU. Estimates of the World Tourism Organization (UNWTO), international tourist arrivals in Europe should increase significantly in coming years. Finally, European tourists are one of the largest groups arriving in third countries by providing an extremely important source of revenue for many countries. These elements provide more detail justifies the external dimension of EU tourism policy in order to maintain the flow of tourists from third countries, but also support EU partners, particularly in the Mediterranean Sea. European Commission, in cooperation with Member States and associations in the tourism sector, have invested considerable effort many years to implement actions aimed to strengthen competitiveness and European tourism.

It has been reported that Spain and Sicily have together lost 75% of sand dune habitats through tourism-related urbanisation. Meanwhile, the average tourist to Spain can use up to twice the amount of water as a Spanish city-dweller, consuming around 500 litres per day (BBC News 2005). Furthermore, the industry has continued to increase its demand and contribute to the scarcity of life-sustaining resources. For example, cheap flights entice more tourists to more remote destinations, which perpetuate the use of fossil fuels through travel as well as use of other sectors such as, the transportation of construction materials and goods (World Economic Forum 2008). Such dependency on finite resources indicates that the current management of mass tourism threatens the very existence of tourism. This is often described as ‘killing the goose that lays the golden egg’ and represents a key challenge for sustainable tourism. (Parpandel, 2009)

## **5. Tourism in Romania**

The global economic crisis has strong effect on Romania, which has a developed market economy, but an economy based on consumption and credit. What can we expect in terms of tourism can not meet anyone. The rich suffer less, unfortunately the vast majority of the population are affected by economic crisis, which will bear its cost: unemployment - due to bankruptcies in the private sector, leaving investors to other countries. The global economic crisis and the negative impact on tourism industry in Romania, all prices rose, more attention is paid to people in terms of spending money for trips and holidays. There are financial and economic restrictions, certainly, and this leads to a decrease in flow of tourists.

Most foreign visitors come to Romania in European countries (Bulgaria, Hungary, Germany and Italy), in accordance with the National Institute of Statistics data. The number of tourists who spent at least one night in Romania in 2010, declined significantly due to global economic crisis. About 2.5 million foreigners who arrived in Romania, have remained more than a day.

At the same time, many Romanian took the decision to opt out of spending holidays in the country, although according to a specific analysis, accommodation rates have decreased nationally by about 20-30% compared to 2009. On the coast, price fluctuations have been observed on weekends, when there was a large number of tourists.

Romania has ceased to be an attractive tourist destination, especially due to competition (Bulgaria), the existence of problems in supply, inadequate infrastructure and a limited number of services. Romania is facing a fierce competition on the European stage. All types of programs in Romania should consider Western European markets, offering a wide range of facilities for all categories of tourists.

Also, the Romanian offer is limited, that is a rather small number of resorts, hotels scarce. Services are lower than competing destinations in countries such as Bulgaria, Turkey, Greece, Cyprus, while the other distractions are not competing tourist destinations. These problems add roads and inadequate infrastructure, lack of quality hotels in major cities and tourist resorts of international interest.

In terms of value for money, Romania has ceased to be an attractive tourist market, has the worst indicators of tourism development (road quality, sustainable development of tourism industry, effective marketing and brand building, tourism rank among the priorities government, extend and effect of taxation, transparency of government policy, access to improved drinking water, accessible tourism) is a result of their competitive disadvantage as a tourist destination.

The main reasons for which Romania has relatively poor performance in the tourism industry in comparison with Central and Eastern European countries are:

- Lack of a stable and coherent action plan on tourism development;
- Lack of investment funds for specific and general development, infrastructure rehabilitation and change due to the slow and complicated process of privatization, taxation of unapproved
- Lack of facilities for bank loans.

However the tourism sector reform started later, even though some economic reform attempts were made in early 1990, but its application was extended during a very long time.

However, research shows that European tourism in the future will focus on the quality of tourist experience - meaning they will pay particular attention to the environment, employees, local communities, care much more for tourists.

Integrating sustainability issues in all their activities, tourism entrepreneurs will protect the benefits that make Europe the most attractive tourist destination in the world - will protect the diversity and variety of landscapes intrinsic and cultures.

Also addressing sustainability concerns in a socially responsible tourism industry will be able to provide products and services, quality, value-added.

As part of the European Union, Romania should have a clear approach in respect of certain principles in tourism development, record rates of competitiveness and sustainable development.

The principles for achieving a competitive and sustainable Romanian tourism should be those outlined by the European Commission, which calls on all actors to respect the following principles:

- A holistic and integrated approach - tourism planning and development should take into account all the effects it produces, tourism must be balanced and integrated into a series of activities that produce positive effects on society and on environment;
- Long term planning - Sustainable development refers to the protection of resources both for present and future generations, long term planning requires the ability to support activities that you can use time efficiently;
- Finding an appropriate pace of development - the pace and form of development should respect the character, resources and needs of host communities and tourist destinations;
- Involvement of all stakeholders - Sustainable development requires a comprehensive approach and commitment of all participants in making and implementing decisions, implementation of outcomes by all stakeholders, including a real financial support;
- Use best available knowledge, policies and actions should be developed based on the latest and best knowledge, must have information on trends in the tourism industry, its impact over

time, skills and experiences should be shared;

- Reduction and risk management (precautionary) - where there is uncertainty about the results to be achieved, it should make a full assessment, then preventive measures are taken to avoid damage to the environment and society;
- Effects on transmission costs (user and polluter pays) - prices should reflect real costs to society caused by the consumption and production activities. This has implications not only pollution but also use equipment that generates significant costs of administration;
- Establishing and respecting limits - where applicable - limited capacity of individual sites and regions should be recognized, to make an estimate of potential tourists accommodation capacity;
- Conducting ongoing monitoring - Sustainable development is about understanding impacts and increased attention to them, so changes and improvements to be met.

Romania should focus on those elements of conceptual development, to create enthusiasm, consumer satisfaction, so that beyond the stage of "pull" consumers to ensure not only landscapes and tourist destinations, but their loyalty.

The dual challenge for tourism researchers is to find ways to effectively transfer existing knowledge about tourism and tourists directly to regional communities and to further develop an understanding of tourism as a social and economic phenomenon. (Parpandel, D., 2009).

## **6. Conclusions**

The data confirm an ongoing global recovery in terms of travel. Recovery extends to Europe which has seen an increase in arrivals in the first half of 2010, promising to accelerate in the third quarter, this despite the obstacles on the air in April because of volcanic ash.

While traveling in Europe on the recovery was generally positive earnings have helped Western Europe, while northern Europe continues to lag behind 2009.

Some European destinations have benefited from favorable exchange rate conditions. Russia and Japan had strong growth, and the U.S. show some signs of recovery in recent months. Increasing the number of passengers at European airlines was consistently positive due to the closure of airspace in April 2010. U.S. economy in particular has slowed while the Euro area showed surprisingly strong first half of 2010 to the fiscal constraints and care debt. While the cooperative sector is flush with cash and represents an upside risk to the forecast, the shy responsible investment.

Uncertainty in the financial sector, European banks due to the problems of asset prices and sudden changes in the financial sector crisis maintain, increase the risk of a return to recession.

## **7. Acknowledgement**

This article is a result of the project POSDRU/88/1.5./S/55287 „Doctoral Programme in Economics at European Knowledge Standards (DOESEC)". This project is co-funded by the European Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies in partnership with West University of Timisoara.



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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

**European Transportation Policy for better Integration.  
Shifting the Balance between the Modes of Transport**

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**Abstract:** The increasing need for transportation and mobility of citizen gives raises the importance of transportation policy. The development of the European transportation policy has a great significance for the European Union. The common transportation policy of the European Union is reviewed and updated every nine years. The first common transportation policy of the European Commission was published in December 1992. Besides the railway sector, most of the objectives listed in this policy were realized in ten years. In 2001, the European Commission proffered a new transportation policy with sixty new measures. Thus, this paper shows the importance of transportation projects -especially in the field of railways- for European Union member states. In accounting, cross-border sections of projects are more or less neglected, as member states tend to prioritize the development of sections of the projects, which are economically viable for themselves, thereby delaying the overall connectivity of the trans-European network. The railway modal is the hardest modal to interoperate between the member countries. Therefore it is not a surprise that the objectives listed in the first European transportation policy were not realized in the railway sector. There were enormous differences between railway systems before the European Union. Some of them still have an influence on current railway infrastructure and operations today. To sum up, this research shall deal with the crucial aspects of common transportation policies as well as problems of its implications.

**Keywords:** European transport policy; European railway projects; interoperability; Fehmarnbelt; Pyrenees

## Introduction

When the European Union was formed in 1992, a transport policy was incorporated to guide the European Union to a better unification between its member states.

*“Studies show that transport is set to double by 2030... If nothing happens, pollution and congestion will increase prices of our products and impact negatively on the competitiveness of our industry and the quality of life of our citizens. Congestion is estimated to represent around 1.1% of EU’s GDP or more or less the EU budget (EUR 100 billion). There are also adverse consequences for safety (over 44,000 deaths on Europe’s roads each year), the security of energy supply (the transport sector is very dependent on oil) and the quality of the environment (transport is responsible for %30 of greenhouse gas emissions)... Therefore, European transport policy must promote the modal shift towards modes of transport which are less congested, safer and less polluting.”*

Jacques Barrot, EU Transport Commissioner

## **The Need of a European Transportation Policy**

Transportation is an important aspect in every citizen's everyday life, and considered a right to have access to. Without a proper working transportation system in a country, a country becomes paralyzed and the economy of the country will suffer from it, as the lack of transportation will lead to a decrease in its productivity levels, and thereby affecting GDP.

Not only is it important to avoid a paralyzed state when it comes to transportation, a transportation policy also functions as a guideline with goals to achieve to cope with an ever increasing need of transportation and mobility of its citizens, while being sustainable towards the environment and from an economical and social aspect.

The development of the European transportation policy has been very important for the European Union, as the European Commission began to make a new internal market between its member states in the European Union in 1992, when the Maastricht Treaty was signed and became into effect.

The new internal market was based on the Four Freedoms, which are follows; the free movement of goods, the free movement of capital, the free movement of services and the free movement of persons. To realize this, all member states gave up a part of their legislative power to the European Parliament, and the European Commission developed an extensive, common transportation policy to ensure these four freedoms, removing any barriers and making transportation between each member state as effective and efficient as possible.

Although the member states were required to give up some of their legislative power as regarding to making a transportation policy, member states still have influence on their own national policy, and the European transportation policy acts as an umbrella policy, thereby affecting the national transportation policy of each member state. The reason for not adapting and implementing one common transportation policy for all the member states is simply that there are still political barriers to its implementation and therefore it is not possible to harmonize all the different transportation policies of all member states.

To facilitate the Four Freedoms, an important aspect of the European transportation policy is the development and creation of a sound trans-European transportation network. Its goal is to promote the smooth operation of the internal market and strengthening economic and social cohesion as a big, unified power bloc, which is comparable to the United States.

Development of the trans-European network would ensure and satisfy the ever increasing need of mobility of persons and goods, be more economically viable, offering users a high-quality infrastructure and allow a better interoperate ability between all modes of transportation between the member states, by harmonizing and adapting common standards in the existing infrastructure.

The common transportation policy of the European Union is reviewed and updated every nine years, in which they review the goals set in their last transportation policy, and add any new issues to the policy which have to be regulated or goals to be met for the next nine years.

The European Commission's first transportation policy, published in December 1992, put the accent on opening up the transport market. Ten years later, most of the objectives listed in this policy were realized, except in the railway sector. Freedom of transportation between the member states became a reality, air safety standards in the European Union became the best in the world and personal mobility had increased from 17 km a day in 1970 to 35 km in 1998

**Contents of the European Transport Policy of 2001 for Integration**

In 2001, the European Commission proposed a new transportation policy with sixty new measures, which were especially focused to develop a transport system capable of shifting the balance between modes of transport and thereby lowering congestion, revitalizing the railways, promoting transport by sea and inland waterway, controlling the growth in air transport and lowering the harmful effects of transportation to the environment and public health and improving road safety.

To reach the objectives which were formulated in 2001 by the European Commission, the following projects were started or to be prioritized by the European Commission:

1. High-capacity rail crossing in the Pyrenees;
2. East European high-speed train/combined transport train;
3. The Fehmarn Belt rail connection;
4. Interoperability of the Iberian high-speed rail network;
5. River Danube improvements;
6. Galileo project for satellite radio-navigation.

The six projects listed above come from a list which includes 30 projects which were considered a project of European common interest and are being carried out to not only balance the modes of transport, but also to eliminate transportation bottlenecks between its member states to be commenced before 2010 and to be completed before 2020.

Funding of these projects come for the most part from the member states itself, and the European Union invests a certain percentage of the total costs, depending on the importance of the project towards the European Union as a whole.

**Rail Projects**

The railway modal is the hardest modal to interoperate between the member countries as the modal itself had various barriers to interoperation, and it is therefore not a surprise that the objectives listed in

The first European transportation policy, to open up the transportation market, was not realized in the railway sector.

The differences of the railway systems before the European Union was implemented were enormous, which still have an influence on current railway infrastructure and operations today. The use of different national track information systems, operating procedures, signaling, track with and rail electrification voltages between member states limit the operation of locomotives and trains in the European railway network. Another aspect of railway transportation in Europe is that the railway infrastructure of cargo trains is shared with a significant amount of passenger trains, while when compared to the United States; mostly freight trains operate its rail network, usually not having to cope with any passenger train on its infrastructure. As this hinders the transportation of goods over the rail network, some rail projects were constructed for freight trains exclusively, such as the Betuwe line from Rotterdam to Germany.

Railways are however a very safe modal to use as can be seen in Appendix: 6, table 1, as in the European Union around 100 deaths are registered each year on railroads, compared to 43,000 deaths on the European roads, while the share of ton-miles transported over rail has been declining for decades. The mode has also a lower environmental impact as road or air transport, which is why

development of high speed trains is advanced and utilized, when compared to other countries outside the European Union.

The European Union believes this modal is the key which will help to create a more balanced use of modals if railroads would be more developed, which is why 80% of all the trans-European transportation projects which were approved by the European Commission and are currently in development or completed are rail projects, despite the high number of barriers to interoperation.

The railway projects described below are specifically the projects which have been prioritized by the European Union and are currently in development, which is why not all the projects, the railway projects which are completed or planned for construction, are not listed or described in this section.

### **High-Capacity Rail Crossing in the Pyrenees**

The Pyrenees are range of mountains between Spain and France, which form a natural border or boundary between those two countries. Currently, road transport is the main mode of transport between Spain and Portugal with the rest of the European Union, while only two road crossings are passing through the Pyrenees, which are located at the Mediterranean and Atlantic coast borders and can visually be seen on a project map in Appendix: 1. Since 1985, there has been an increase of the number of heavy motor cargo vehicles crossing the French-Spanish border, and by 2006, close to 22,000 heavy motor cargo vehicles crossed the border each day using primarily either one of these roads, as seen in Appendix: 6 Table 2. Railroads were never a feasible option for freight transportation between France and Spain, as both the width of the European and Iberian tracks and the rail electrification system differ.

The main problem of the increasing amount of road traffic in the Pyrenees is that it will create more congestion and pollution at a bottleneck which also happens to be a high quality environmental area which should be protected and preserved, while it is economically necessary to have transportation between Spain and France. The development of this crossing would shift the modal balance to the use of trains, while also lowering the environmental impact of road transport by offering piggyback transportation.

### **Current Status**

The project started by converting particular Iberian tracks to standardized, European tracks in Portugal and Spain. It is suspected to be completed in 2013, after which the surveys and studies have been completed for the construction of the trans-Pyrenees railway connection between France and Spain, which is estimated to be completed in 2020. The total length of the track is 1573 km, of which 1242 km is completed, which is 79% of the total track. Total costs of this project are estimated on EUR 8.9 billion, still excluding the estimated costs of the studies and construction of the rail crossing in the Pyrenees.

### **East European High-Speed Train/Combined Transport Train**

Because of historical political reasons, the rail infrastructure between East- and West- European member states was never developed very significantly and therefore lacking an efficient railway mode from Western member states to the Eastern member states. The development of an efficient

transportation mode for both passengers and freight is viable between East- and West-Europe, as trade is growing immensely because of Western companies outsourcing their production in Eastern Europe, and thereby preemptively avoiding bottlenecks in the future.

The railway goes through densely populated areas which can be seen in Appendix: 2; the railway starts in France from Paris, through Stuttgart in Germany, Wien in Austria and ending in Bratislava, Slovakia. The line can possibly also be extended to other cities (candidate) member states, such as Budapest in Hungary, Bucharest in Romania, Sofia in Bulgaria and Istanbul in Turkey.

### **Current Status**

The project started in all of the countries in which the rail line goes through. 464 km of the total of 1298 km of track has already been laid, most of which is in France, and the complete railway is estimated to be completed in the year 2020. However, it is forecasted that most of the railway will already be completed and operational by 2015, while certain sections will be completed before 2020. Total costs of this project are estimated on EUR 15 billion.

### **Fehmarnbelt**

The Fehmarnbelt is an 18 KM wide sea passage between the Danish island Lolland and the German island Fehmarn, which are located in the Western part of the Baltic Sea. Refer to Appendix: 3 for a map. The economic value of the bridge is derived from the fact that it would stimulate the economic development of the Baltic Sea regions of Germany and Denmark, by decreasing the time needed to cross the Fehmarnbelt.

The bridge will replace the ferry service between the two islands, and the time to cross the Fehmarnbelt will thereby be reduced by one hour, from 4¾ hours to 3¾ hours.

The bridge is not only designed for trains only, it will also be accessible by cars and trucks, as the bridge will have four road lanes to accommodate motorway traffic.

### **Current Status**

The construction of the bridge has started in March 2009, which cost EUR 5.6 billion to build, excluding any other infrastructure which has to be built around the bridge to accommodate the use of the bridge itself, which costs are estimated around EUR 2.3 billion. Interestingly enough, most of the funding comes from Denmark, while Germany only improves its own infrastructure to accommodate to foreseen increase of traffic caused by the bridge. Completion of the project is expected in 2018

### **Interoperability of the Iberian High-Speed Rail Network**

This rail project is not to be confused with the other rail project in the Pyrenees, which is a different project where the rail tracks are exclusively used by freight trains. While the rail network developed in this project particularly focuses on passenger transportation

The problem of having two different tracks in Europe namely the Iberian and the European tracks, does not only affect interoperability and therefore the efficiency of the complete railway system between the member states, but also free competition in the Iberian rail market.

Because the Spanish and Portuguese governments were planning to build high-speed rail lines, the European Union insisted that these new tracks would have to be interoperable with European trains. Therefore, the new Iberian high-speed lines will have dual rail gauges, which is a third rail, to facilitate both Iberian and European high speed trains on the same rail line. This project is also complementing an existing high speed rail network in Iberia, which has already been constructed with European track width measurements. To see the extent of the planned lines, please refer to Appendix: 4.

The added advantage for freight transportation by rail in Spain and Portugal is that the conventional rail lines become clear of passenger traffic, which means that the transportation of goods by rail will be faster and more efficient. However, the interoperability issue still existent on the conventional tracks and remains unsolved.

### **Current Status**

The project is suspected to be completed in 2013, while some parts of the track are suspected to be operational before 2013, such as the railway connection between Valencia and Madrid. The total length of the track to be constructed, modified or upgraded is 4730 km, of which 995 km is completed which is 21% of the total track. Total costs of this project are estimated on EUR 42.2 billion.

### **River Danube Improvements**

The river Danube is the longest river in the European Union, which originates from the Black Forest in Germany, and flows into the Black Sea, in Romania. The importance of the Danube River lies in the fact that the river is connected with a canal to the Rhine River and thereby making an inland waterway from the North Sea to the Black sea while going through twelve different countries in Europe, seven of which are member states.

Although it is already possible to reach the Black Sea from the North Sea by thru Rotterdam, the European Union finds it necessary to improve the inland waterway of the river Danube even more, as traffic volume is expected to rise and the objective of promoting modal shifting for freight between Eastern and Western Europe more from the motorways to the waterways.

The improvements comprises of improving navigability on the Danube River, and one of which is by constructing a series of locks at a bottleneck in the 70-km long Straubing-Vilshofen section, which is marked as a priority section in Appendix: 5. This section limits the size of the inland vessels to 110x11.45m and placing locks at that section helps guaranteeing the depth of the river at 2.5m. Another improvement of importance is the instable flow of water in Hungary, which jeopardizes navigability by sudden low waters.



**Current Status**

The project is very environmentally complex at the Straubing-Vilshofen section and has suffered delays by environmentalists claiming that the construction of new locks in that area would cause damage to the local habitat. Studies in Hungary are still underway and there is no solution to the problem as of now.

Although the project estimated to be completed by 2016, it is very unlikely to be finished by then, as a new, unexpected 3 year study on the ecological impact of the area around Straubing-Vilshofen is being conducted as of 2011 and studies in Hungary are still not completed. The improvement parts in Hungary and Romania are however being constructed and on schedule to be completed before 2016.

**Galileo Project for Satellite Radio-Navigation**

The Galileo project is a project which is developing a state-of-the-art global navigation satellite system, which is comparable to the American GPS system. The project itself has nothing to do with shifting balance between the modes of transport, but is prioritized regardless, because of political and safety reasons.

The technological advantages over the American GPS system is that the Galileo system will be able to provide a more accurate positioning service and offering full precision to its civil users, unlike the American counterpart which only offers full precision to its military users.

The political reason for developing a European-controlled global satellite navigation system is because the United States has the capability to encrypt their GPS services, thereby locking anyone else out who wants to use their services in times of conflict. If Europe were to have its own system it would not be dependant onto other foreign global navigation satellite systems.

The transportation related purpose of the Galileo system is to ensure the use of satellite navigation in Europe, as the use of satellite navigation is very widespread, and almost even standardized, which means that any interruption of satellite navigation can have a serious impact in for example airborne or seaborne traffic.

Other applications are amongst others to provide real-time information to road users with real-time traffic information and route guidance, managing emergency services, assisting pilots to land in all weather conditions, providing real-time information to public transport users and offering search and rescue services with distress beacons connected to the Galileo system.

The Galileo system will however still be interoperable with the American GPS-system and the Russian GLONASS-system to offer the best infrastructure and services to its users, despite the political reasons for the development of the Galileo system.

**Current Status**

In the 2001 transportation policy it was foreseen that the Galileo system would be completed and operational by 2008, although now it is still under development due to political and technical implications, the impacts of the terrorist threats in recent years, inadequate governance and the lack of resources to develop the project as the projects' budget was exceeded (and expanded) multiple times in the development stage. As of 2009, it is suspected that the system will be operational by 2013. The

European Union invested EUR 2.2 billion in the project, while the private sector has invested around 1.3 billion.

### **The Effects of the Transportation Policy for Integration**

From 2001, the number of casualties on European roads has been decreased significantly as can be seen in Appendix: 6 Table 1. However, the decrease is not solely the result of the transportation policy, as it is also contributed to the ever-increasing higher passenger safety of the cars themselves.

The impacts of the transportation policy for 2010 to the shift the balance of modals are as of 2007 still not very noticeable. The modal split as seen in table 3 & 4 in Appendix: 6 still shows that the share of freight transport by road has ever been increasing from 2001, while the modals rail and inland waterways are lower than in 2001. However, there has been a steady increase of passenger transport by high speed rail, indicating the shift from passenger transport from conventional tracks to high speed tracks, which means that conventional tracks are becoming increasingly more available for freight transport. As the projects are not completed it is not a surprise that the numbers still do not reflect the anticipated results, though marginal changes can already be seen in the share of high speed rail passengers.

A reoccurring phenomena I noticed while writing and researching for this paper is that all of the projects listed above, except the Galileo project, have cross-border sections, which do not seem to have a priority in the realization of the project.

As most of the funding and investments for the projects come from the member states involved, it is causing a delay to the cross-border sections as the member states put a priority to develop their own infrastructures or sections of the Projects which are economically viable for their own member state first, and thereby delaying the overall connectivity of the whole project in question.

On a final note, I would recommend the European Commission to oversee the development of the cross-border sections and making their funding only available for cross-border sections, as the funds of the European Union is accumulated wealth of all the member states.

### **Conclusion**

In 2001, the European Commission proposed a new transportation policy which put the focus on trying to shift the balance of modals used in Europe, particular on railways. As a result new projects were executed to pursue the focal point of the new transportation policy, 80% of which were rail-related. The execution of these projects were not only supposed to solve the modal imbalance, but also to eliminate future bottlenecks, to solve environmental issues, creating an integrated and efficient European transportation network, to improve safety on its transportation network, stimulating the economic development of its member states and also creating more free market competition.

Although the projects are not completed yet, the usage of partially completed high speed rail sections have already showed marginal results, the shift from passenger transport on conventional tracks is slowly shifting to high speed rail transport, which is creating more capacity for freight transport on the conventional tracks.

During my research, I noticed that cross-border sections of projects are more or less neglected as member states tend to 'prioritize the development of sections of the projects which are economically

viable for themselves, thereby 'delaying the overall connectivity of the trans-European network. As a recommendation, I proposed that the European Commission should oversee the development of these cross-border sections and making their funding available for these specific parts for European Integration.

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Appendix 1



Appendix 2

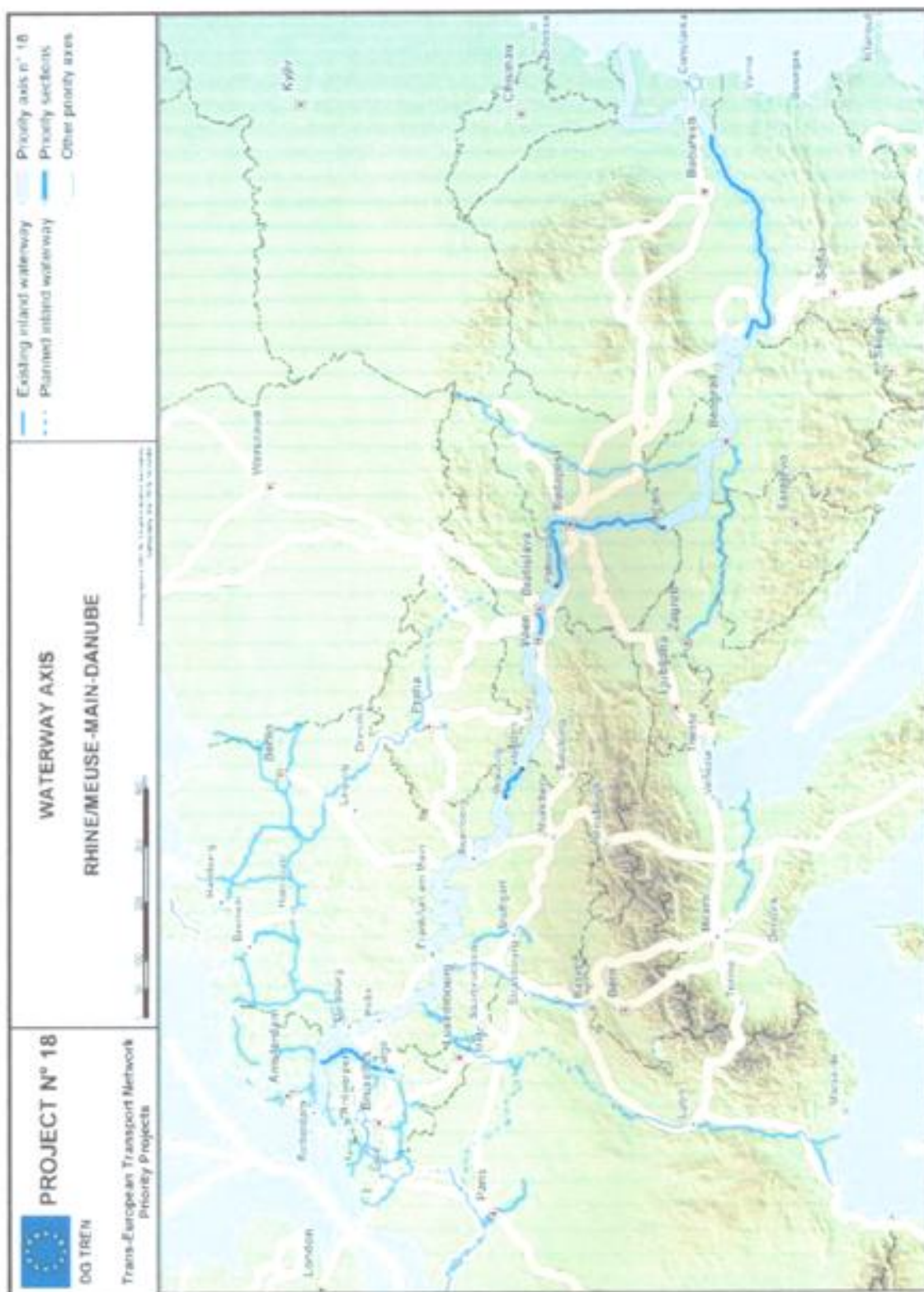






Appendix 4







## Appendix 6

Table 1: Railway &amp; road fatalities in the EU

Railway Fatalities									
NUMBER OF RAILWAY PASSENGERS KILLED IN ACCIDENTS INVOLVING RAILWAY									
	1990	2000	2001	2002	2003	2004	2005	2006	2007
EU-27							65	138	76

Road Fatalities									
	1990	1995	2000	2001	2005	2006	2007	CHANGE '06/'07	CHANGE '00/'07
EU-27	75 977	63 106	56 412	54 314	45 126	42 952	42 448	-1.2	-24.8

Table 2: Goods traffic in the Pyrenees

Road PYRENEES CROSSING TRAFFIC				
GOODS TRAFFIC				
	West coast Bariatou (inc. A63)	East coast Le Perthus (inc. A9)	Other crossings	TOTAL
1997	5 657	6 729	880	13 266
1998	6 447	7 413	905	14 765
1999	6 914	8 018	914	15 846
2000	8 224	8 200	1 519	17 943
2001	8 806	8 050	1 172	18 028
2002	8 864	8 535	1 505	18 904
2003	9 276	8 920	1 758	19 954
2004	10 655	9 302	1 875	21 832
2005	9 970	9 243	1 825	21 038
2006	10 390	9 602	1 939	21 931



THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

**Presentation of Financial Statements According to IPSAS  
- a Challenge for Professional Accountants**

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**Abstract:** The International Public Sector Accounting Standards (IPSAS) is an important step in public sector accounting reform. Problems arising in the context of adopting a common language through IPSAS are multiple and not easy to prove their usefulness, advantages and disadvantages of using them, so aim will be the countries' agreement to accept and adopt these regulations. The preparation of financial statements is a complex process of aggregating data to form economic and financial indicators. Content and preparation of the financial statements differ by type of institution, according to their kinds, depending on how their funding and business profile. The financial statements of public institutions are particularly broad, complex and lengthy, and the information it provides can often be interpreted only by the professional accountant. The professional accountant is the only one capable of ensuring providing appropriate information to users that they base their decisions on the allocation of funds.

**Keywords:** normalization; standardization; International Public Sector Accounting Standards; public accounting

## **1. Introduction**

Transparency in public sector reporting is crucial in presenting the implications of the measures on the economic crisis, both in the financial statements and the notes. The accrual accounting, including the presentation of various commitments, it is essential to ensure transparency. „People” believes that these statements taken from the IAS framework refers only to private enterprises, since they have fundamental mission to generate revenue, and, hence, economic benefits, but it's not like that. A public institution is more interesting and become more attractive if it knows how to base the budget, to substantiate the request for funds; if it dared to request and obtain financing programs; if it offers legal and scientific support for dimensioning and collecting its revenue from taxes, related activities, collateral resources; if it knows how to manage costs, properly balancing between needs and resources - and all in a context in which efficiency and perspective are not omitted (Drăgan, 2008).

The accuracy, which must be scientifically dissected such a generous topic, has invited many experts in international accounting to such a task (Bogdan, 2004). Accounting literature abounds with similar studies conducted by researchers in public accounting, which deals with the theme of

convergence/harmonization of accounting, very useful to demonstrate the advantages, disadvantages and prospects of this complex phenomenon, derived from economic globalization, which has stirred much controversy and debate. The complexity of the process of harmonization with IPSAS, but also beneficial consequences on the global economy, determines the pros and cons of views among large normalized around the world, causing many concerns and disputes among experts: the professional accountants. World experience on the implementation of IPSAS is relevant and inspiring for our work: about 30 countries are adopting accrual basis IPSAS, including France, South Africa, Switzerland, Russia, Israel, Slovakia, Brazil; some adopt IPSAS directly (e.g. Switzerland, Slovakia, Austria), some adopt IPSAS through national standards (e.g. South Africa, Brazil). Also sub-national governments are adopting IPSAS when the decentralized structure allows them to move independently – e.g. Prefecture of Tokyo, State of Hesse, and State of Zurich. Entire UN system, OECD<sup>1</sup>, NATO, Interpol<sup>2</sup> and EC has already adopted IPSAS. A group of 10 countries are using IPSAS as a reference: some with a long tradition in standard setting (Australia apply IPSAS-IAS mix named Australian Accounting Standards, New Zealand, United States, UK) and Indonesia, Chile.

Also, IPSAS is based on IFRS and therefore a transition from IFRS to IPSAS wouldn't be very difficult respectively wouldn't be an expensive project. And this even more as Romania has already made the most important step by adopting the accruals basis of accounting, including some of the IPSAS, notably IPSAS 1 *Presentation of Financial Statements*, IPSAS 2 *Cash Flow Statements*, IPSAS 12 *Inventories*, IPSAS 17 *Property, Plant and Equipment* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Most transitional work is probably needed to harmonize budgeting and accounting. Public accounting reform measures in Romania fits into the international public accounting regulations. Adoption of IPSAS is a measure of international accounting harmonization, so as the objective is uniformity of public systems of member countries IFAC with beneficial consequences for the global economy. In our country the implementation of IPSAS was performed by applying selective the international standards as an interim step until the completion of the entire process of accounting harmonization, due to the complexity of standards, vocabulary and communication problems (English language standards), but especially concerned the cultural incompatibilities (economic system, socio-political environment, legal system, accounting profession).

IPSAS are highly complex, with a considerable volume (currently exceeding 1200 pages) and difficult to interpret, given the economic and financial nature which does not correspond directly to each country's own legal terminology. In addition, IPSAS not treat all transactions that occur in specific public sector. Each public institution - the state, university or hospital, public international organization or locality - has a system adapted to its own characteristics, while the IPSAS are uniform, not flexible depending on the particularities of each public institution (Ristea & Jianu, 2010). Adaptation of IPSAS to the specific Romanian public sector particularities, namely the various public institutions, and preparation of financial statements so treated, is an extremely complex activity, requiring a lot of patience and rigor.

Annual financial statements prepared by public institutions should be characterized by simplicity and clarity in order to be accessible to a broader sphere of users. They should be composed of a smaller number of forms, which include indicators only strictly necessary, but with high information content. However we appreciate that the financial statements of public institutions are particularly broad,

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<sup>1</sup> OECD Organisation for Economic Co-operation and Development (2010). [www.oecd.org](http://www.oecd.org). Retrieved from [http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=BC\(2010\)29&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=BC(2010)29&doclanguage=en)

<sup>2</sup> ICPO - International Criminal Police Organization (2010). [www.interpol.int](http://www.interpol.int). Retrieved from <http://www.interpol.int/Public/ICPO/InterpolAtWork/FinancialStatements2009.pdf>

complex and lengthy, and the information it provides can often be interpreted only by a professional accountant - the only one capable of ensuring providing appropriate information to users that they base their decisions on the allocation of funds.

On the other hand, there are certain limitations of IPSAS: IPSAS, as currently conceived, can make only limited contribution to improving financial management in developing countries. The reasons are (Chan, 2010):

- No clear road map for „reverse engineering” from financial statements to accounting systems;
- Capacity to decide the future (budgeting) is a higher priority than to look back at the past (financial accounting);
- Capacity to manage parts of a government throughout the year (special purpose reports) is more urgent than to monitor the whole government at year-end (annual consolidated financial statements).

The accounting information provided by financial statements prepared in accordance with a national referential as such can not be used in decision making than in a national context, they lose their immediate relevance and international comparability. „Progressive harmonization of accounting rules could greatly reduce costs occasioned by the presentation of information by divergent accounting systems, because it will facilitate mutual recognition of financial statements from one country to another” (Geiger, 1990).

## 2. Pertinent Differences between IAS and IPSAS

IPSAS is converged with IFRS by adopting them to a public sector context when appropriate. The IPSAS-Board has been attempting, wherever possible, to maintain the accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure and deals with public sector financial reporting issues that are not dealt with in existing IFRS. Table 1 show that all IPSAS, with the exception of the autonomous IPSAS 22, 23 and 24, are based on corresponding IAS/IFRS.

**Table 1. Sources of IPSAS**

IPSAS 1	IAS 1	IPSAS 16	IAS 40
IPSAS 2	IAS 7	IPSAS 17	IAS 16
IPSAS 3	IAS 8	IPSAS 18	IAS 14
IPSAS 4	IAS 21	IPSAS 19	IAS 37
IPSAS 5	IAS 23	IPSAS 20	IAS 24
IPSAS 6	IAS 27	IPSAS 21	IAS 36
IPSAS 7	IAS 28	IPSAS 22	-
IPSAS 8	IAS 31	IPSAS 23	-
IPSAS 9	IAS 18	IPSAS 24	-
IPSAS 10	IAS 29	IPSAS 25	IAS 19
IPSAS 11	IAS 11	IPSAS 26	IAS 36
IPSAS 12	IAS 2	IPSAS 27	IAS 41

IPSAS 13	IAS 17
IPSAS 14	IAS 10
IPSAS 15	IAS 32

IPSAS 28	IAS 32
IPSAS 29	IAS 39
IPSAS 30	IFRS 7
IPSAS 31	IAS 38

Currently there are 26 IPSASs applicable from the date of February 15, 2009: standards inspired by IAS/FRS (IPSAS 1- IPSAS 21), standards for their particular area of public sector (IPSAS 22 - IPSAS 26) and one standard created after the cash accounting method to introduce accrual accounting method.

At the practical challenge in implementing IPSAS has obviously found that the two categories of standards do not match, because of major differences between public and private sector, and there have been criticisms of the relevance of IAS in IPSAS's construction: there were areas not covered by IPSAS (pensions, IAS 39), certain IPSAS were not considered relevant to public sector (IPSAS 10 *Financial Reporting in Hyperinflationary Economies*, IPSAS 16 *Investment Property*), other standards should be changed and reformulated (IPSAS 15 *Financial Instruments: Disclosure and Presentation*).

„Financial reporting in the public sector is dynamic”, said Andreas Bergmann, IPSASB Chair. „The IPSASB must continually reassess the IPSASs to ensure that they are relevant and up to date and that they are easy to use by preparers of public sector financial statements” (IFAC, 2010). In this respect IPSASB has an improvements project, an annual undertaking intended to enhance the usability of IPSAS and thus facilitate global convergence. The project includes proposed improvements to existing IPSAS to maintain alignment with IFRS, as well as new standards. IPSASB has issued five **new standards** that cover all aspects of accounting for and disclosure of financial instruments. These standards are drawn primarily from IFRS and address many public sector-specific issues:

- IPSAS 27 *Agriculture* prescribes the accounting treatment and disclosures related to agricultural activity, a matter not covered in other standards;
- IPSAS 28 *Financial Instruments: Presentation* will replace IPSAS 15 and establishes principles for presenting financial instruments as liabilities or equity, and for offsetting financial assets and liabilities;
- IPSAS 29 *Financial Instruments: Recognition and Measurement* establishes principles for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items;
- IPSAS 30 *Financial Instruments: Disclosures* supersedes the disclosure requirements of IPSAS 15 and enables users to evaluate significance of the financial instruments in the entity's financial position and performance, the nature and extent of risks and how those risks are managed;
- IPSAS 31 *Intangible Assets* prescribe the accounting treatment for intangible assets and requires an entity to recognize an intangible asset if, and only if, specified criteria are met.

IPSAS 27 & 31 will apply for annual financial statements covering periods beginning on or after April 1, 2011. IPSAS 28, 29 & 30 are effective for annual financial statements beginning January 1, 2013. IPSASB encourages earlier application.

The objective of **IPSAS 1** is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities (IFAC, 2009). To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. IPSAS 1 is drawn primarily from IAS 1 and has some improvements and adjustments to specific public entities, namely:

- IPSAS 1 expands the application of the going concern concept;
- IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity, while IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners;
- IPSAS 1 uses different terminology - *entity, statement of financial performance, statement of financial position, net assets/equity* to *economic entity, income statement, balance sheet, profit and loss account, equity*;
- IPSAS 1 defines certain technical terms in different ways from IAS 1 (*accrual basis, economic entity, impracticable, material* etc.);
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements;
- IPSAS 1 does not explicitly preclude the presentation of items of revenue and expense as extraordinary items either on the face of the statement of financial performance or in the notes, while IAS 1 prohibits the presentations of any such extraordinary items;
- IPSAS 1 contains an authoritative summary of qualitative characteristics based on the IASB framework.

**IPSAS 2** is drawn primarily from IAS 7 and has some improvements and adjustments to specific public entities, namely:

- IPSAS 2 introduces additional comments to clarify the applicability of the standards to accounting by public sector entities;
- IPSAS 2 uses different terminology *entity, revenue, statement of financial performance, statement of financial position* and *net assets/equity* to *enterprise, income, income statement, balance sheet* and *equity*;
- IPSAS 2 defines certain technical terms in different ways from IAS 7 (*accrual basis, economic entity, control, Government Business Enterprise* etc.);
- Although both standards allows either the direct or indirect method to be used to present cash flows from operating activities, when using the indirect method, IPSAS 2 encourages disclosure of a reconciliation of net surplus from ordinary activities to operating cash flows in the notes to the financial statements;
- IPSAS 2 does not include an illustration of a Cash Flow Statement for a financial institution.

A complete set of financial statements in the sense IPSAS 1, includes: a statement of financial position; a statement of financial performance; a statement of changes in net assets/equity; a cash flow

statement; when the entity makes publicly available its approved budget, includes a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and notes, comprising a summary of significant accounting policies and other explanatory notes.

Romanian accounting rules, approved by orders of the minister of public finances, provided that the financial statements of public institutions have the following structure: balance sheet; economic result account; cash flows; statement of changes in the structure of assets/equity; annexes to the financial statements, including: accounting policies and explanatory notes; budget execution account (OMPF, 2005). From the analysis of the two standards, we appreciate that national standard converges to the IPSAS. However, IPSAS 1 agree with several names for the components of financial statements and in addition, unlike the Romanian accounting standards, does not consider the budget execution account as a component of the financial statements of public institutions. Public sector entities are generally subject to budgetary limits in the form of appropriations or budget authorizations, which may be given effect through authorizing legislation. Financial reporting for public sector entities can provide information about obtaining and using resources in accordance with legally approved budget. Unlike in private sector enterprises, the budget in the public sector is not only a tool to deploy strategic plans, but also part of a formal, legal authorization of any expenditure.

IPSAS 1 states that when a public sector organization makes its approved budget public, the organization must also provide a comparison of budgeted and actual amounts, either as a separate statement or included as a column in the budget itself. The requirements for budget reporting are detailed in IPSAS 24 *Presentation of Budget Information in Financial Statements*, which has no counterpart in IAS. Therefore, entities that make public their budgets approved must comply with the requirements of IPSAS 24. For other entities, this standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period, providing information on variations between the budget and appropriations, budget overruns, making expenditures without authorization or allocation. Therefore, the standard encourages entities to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity's achievements over the reporting period. By adopting IPSAS 24, transparency and comparability of the financial reporting would be enhanced substantially.

### **3. Presentation of Financial Statements**

#### **3.1 Statement of Financial Position**

Regarding the statement of financial position (correspondent *balance sheet* in national norms) the Standard offers the option of a separate classification of current and non-current assets and current liabilities and long-term ones, according to the nature of the business. If distinction *current/non-current* is not possible, assets and liabilities will be presented according to their degree of liquidity.

Entities can choose how to present only if the used option provides reliable and more relevant information. Thus, if an entity acting as a supplier of goods and/or service, within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are

continuously circulating as working capital from those used in the entity's long-term operations. In this way users of financial statements can distinguish assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. For other entities, financial institutions category, which does not provide goods or services within a clearly identifiable operating cycle, the presentation of assets and liabilities will be in ascending or descending order of liquidity, because it provides information that is reliable and is more relevant than a current/non-current presentation. It is possible that the public sector entities, with diverse operations may need arises for a mixed basis of presentation.

Depending on the differentiation of assets and liabilities into current and non-current, according to IPSAS 1, the minimum content of Statement of Financial Position is presented in Table 2:

**Table 2 Statement of Financial Position as at December 31, 20X2 (IFAC, 2009)**

<i>(in thousands of currency units)</i>	<b>20X2</b>	<b>20X1</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	X	X
	<b>X</b>	<b>X</b>
<b>Non-current assets</b>		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	<b>X</b>	<b>X</b>
<b>Total assets</b>	<b>X</b>	<b>X</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	<b>X</b>	<b>X</b>
<b>Non-current liabilities</b>		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	<b>X</b>	<b>X</b>
<b>Total liabilities</b>	<b>X</b>	<b>X</b>
<b>Net assets</b>	<b>X</b>	<b>X</b>
<b>NET ASSETS/EQUITY</b>	<b>X</b>	<b>X</b>



<i>(in thousands of currency units)</i>	<b>20X2</b>	<b>20X1</b>
Capital contributed by other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
Minority interests	X	X
<b>Total net assets/equity</b>	<b>X</b>	<b>X</b>

According to IPSAS 1, *equity* are also called *net assets*, because of the deductive determination of the balance sheet format list:

$$\text{Net assets / equity} = \text{Total assets} - \text{Total liabilities}$$

The item *Investments in Associates*, covered by IPSAS 7, consider only those investments that leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure, in which investor interest can be measured reliably (capital or units in a fund securities ownership). The investment is included in the separate financial statements, the associate and the investor, the investor will issue consolidated financial statements under IPSAS 6 treatment. Investment in associate is accounted for using the equity method in accordance with IPSAS 7, whereby he investment is initially recorded at cost and subsequently adjusted (increased or decreased) to recognize the investor's share of net surpluses or deficits of the investee after the date of acquisition.

Position *Employee Benefits* is structured into four categories according to IPSAS 25 (IFAC, 2009):

- Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees of the entity;
- Post-employment benefits such as pensions, other retirement benefits, postemployment life insurance and post-employment medical care;
- Long-term employee benefits, which may include long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are payable twelve months or more after the end of the period, performance related bonuses, profit-sharing bonuses and deferred compensation; and
- Termination benefits, as a result of an entity's decision to terminate an employee's contract before the normal retirement date or an employee's decision to accept voluntary departure of the unemployed in exchange for those benefits.

### 3.2 Statement of Financial Performance

Regarding the statement of financial performance (correspondent economic result account in national norms), again, the standard allow freedom entity in the classification of expenses that can be presented either by destination (function) in the entity, whether by nature. The choice of method of presentation of expenses depends on both the historical and regulatory factors and the nature of the organization, so management of the institution chooses the most credible and relevant.

Although both methods indicate those costs that vary, directly or indirectly, depending on the entity's results, when using the classification of expenditure by function, the standard requests for additional presentations, since this information are useful to users for proper predictions of future cash flows.

Depending on the method chosen for classifying expenditure by function or by nature, IPSAS 1 establishes the content of statement of financial performance in the Tables 3 and 4.

**Table 3 Statement of Financial Performance for the year ended December 31, 20X2 - illustrating the classification of expenses by function (IFAC, 2009)**

	20X2	20X1
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
<b>Total revenue</b>	<b>X</b>	<b>X</b>
<b>Expenses</b>		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
<b>Total expenses</b>	<b>(X)</b>	<b>(X)</b>
Share of surplus of associates	<b>X</b>	<b>X</b>
<b>Surplus/(deficit) for the period</b>	<b>X</b>	<b>X</b>
<i>Attributable to:</i>		
Owners of the controlling entity	X	X
Minority interests	X	X
	<b>X</b>	<b>X</b>

The item *Share of surplus of associates* means the share of associates' surplus attributable to owners of the associates, i.e., it is after tax and minority interests in the associates.

The item *Revenue from exchange transactions*, covered by IPSAS 9, refers to those revenues from transactions and events involving the exchange: rendering of services, sale of goods and use by others of entity assets yielding interest, royalties and dividends. By comparison, revenues generated by public sector entities in transactions and events not involving exchange refers to income from direct and indirect taxes, fees and fines, grants and donations. Method for classifying expenses by function (destination) depending on the program or purpose for which they were made, provides more relevant information to users than the classification of expenses by nature. However, it should be considered the difficulty of allocating expenses by functions (destinations), since it may require arbitrary allocations and thus imply considerable professional judgment. Therefore, entities that choose this method should disclose additional information on the nature of expenses, including depreciation and amortization expense, salaries and employee benefits, and finance costs.

**Table 4 Statement of Financial Performance for the year ended December 31, 20X2 - illustrating the classification of expenses by nature (IFAC, 2009)**

	20X2	20X1
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
<b>Total Revenue</b>	<b>X</b>	<b>X</b>
<b>Expenses</b>		
Wages, salaries and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant and equipment	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
<b>Total Expenses</b>	<b>(X)</b>	<b>(X)</b>
Share of surplus of associates	X	X
<b>Surplus/(deficit) for the period</b>	<b>X</b>	<b>X</b>
<i>Attributable to:</i>		
Owners of the controlling entity	X	X
Minority interest	X	X
	<b>X</b>	<b>X</b>

In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates. Expenditure aggregation method in the statement of financial performance by their nature is simple to apply in many smaller entities because no allocations of operating expenses between functional classifications are necessary.

### 3.3 Statement of Changes in Net Assets/Equity

Regarding the statement of changes in net assets/equity (correspondent *changes in the structure of assets/equity* in national norms) the standard requires that it should highlight the surplus or deficit for the period, and each item of revenue and expense in the period recognized directly in net assets/equity - showing separately the amounts attributable to owners of the controlling entity and minority interests, and the effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatments in IPSAS 3. The structure established by standard for statement of changes in net assets/equity is presented in Table 5.

**Table 5 Statement of Changes in Net Assets/Equity for the year ended December 31, 20X2 (IFAC, 2009)**

	Attributable to owners of the controlling entity						Minority interest	Total net assets/equity
	Contributed Capital	Other Reserves	Translation Reserve	Surpluses/ (Deficits)	Total			
Balance at December 31, 20X0	X	X	(X)	X	X	X	X	
Changes in accounting policy				(X)	(X)	(X)	(X)	
Restated balance	X	X	(X)	X	X	X	X	
<b>Changes in net assets/equity for 20X1</b>								
Gain on property revaluation		X			X	X	X	
Loss on revaluation of investments		(X)			(X)	(X)	(X)	
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)	
Net revenue recognized directly in net assets/equity Surplus for the period		X	(X)		X	X	X	
<b>Total recognized revenue and expense for period</b>		X	(X)	X	X	X	X	
<b>Balance at December 31, 20X1 carried forward</b>	X	X	(X)	X	X	X	X	
<b>Balance at December 31, 20X1 brought forward</b>	X	X	(X)	X	X	X		
<b>Changes in net assets/equity for 20X2</b>								
Loss on property revaluation		(X)			(X)	(X)	(X)	
Gain on revaluation of investments		X			X	X	X	
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)	
Net revenue recognized directly in net assets/equity Deficit for the period		(X)	(X)		(X)	(X)	(X)	
<b>Total recognized revenue and expense for period</b>		(X)	(X)	(X)	(X)	(X)	(X)	
<b>Balance at December 31, 20X2</b>	X	X	(X)	X	X	X	X	

#### 4. Presentation of Cash Flow Statements

IPSAS 2 calls for an organization to provide information regarding historical changes in the organization's cash and cash equivalents. The required information must identify the sources of cash inflows, the items on which cash was expended during the period, and the cash balance as of the reporting date. This cash flow information reveals how the public sector entity raised cash to fund activities and how, specifically, the cash was spent. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision making purposes. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows (IFAC, 2009).

The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.

The amount of net cash flows arising from **operating activities** is a key indicator of the extent to which the operations of the entity are funded by way of taxes (directly and indirectly) or from the recipients of goods and services provided by the entity. The amount of the net cash flows also assists

in showing the ability of the entity to maintain its operating capability, repay obligations, pay a dividend to its owner and make new investments without recourse to external sources of financing. Cash flows from investing activities shows the movements of cash (receipts and payments) arising from current activity, derived from the principal cash-generating activities of the entity, namely: cash receipts from taxes, levies and fines, insurance contributions and other revenue budgets; cash receipts from economic activities (charges for goods and services provided by the entity); cash receipts from grants, subsidies or transfers made by central government or other public sector entities; cash receipts from other operating revenue (royalties, fees, commissions); cash payments to suppliers for goods and services; cash payments to and on behalf of employees (including salaries and related contributions); cash receipts and payments of an insurance entity for premiums and claims, annuities and other policy benefits; cash receipts or payments in relation to litigation settlements etc.

The separate disclosure of cash flows arising from **investing activities** is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are: cash receipts and payments results from sales or acquisitions of property, plant and equipment, intangibles and other long-term assets; cash receipts and payments results from sales or acquisitions of equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes); cash receipts and payments in relation to advances and loans made to other parties (other than advances and loans made by a public financial institution); cash receipts and payments in relation to futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.

The separate disclosure of cash flows arising from **financing activities** is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are: cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings; cash repayments of amounts borrowed; and cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

To clarify the application of IPSAS 2 supplementary, the Handbook of International Public Sector Accounting Standards illustrates the preparation way of Cash Flow Statement as is shown in Table 6.

**Table 6 Direct Method - Consolidated Cash Flow Statement for year ended December 31, 20X2 (IFAC, 2009)**

	20X2	20X1
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts</b>		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
<b>Payments</b>		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
<b>Net cash flows from operating activities</b>	<b>X</b>	<b>X</b>

	20X2	20X1
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
<b>Net cash flows from investing activities</b>	<b>(X)</b>	<b>(X)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
<b>Net cash flows from financing activities</b>	<b>X</b>	<b>X</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>X</b>	<b>X</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>X</b>	<b>X</b>
<b>Cash and cash equivalents at end of period</b>	<b>X</b>	<b>X</b>

## 5. Conclusions

The global financial and economic crisis has been affecting the implementation of IPSAS in several ways:

- It has made funding for IPSAS transition, which is already modest and sometimes too modest to be fully effective, even harder to obtain and more contingent on the understanding and goodwill of senior management and the legislative bodies, especially in the context of a simultaneous adoption of several competing management initiatives and increasing demands of Member States, ever reluctant to approve additional expenditure and human resources;
- It has shown how important it is to have better information on the financial strength of the organizations and the related risks they faced. The credit crisis has increased the need for accountability in the public sector and transparency in its financial transactions;
- It has created controversies among accountants regarding the pro-cyclical impact of international financial reporting standards and how fair value should be measured in times of crisis.

IPSAS adoption is, therefore a complex and comprehensive change management process. While it offers numerous benefits over the medium and long term, it also entails short-term costs and challenges that need to be seriously addressed by the executive heads of all the organizations concerned. The full potential of using accrual-based information can be realized only if managers are convinced of the value of accrual-based data and are able to act on it so as to improve management processes. The accrual-based accounting should not be an end in itself.

IPSAS is time and money consuming. The adoption of IPSAS compliant accounting methods requires additional commitment of time and effort from staff. During the transition phase, depending on their available resources, the organizations will have either to rely for an extended period of time on support from existing staff working in addition to their regular duties or recruit many additional staff.

Undoubtedly, presentation of financial statements according to IPSAS claims professional expertise as accountants and auditors, it requires the availability of professional accounting skills framework. According to the Federation of European Accountants, the representative organization for the accountancy profession in Europe, the involvement of the profession in the setting of accounting

standards on its own is insufficient to achieve success in the application of accounting standards to the public sector. Where the profession is not involved, then the only source of training is the universities and whilst that may be adequate, it is unusual for university courses to focus on the accounting needs of the public sector and in many countries it is also unusual for the public service to regard an accountancy degree as a route to preferment with priority being given to law and economics graduates. Where government decide to introduce accrual based IPSAS, the profession should be prepared to open a dialogue with government about the total process and particularly about the availability of professional accountancy skills. The profession should encourage government to give at least equal weight to accountancy degrees and/or to professional accountancy qualifications as a preferred discipline and it should point to the need for a skilled cadre of accountants within the public sector able to interpret and apply IPSAS and exercise appropriate financial control.

The number of professional accountants in Romania has increased tremendously over the years in both the private and public sector. However the IPSAS is a new concept which is not understood by many. The Government as the leading user of these standards will therefore require undertaking massive capacity building to enlighten its accountants on IPSAS. This is going to be a challenge both in terms of capacity building costs and the required change management issues from the traditional cash accounting to a more business like accounting under accrual basis IPSAS.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES

## **A Snap Shot on Business Ethic and Ethic in Business**

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**Abstract:** An ethical issue in business is increasing and it is being focused on by the business markets, customers and communities. It was important from the beginning and is important also now as well. And every company or organization for being survival and comparative should pay much more attention to this important. This paper aims to study the ethic and some of related issues around it.

**Keywords:** ethic; opportunities; challenges; business

### **1. Introduction**

Multi National Companies, MNEs and local countries are commonly thought to share four universal ethical values viz. integrity, justice, competence and utility -values described elsewhere as international ethics standards for business, respect and trust in locals, environmental protection and respect, and observation of human and environmental protective legislation (C.-F. Wu, 2001, p. 222). Although in other countries and other nationalities there will be other factors added or omitted from the mentioned values for examples in Islamic countries because they have Islamic based values then Islam will effects their trade and management values.

This paper first discusses ethic and environment and then business ethic and different business approaches comes as well. At the end the some recommendations to improve the business ethic discusses in detail.

### **2. Ethic and Environment**

One common view of ethics is the study of right and wrong conduct within a defined environment i.e. Environment defines the ethic and ethical roles.

“Environmental ethics” presents and defends a systematic and comprehensive account of the moral relations between human beings and their natural environment (Des Jardins, 2001, p. 13). It is the discipline that studies the moral relationship between human beings and nature and also the value and moral status of the environment.



Thus, the context in which ethics is applied serves to establish limitations, boundaries, definitions and points-of-view. As examples, the issue of Hallal and Haram is an ethical issue which should be considered and countries which trade with Iran should note and consider this. This is caused by environment because this is role in Islamic countries and not in other non-Islamic ones.

Business ethics is restricted by neo-classical economics within for-profit firms while feminist ethics helps us understand right and wrong within a feminine point of view. While the diversity of approaches to ethics can provide choices when professionals are faced with decisions about values, the choice of ethics can also limit the practical as well as (Hatcher, 2004, p. 357)

### 3. Business Ethic

Business ethics is the behavior that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. They apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer.

Many businesses have gained a bad reputation just by being in business. To some people, businesses are interested in making money, and that is the bottom line. It could be called capitalism in its purest form. Making money is not wrong in itself. It is the manner in which some businesses conduct themselves that brings up the question of ethical behavior (Wise Geek, 2011). According to Fieser, (2010) when business people speak about “business ethics” they usually mean one of three things which can be called three (A) s:

- (1) Avoid breaking the criminal law in one’s work-related activity;
- (2) Avoid action that may result in civil law suits against the company;
- (3) Avoid actions that are bad for the company image.

Some companies translate the ethic to the benefit which mean that if they consider that doing things will bring them benefit then they do that and do not think that is it ethical or not then they balance ethic with benefit.

### 4. Different Business Ethic Approaches

According to Fiser (2010) there are mainly three business ethic approaches which can be considered workable among different public and private sectors:

**1. Deriving Business Ethics from the Profit Motive,** This states that there is a symbiotic relation between ethics and business in which ethics naturally emerges from a profit-oriented business. The weak version is often expressed in the dictum that *good ethics results in good business*, which simply means that moral businesses practices are profitable.

**2. Business Ethics Restricted to Following the Law.** This second approach states that business ethics is that moral obligations in business are restricted to what the law requires.

**3. Deriving Business Ethics from General Moral Obligations.** The third approach to business ethics is that morality must be introduced as a factor that is external from both the profit motive and the law. This is the approach taken by most philosophers who write on business ethics (Fiser, 2010).

### **Some Resources for Helping to be Ethical**

There are some texts, videos and websites helps people, managers and employees to learn what is ethic and how they can improve it. Some are listed below:

#### **Business Ethics Links Library**

The Business Ethics Links Library (BELL) from the University of Colorado at Boulder is a comprehensive starting point for research in corporate ethics and social responsibility. The database provides access to codes of ethics for U.S. companies and trade and professional associations, ethics sites at college and university business programs, industry information resources, and company promotion of social responsibility (Enter web, 2005).

- **ECS2000**

The Ethics Compliance Management System Standard (ECS2000) is a guideline for corporations and other organizations which are endeavoring to conduct business in an equitable and responsible manner. This is Very useful document for any organization which aims to establish, apply, maintain and consistently improve an ethical-legal compliance management system (Enter web, 2005).

- **Complete Guide to Ethics Management**

This guide is a straightforward and highly practical tool designed to help leaders and managers implement comprehensive ethics management systems in their workplaces in order to deal with the complex, ethical issues that can occur in the day-to-day realities of leading and managing an organization. It provides guidelines for managing ethics, identifies key roles and responsibilities, and provides instructions for setting up a code of ethics and a code of conduct (Enter web, 2005).

- **EUROPA Corporate Social Responsibility**

This extremely rich site from the European Commission leads to all the works undertaken by the commission in the area of corporate social responsibility.

- ABC of CSR instruments
- CSR particularly the one from the DG Enterprise which includes a brochure on responsible entrepreneurship for SMEs (Enter web, 2005).

### **5. Improving Business Ethic**

According to Michael R, (1991) survey conducted on Improving American business ethics. There are mainly three fold approach for improving business ethic and these results lead to the premise that long-term improvement of America's business ethics lies in a three-fold approach these can be find here:

First, in both public and private companies it is necessary for employees to understand that expectations for ethical behavior in an organization begin at the top and that senior management expects all employees to act accordingly.

Second, the best method of indicating this top-down attitude and the bureaucratic commanding system is adoption and explicit, unconditional support of a corporate code of conduct and the hierarchal systems.

Third, continuous learning is one of the inherent characteristic of an ethical company or organization so specific training sessions are necessary to prepare managers to consider ethical implications of all business decisions.

But the other step can be added here is creating the culture of ethic in the company or organization. Employees should believe themselves the behavior of ethic.

## **6. Discussion and Conclusion**

There are a lot of factors which determine the ethical company or help the company to be ethical in the area of management and marketing. Especially in the area of international trade the ethical rolls will be internationally ones as well. Companies which work in the international area they should obey from the other globalized and international trade organizations which force companies to obey from them.

Also companies in their local or global trades should try to be ethical they should obey ad respect to the ethical issues because companies which do not obey and respect for the ethical rules will be fined and other companies try not to communicate and trade with them. And customers will not buy more things from them as well.

Business Ethic should be considered as one of the most important factor in every business a company which has 1 billion incomes per a month but does not have business ethic then will not have the ability to survive in this turbulent environment.

Other issue should be addressed here is that companies should be monitored about doing correct business ethic because some big companies may be proud themselves that they obey from the ethical issues and write some slogan on their colorful brands but they do not obey anything about the ethical issues. And it is just as a slogan on brands.

Also we should not think that just companies have ethic and should obey from that. Ethic and ethical issue is as a process for example in a paper company ethic is from the cutting tree until the company and the stationary who sell this paper.

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THE 6<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
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REALITIES AND PERSPECTIVES

## **Policy and Policy Making in Iran; Issues and Process**

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**Abstract:** Policy and policy making are continuous and complex task that crosses all levels of the country's organizations in public and private. It is an inherent role of government and company want to be survive and competitive in this chaotic area. Policy making is kind of mapping which maps the road of a country to get its goals. This paper aims to study the policy and policy making with concentration on Iran

**Keywords:** policy; policy making; Iran; challenges; issues

### **1. Introduction**

Islamic republic of Iran is an Islamic country which has a good and comprehensive policy making system with its base and foundation on holy Quran and Islamic roles.

Evidence suggesting that policy and policy making is one of the fundamental parts of any government. And there are different types of policy making process in different countries, for example some countries having democratic and some have dictatorship policy making process.

This paper first discusses the policy making definition and effective policy making advantages. Also some guides for effective policy making will be discussed. Then some proposals for effective policy making in Iran come. At the end characteristics of good policy ad policy making in Iran come in detail.

### **What is Policy Making?**

According to Effective Policy Making (2003), Policy making is the process by which the administration translates its vision into actions to achieve desired outcomes. Good policy making is therefore essential if government is to achieve its aims and deliver real change and benefits (Hernandez & Noruzi, 2010).

## **2. Effective Policy Making Advantages**

According to the Strategic Policy Making Team Cabinet Office (1999), an effective policy making has lots of competencies for organizations below are some of them:

- Creating the map of success and forward looking – takes a long term view, based on statistical trends and information;
- Finding future opportunities;
- Finding the failures;
- Overall and outward looking– takes account of factors in the national, European and international situation and communicates policy effectively;
- Evaluating the process road and Predictions, of the likely impact of policy and builds systematic evaluation of early outcomes into the policy process;
- Mapping creativity in the organization and Innovative and creative – questions established ways of dealing with things and encourages new ideas; open to comments and suggestions of others;
- Finding and evaluating different forces, public, private and political forces;
- Minimizing the policy failure;
- Using evidence – uses best available evidence from a wide range of sources and involves key stakeholders at an early stage;
- Inclusive – takes account of the impact on the needs of all those directly or indirectly affected by the policy;
- Coalition and Joined up – looks beyond institutional boundaries to the Government’s strategic objectives; establishes the ethical and legal base for policy;
- Evaluating feedback – keeps established policy under review to ensure it continues to deal with the problems it was designed to tackle, taking account of associated effects elsewhere
- Learning lessons – learns from experience of what works and what doesn’t (Noruzi & Hernandez 2010).

### **Guidance Steps in an Effective policy making**

According to Effective Policy Making (2003), for making an effective policy or identifying problems of policy it should be considered some steps as come below.

- ✓ Searching the problem
- ✓ Finding the problem
- ✓ Analyzing the problem, is it really a problem? Or not
- ✓ Why is it a problem? What is the main cause of this?
- ✓ Who will effect on the problem formal or informal groups?
- ✓ Identifying the informal and political groups

- ✓ Who within the administration has decision making authority on the issue?
- ✓ Creating a map of policy
- ✓ How does the issue relate to the firms strategic vision and mission? Will addressing the issue contribute to the realization of strategic objectives?
- ✓ What policy instruments could be utilized to address the issue? Can the resource requirements be estimated?
- ✓ Is there a case for government intervention?
- ✓ What impact assessments may be required?
- ✓ What are the outcomes of doing this process?

The above steps should be considered for an every country wants to make an effective policy

### **2.1. Proposals for improving policy making in Iran**

Iran and any other country in the world should try to implement strategies to develop policy making process in it. Here are some examples;

1. Creating networks for policy making among NGOs and other groups.
2. Conducting different researches on policy making influential role in public policymaking (see, e.g., Heinrich, 2007; Sanderson, 2002; Warren, 2002)
3. Participating citizens and interested people in policy making process.
4. Learning citizens about policy and policy making process and its role on success.
5. Holding classes from government to learn staff and citizens the policy.

### **2.2. Characteristics of Good Policy**

Policy and policy making has some good benefits some of benefits of good policy are included here in below (DECS, 2005):

- ✓ Good policy is trustful;
- ✓ Good policy is beneficial;
- ✓ Good policy is necessary;
- ✓ Good policy has an end in mind;
- ✓ Good policy aligns with the goals of the government and the department;
- ✓ Good policy is well informed, concise and rigorous;
- ✓ Good policy is ethical;
- ✓ Good policy is transparent;
- ✓ Good policy is intelligible;
- ✓ Good policy is open to change and improvement;

- ✓ Good policy is on time;
- ✓ Good policy can be enacted.

### **2.3. Policy Making in Iran**

In Iran because it is an Islamic country so its laws and policies are in Islamic base. In different countries there are different levels of policy making but in Iran there are just three level of management in Iran includes:

- Political management;
- Public management and
- Private management.

And policy has been formulated in the two above ones. Political management and political manager called "Rahbar" refers to the leader and its professional consulting group that make Meta policies and the can be considered as vision in strategic management and other sub- policy systems obey and look for it and it is as the tip of the mountain that policy makers want to get it. According to the different conducted researches about policy making in Iran and the related text about policy making system in Iran, supreme leader is responsible for making Meta policies of I. R. Iran and this is formulated after consultation with the Expediency Council. Expediency Council is the specialized consulting group for supreme leader. In the second level public policies are made by triple forces including:

- Legislative;
- Executive;
- Judicial.

And in the third level public and private organizations create strategies instead of policies. Therefore, the process of policy making process in Iran is a systematic and comprehensive, clear, easy to understand and specialized also (Danaee Fard, and et al, 2010, p. 185).

### **3. Conclusion**

Iranian government as other countries should take some steps to strength the policy making process i.e. these steps will strength the policy making process in organizations. Although Iran in its' fifth development program has prepared a brief and comprehensive program to be cleared and easy to understand to everyone who is engaged in organizational programs and this is a good action but other important factors are listed below:

- ✓ Providing complete information;
- ✓ Providing objective information;
- ✓ Providing clear information;
- ✓ Providing reliable information;
- ✓ Providing easy to understand information;
- ✓ Bringing specialized consultants;

- ✓ Using and engaging citizens in policy making process;
- ✓ Holding some programs to learn the policy making process for citizens and others who are interested in the process of policy making because citizens can sometimes offer good tips (OECD, 2005).

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## Development of Accounting Theories Specific to the National Accounting Literature of the First Half of Twentieth Century

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**Abstract:** Need to identify plausible explanations of the principles underlying the double entry accounting over time determined by various manifestations of thought that have resulted in many theories. All these theories have proposed to explain and substantiate dopic formalism, but many of them no longer a value today than a purely historical perspective. The representative of such theories has been many pages written Romanian and foreign authors in the first half of the twentieth century. Some Romanian authors mention the Ioan E. Evian, D. Voina, CG Demetrescu, S. Iacobescu, Al. Sorescu, C. Pantu, C. Petrescu, Grigore-Trancu Iași and others. Bibliography time accounting theories shared accounts: embryos of theories and scientific theories.

**Keywords:** formalist theories; materialist theories; accounting: art; technology and science

### 1. Introduction

Since the advent in 1494 of a Franciscan monk Luca Paciolo work until the late nineteenth century, most works of literature had a descriptive book, for use in teaching practice and school life without any scientific value. Many of them are summarized in an attempt to explain and demonstrate the principle of double counting and did not exceed Paciolo Luke's work in 1494. The theories put forward by L. Gomberg embryonic *Historie critique* the work of 1929, Evian (1940) played in *Theory of accounts* first double-entry accounting concepts made by the authors: Gerolamo Cardono, Simon Stevin, Flowers, Andrea Zambelli, De la Porte, Barreme BF, Giuseppe Forni, Edmond Degrange, IL Quinet, J. Schrott.

All these accounts were authors of works on scientific matters to be dealt with accounting, because all the facts were ignored economic reality and business events. Scientific theories are sub-divided into formalist theories (personalist), in the practice of crossing the strictly formal accounting records of the accounting operations of rights or legal relations and people interested and participating debts of business operations, and materialist theories, which studying the phenomena of economic growth or decrease in property companies, which will then be subject to accounting records. Personification theory accounts rudimentary theories were considered based on fictive construction, were later developed in personalist theories grouped Reisch and Kreibig (1907) in a single series with the personalistic theory of accounts and personalist theories with two sets of accounts.

## 2. Analysis of Scientific Theories

Personalist theories with a single set of accounts accounting know one rule applies to all accounts, "to give is the same with the credit and debit receipt with" (Ullman, 1904). Italian Authors: Bellini, Mondin, Massa and Cerboni are representatives of two series personalistic theory of accounts.

According to this theory, a company operating in four categories: a) the owner (ie the entrepreneur, capital and results), b) the administrator (company), c) agents (which manage concrete assets accounts: goods, currency effects) d) counterparts (which manages accounts receivables and payables). This inevitable and unbreakable opposition of interests between the entrepreneur away person and persons other agents and correspondents, is the pivot around which the game has to move twice to be exact and conclusive (Bellini, cited by Hugli 1923). These theories discussed above are without a very solid scientific foundation, since overlook the fact that the records are accounts of income and results is no longer an essential part of the dealer's legal relationship to people (debtors or creditors), but a substantive content, which may increase or decrease as a result of commercial transactions (Evian, 1940). Some Romanian authors in the first half of the twentieth century, Grigore-Trancu Iași, author of *Accounting course and Trade* published in 1913, was adept personalistic theory of accounts. In his book, the author substantiates the relationship between entrepreneurship, its agents and correspondents, personalist character of accounts and accounting analysis of operations for finding the debtor and creditor account with the questions "Who receives?" And "who gives?". In this context the work of Grigore-Trancu Iași was not any progress to the authors of his time.

An alternative to the personalistic theory was the materialist theories that are in close connection with the subject of accounting: a business wealth and capital assets. Materialist theories, but do not use fiction personalist theories considers the account from the beginning as an account of each of the constituent parts of capital assets and undertaking. For these theories there is an "active asset" of the company, then a "non-active asset" for the borrowed capital and "clean assets" which corresponds to equity. Materialist theories with a series of accounts do not group accounts in two opposite series. The real estate register accounts and the changes it undergoes in the business and that the registration is made after a uniform rule for all accounts. Wealth is opposed to third-party debt and "clean assets" (in other words, foreign resources and its own resources). Liabilities are *negative asset* because they have influence on the *positive wealth*. The difference between *negative assets* and *positive wealth* is *clean assets* (Voina, 1947). In contrast, materialist theories with two sets of accounts have merit to consider the account as an account of each of the parties making up the capital assets and business and therefore start to gender balance, which lends them a more scientific character than in all other categories of theories (I. Evian, 1940). In L. Gomberg *Historie critique de la theorie des comptes* from 1929 Crippa's the origin of this theory should be noted that in 1838 the particularity that is the double entry accounting to record simultaneously changes "substance and equity" and classify accounts into two categories: private accounts and accounts of things and persons representing the collective and general equity. On the other hand Hugli, who took over and developed this theory in his *Buchhaltungszysteme u. Buchhaltungsformen* in 1887, attributes its predecessors and Kurzbauer Augspurg. Hugli's theory was taken further and popularized and Romanian authors: D. Voina, S. Iacobescu, Al. Sorescu, I Pantu. A materialist theory with two sets of accounts is *legal and economic asset* theories to profesors Iacobescu and Sorescu, which has as its starting point the notion of patrimony, which the authors give a meaning "triple": legal, economic and integrity (a complex of rights and obligations with their respective rights objects and objects of bonds, valued in money) (Voina, 1947).

Starting from the materialistic theory with two sets of accounts, the authors Walter Couture, Leitner, Obst, have been formulated theories with three sets of accounts. These theories are based on static conception of the balance sheet that it is nothing but a means to this constitution and disposition of assets of an enterprise.

Basically the essential difference between materialist theories with two sets of accounts and accounts with the three series was that:

1. first known substance, one form of wealth (positive or negative), and the capital is also a category of assets (property clean);
2. and second, there are two forms of substance-the substance of wealth and substance of debt (liabilities and equity).

In Romania, materialist theorist three sets of accounts was C. Pantu, author of *Science of accounts or double entry bookkeeping*, which examines notions of wealth pure active wealth, wealth, passive, active capital, capital passive, benefits and gross and net loss. Despite the indisputable scientific contribution made by the theories of materialistic, not on connections between records of the accounts and economic phenomena that generate accounting. They were limited to the registration rules and methods to achieve balance. Doing a review of the above theories we see that there is no uniform definition of liabilities: understood by most scholars state the total debt liability of any company (foreign capital). These theories were about Passive accounts a legal concept meaning that the liability would be enterprise bonds (debt).

For *Nicklisch* because the entire capital firm that has been entrusted to those who have given to business, even if it owes its equity other than due to the effect foreign capital. Under this definition, the liability has not only the actual debt to various creditors of the company, but in no case can be explained as a debt to equity of the business. Economic theory, formulated by Evian has liabilities (consisting of equity and debt) as abstract representation of the total amount of business wealth. In other words, the author explains that this theory supports liability favorable or unfavorable result obtained assets. Liability is an abstract representation of the total value of the asset. Thus, total wealth is equal to the capital. From here, double entry accounting the property values and capital values with account. Evian (1940) gives accounts of accounting quality of art, technique, not science, accounting remains to be seen as 'add company arithmetic of economics. Thus, accounting is not intended to study economic phenomena but only to be recorded in the accounts. *Science company economy* it is the study of the economic enterprise accounting techniques conclusions teaching them that items prepared in advance to be used for accounting purposes pursued by the latter. Accounting was lowered to a simple registration technique records, contesting it any scientific and trying to incorporate as a component of the survey company. According Demetrescu (1972), proponents of this view overlooks the fact that economic phenomena produce changes in the composition and size of businesses and assets so they can be considered abstract, but their material consequences, which is why, accounting is not limited to mechanical recording economic phenomena of an abstract and lacking in content that makes matters registrable.

The same limited view of accounting is found in the work of C. Petrescu, *Accounting and Management*, which limits the scope of work of keeping accounts and accounting control in business administrations. From his point of view accounts be seen from the viewpoint of the owner: "The facts from various accounts, the relations that arise between proprietary and business administrations to produce positive or negative, in other words, credits or debits the owner business administrations compared to (agents and correspondence and simultaneously negative or positive, ie, debits or credits

for this (business administrations its correspondents and agents) from the owner. These effects are equal and contrary to the interests of both parties are opposite." (Petrescu, 1901).

### **3. Conclusions**

Phenomenon accounting separation theory 'art' and 'technical' accounts, on the one hand, and "science business economy" on the other hand, is inherent limits of the age in which his followers lived.

Currently, the diversity of accounting theories and approaches saw multiple meanings. Significant progress is accounting allocation by economic reality, the quality of arts, technology and science. Accounting approach as a distinct science is justified in terms of at least the following arguments:

1. Accounting has evolved in terms of how to approach a deeper stage of development of social sciences, respectively Renaissance. It would be a first argument of the placement of accounting in the social sciences in terms of how it responded to the phenomenon of evolution for the other sciences,
2. The second argument is the combination of theoretical knowledge that makes use of the subject matter and methods based on legitimately be checked in time,
3. Accounting theory defined over time, which emerges from practice, is the scientific basis of accounting, it imbues them a deep conceptual character,
4. Combining normative applicative research, inductive approach argue that deductive scientific basis of accounting;
5. Strongest argument is the size given current accounting phenomenon, taking a widely accepted fact sheet, which is reflected in the process of normalization and convergence of accounting.

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## **Comparative Analysis of Organizational Structures in Industrial Management**

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**Abstract:** Successful realization of industrial strategy of the industrial enterprise is determined not only quality of her preparation and presence of the detailed plan of realization, but also the effective organization of process of monitoring of her realization. In article various classifications of organizational structures of management of the industrial enterprises are considered, comparative which economic analysis will allow their use as bases of construction of system of monitoring of an economic status of the industrial enterprise.

**Keywords:** industrial management; organizational structures; industrial enterprise

Analysis of organizational structure management operation of any industrial undertaking, either medium or large size is a quite thorough and lengthy. In order to simplify its organizational structure in management theory are analyzed two types of organizational structures: basic and classic.

To make the classification of organizational structures of management, first of all, the selected classification criterion. It recommends the following criteria for the classification of organizational structures:

- After the external appearance of the hierarchy;
- Depending on the type of fragmentation of the organization into departments;
- After the degree of centralization;
- After the degree of complexity;
- The level of detail and level of response to the external environment.

Based on identified criteria, are formed following classifications:

### **1. Classification of the organizational structures of the external appearance of the hierarchy.**

- Administrative Mono (pyramid). Mono administrative hierarchy, it is characteristic that each performer has a manager directly. Sometimes it is permitted to have some functional managers, but all operate on a permanent basis, that a performer can not change leaders.
- Administrative Police (matrix). Administrative police management organizational structures (eg, matrix) differs from previous ones in that final performers always have at least two leaders, each of which has direct management of permanent or temporary.

## **2. Classification by type of institutional control of the fragmentation of the organization departments:**

- fragmentation without specialization;
- fragmentation functions;
- fragmentation of production types, depending on the territorial location and the groups of customers.

**Specialization without fragmentation.** This type of fragmentation occurs during the fragmentation of the structural unit composed of employees of the same qualification and those that perform similar functions. Fragmentation occurs as a structural division of the block in several separate blocks (each new structural units formed, as defined, it is assigned a leader).

**Fragmentation functions.** This type of fragmentation is performed in order to create services and departments specializing in the performance of any specific functions. For example, the delineation of the financial department, production department and marketing department takes place in the structural unit of the deputy directors of the company and leads to the formation of appropriate departments and services.

**Segmentation according to the types of production, depending on the location of territorial and customer groups.** Segmentation by type of production, the location of territorial and customer groups is used in the event that it is not possible from any reason to combine structural units have the same functions in one unit.

Depending on the location of territorial fragmentation usually occurs on the branches. Fragmentation by groups of customers is necessary if the company made products of highly differentiated groups of consumers (for example, depending on income or taste), which may require the creation of special units not just the marketing department, but even the various industries in different brands.

## **3. Classification of organizational structures based on the degree of centralization:**

- centralized;
- decentralized.

**Centralized organization** undertaking the concentration of power is at the top level of management.

**Undertaking a decentralized organization** in which all levels management, including the Executive and are actively involved in management.

Excessive centralization of the company lead to its total dependence of the operation activities of senior management. This leads to the fact that employees are at the lower levels of the hierarchy are just transmitters and executors of the will of senior managers. As a result, innovation is encouraged and their free thinking. But at the same time, top managers are subject to serious consequences, such as:

- major overload, leading to a decrease in work efficiency;
- there is a need to deal with operational control, etc.

Decentralization allows us to solve these problems. In exercising delegated powers (ie underlying the decentralization process) is necessary to transmit subordinates with a high degree of responsibility, the

corresponding rights and should be, as appropriate, to increase salaries as compensation for work more complicated and difficult. Violation of these procedures can lead to failure of measures to improve the functioning of the organization or, moreover, can completely paralyze all his works.

#### 4. Classification of organizational structures based on the degree of difficulty:

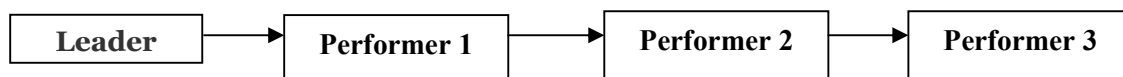
The simplest are divided into subtypes:

- basic;
- derivatives.

The complex is divided into the following subtypes:

- classical;
- compound or conglomerate (which combine several classical).

There are two basic types of organizational structures of management: basic principles and main derivatives. The main structures are the basic "band", "circle", "wheel".



**Figure 1. Management Structure of the main base, the "band"**

In order to understand how a system of "gang", we examine an example with performers concretely namely a market research Unit, of a company. Functions will be distributed as follows:

- Head of market research leader send his deputy commission;
- Executor 1 - Deputy head - schedule for achieving first develop marketing research and forward second vice chief;
- Executor 2 - Deputy Head of Service takes second înlocuitor connection with the Service with the information and obtaining necessary information transmitted ordinary employee;
- Executor 3 - regular employee in accordance with the marketing research plan out the necessary processing of primary information and communicate results deputy chief, as a final report;
- Deputy head, making some adjustments if needed to the report, it transmits the Deputy Head;
- Deputy Head of highlights from the report the most important information obtained is relevant conclusions and forward them to his boss, however.

Graphically, this scheme is shown in Figure 2.

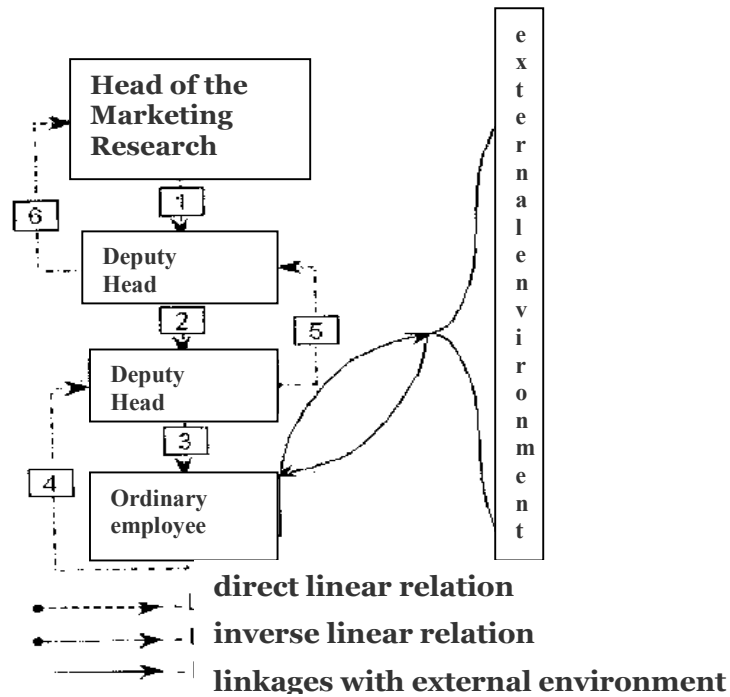


Figure 2. The order of the task process development under the scheme “tape”

This diagram shows that all employees use only the direct and inverse linear relation. Another type of connection is the link with the outside world, but it will not be discussed in detail in this study. Therefore, this connection will be designated only to prove that it exists.

In the scheme "circle" (see Figure 3) compared with the "band", there is a clear linear relationship between its structural elements. The “executor 3” has not one, but two heads (direct). To understand how this system works, the following example will illustrate.

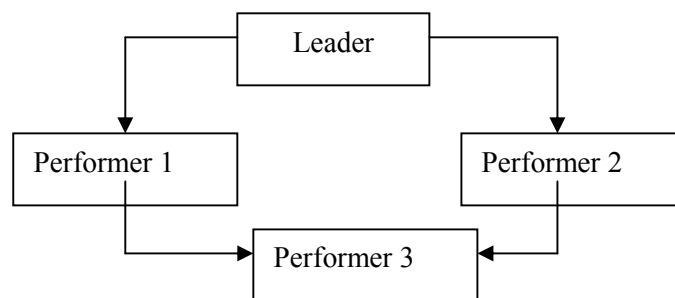


Figure 3. Management Structure of the main core "Circle"

Scheme "wheel" (Figure 4) differs from all previous schemes to the presence of elements such as "consultant." To illustrate more clearly the functioning of organizational structures circuit that all consultants will be replaced by one. In this case, the system will look like (Figure 5).



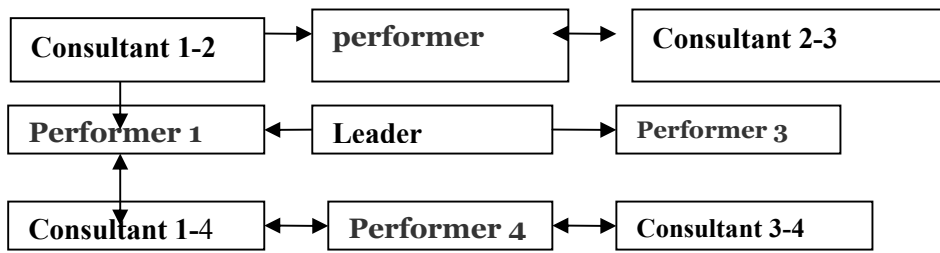
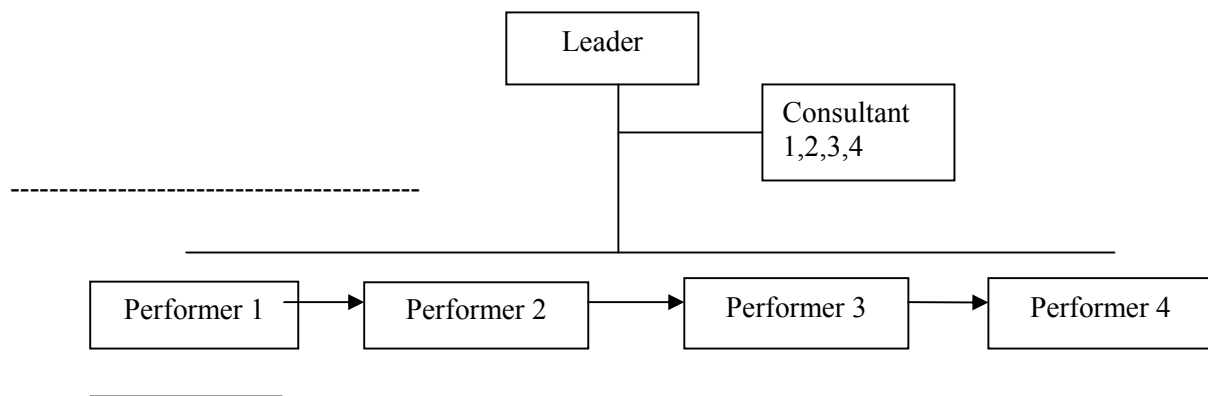


Figure 4. Management Structure main base - "Wheels"



\_\_\_\_\_ - linear relationship

----- - functional relationship

Figure 5. The scheme reduced the organizational structure "Wheels"

Despite a small number of links involved, the activity of this system is quite complicated. Difficulties due to the presence of a new type of links that direct the functional and inverse functional.

In addition to the main basic organizational management structure identifies two main types of organizational structures derived (from the base):

- scheme "star"
- scheme "tree."

Scheme "Star" (Figure 6) is interesting because here there are no connections between the performers. This system allows to maintain confidentiality and independence of each of the performers.

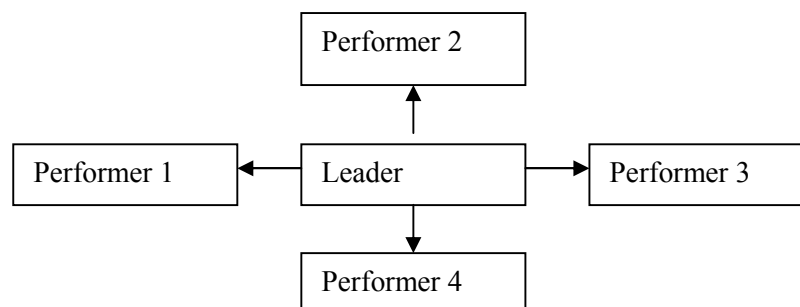


Figure 5. Derived scheme, "Star"

Such a system may be used, for example, by commercial companies that have offices in different regions.

Hierarchical scheme is shown in Figure 6

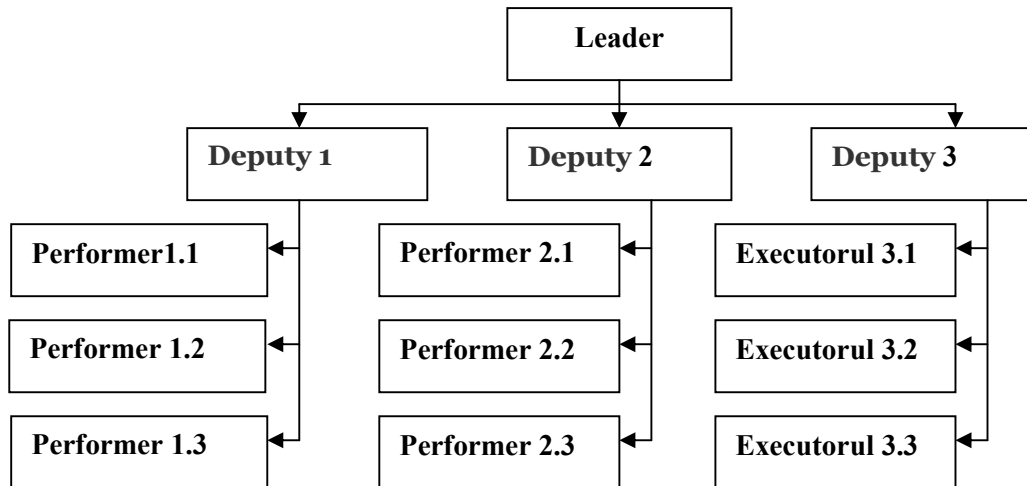


Figure 6. Main Scheme derivative “hierarchical”

All organizational structures of management schemes discussed above are those elements that form the organizational management structure of any complexity. Any element of the scheme can be not only a structural unit, but also a structural block or even a structural department.

Organizational structure is a basic industrial enterprise information system, which makes the need to organize industrial enterprise monitoring system, and highlight the main links of dependency, which must be taken into account when building the complex economic situation of industrial enterprise analysis.

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## New Technological Trend in Educational Management

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**Abstract:** The authors aim to highlight, after using the LMS based Sakai from implementation, the perception of both sides (professors and students) over the use of the implementation of information and communication technology (ITC) in the education process. In the academic year 2007 – 2008, the leadership of Danubius University from Galati adopted the strategic decision to develop an integrated information system, which to incorporate the Student Information System (UMS), an e-learning platform, management system, research and administrative management. In the months April – May 2010, at Danubius University from Galati it was made a survey organized by MISI 2010, at which 28 universities attended from around the world who use Sakai, of the professors and students regarding the use in their activity of the ITC and in general of the platform Danubius Online. At the university Danubius from Galati answered to the survey 24 professors and 177 students. The participants responded to questions about both their views concerning the use of the information technology in the superior education in general, and at specific questions concerning the Danubius Online portal. After the experience gained in the pilot phase, developed in the academic year 2009-2010 and taking into account by the results of the survey, it was decided that starting with 1 October 2010 to proceed to the stage production. To this end, it was installed the Sakai version 2.7.1 and significantly increased the number of course sites that are operating on the Danubius Online portal, the tendency being to generalize at all the university courses, taking into account by the trends of the both sides. There have been introduced more extensive indications of use, both for students and for professors. The article aims to highlight the reactions of both sides: professors and students, on the implementation of the Danubius online platform, through a survey that took place during May – June 2010. This is a clear example of response to the technological change management within the university. By participating in the survey organized by MISI 2010 we found both strengths and weaknesses in the Romanian educational management, but also of all the participant universities within the survey. Being the only university from Romania, which has implemented the learning platform developed in the Sakai project, we can state that the results are unique, so therefore we believe that this paper brings a new contribution to the higher education by highlighting the current level of development.

**Keywords:** e-learning platform implementation; survey; platform; technological change; trend; education

## **1 Introduction**

In the academic year 2007 – 2008, the leadership of Danubius University of Galati adopted the strategic decision to develop an integrated information system, which to incorporate the Student Information System (UMS), an e-learning platform, research management system, administrative management, information system of the library, anti-plagiarism system (Ephorus).

After the study concerning the choice of the LMS platform which to suit best to the needs of the university, in February 2009 was made a comparative study between the existent LMS platforms and comparing the advantages offered by these, it was decided the implementation of the Sakai learning platform, developed since 2004 by renowned universities from America. It followed a probationary period of 6 months in which there were tested the Sakai CLE incompatibilities with the operating systems and implicitly with the hardware platforms. Also, there were created several test sites of course where the students could experiment and use the tools provided by the collaborative environment Sakai. After the probationary period, the conclusions where were reached were in the favor of starting the pilot phase, thus it was decided the formation of the T&L workgroup. A particularly important role in the positive scoring of the collaborative environment Sakai had and that we are active members of the Sakai community and Opened Practices community – A community to practice for teaching and learning with open/community – source tools (<http://openedpractices.org/institution/danubius-university>).

In the academic year 2009 – 2010, at the Danubius University of Galati, it was put in service in pilot phase the Danubius Online portal made with Sakai version 2.6.0. The portal worked with a relatively small number of course sites both of license and of master, the main objective being to gain usage experience in real conditions of exploitation. There were conducted with the students from all forms of learning (day, ID, LFE) all the activities relating to the courses sites: communication of discipline objectives, obligation if the students and calendar program of the activities, transmission of homework, receiving the homework executed by students, correction by the instructor (owner of discipline), reviewing of the works by the students and communication of the given grades; performance by students of some self-assessment tests given during the semester, with feedback from the instructor, providing by the instructor online consultation for students, conducting of discussions on chat or forum; online support of the exams from supervised rooms.

This paper aims to highlight, after usage from implementation the perception of both sides on using and implementing ICT in the education process (information and communication technology).

## **2 Research Methodology**

In April-May 2010, at the Danubius University of Galati was organized by a survey of professors and students concerning the usage in their activity of the information and communication technology (ICT) in general of the Danubius Online platform.

The survey was conducted within the action of MISI 2010 (Sakai Multi-Institutional Survey Initiative) at which 28 universities have participated from around the world that use Sakai (<http://confluence.sakaiproject.org/display/UDAT/2010+MISI>).

At Danubius University of Galati responded to the survey 24 professors and 177 students. The participants responded both at questions concerning their opinion on the usage in the superior education of the information technology, as and specific questions concerning the Danubius Online

portal. The survey results have shown that the attitude towards the usage of Danubius Online portal is a favorable one and it can be moved from the pilot stage to the production one.

### 3 Results

The survey was divided on three areas of interest:

- Opinions about the technology of using the ICT in general;
- Opinions of the participants about the usage of OCW (opens courseware);
- Opinions about the portal usage.

After the survey that took place in the period April – June 2010, we had the following results:

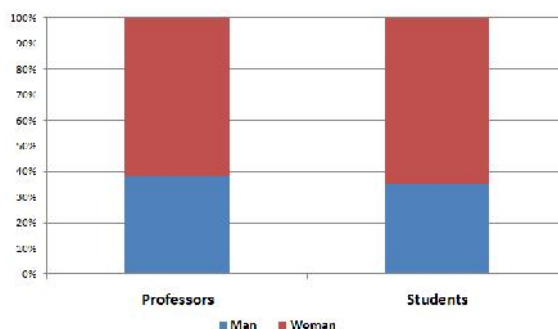


Figure 1: Repartition of respondents by sexes

Regarding repartition of respondents by sexes, we observe that the majority share within this study had on the both side the women with a percentage of 62% of the professors and 65% of the students. The numbers of men own a percentage of 38% in the part of professors and 35% from the student part.

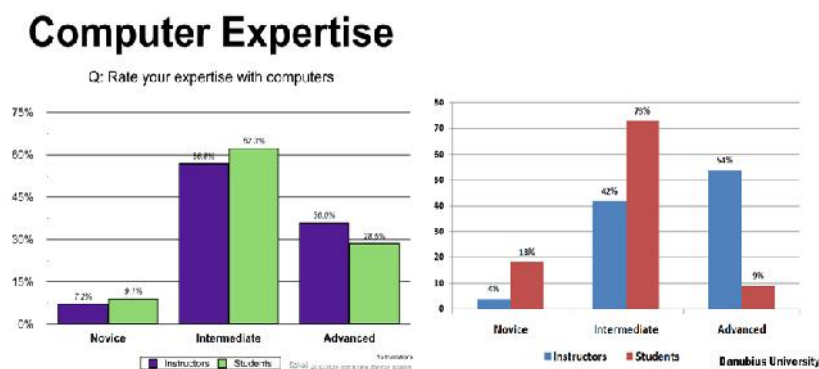
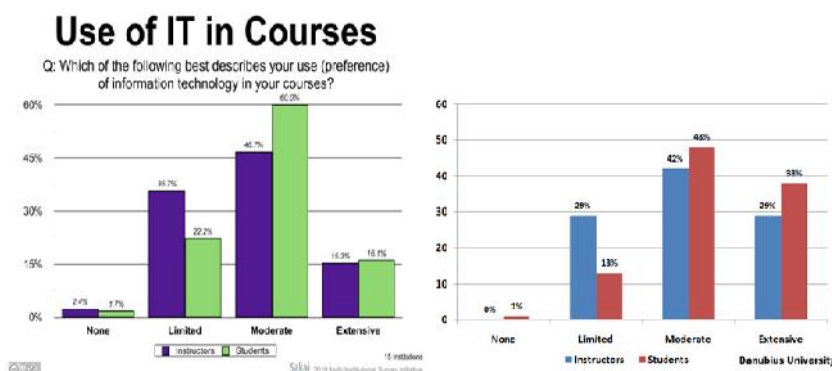


Figure 2 Respondents computer expertise (MISI 2010 and Danubius)

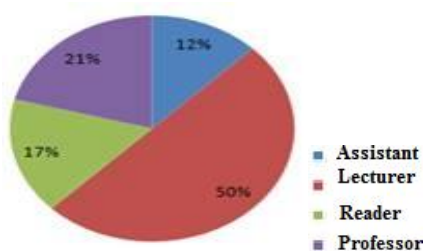
Generally in courses, the utilization of information technology at the Danubius University is situated at a satisfactory level, as it can be observed in Figure 3, compared with the average across all participating institutions. The experience level (Figure 2) of the professors in computers usage at advanced level, hold a significant majority of 54% comparative with that of students which has a less significant share of only 9%. At the intermediate level the professors have a share of 42% while the students have a share of 73%, while at the novice level at professors are found only 4% while at students 18% share.



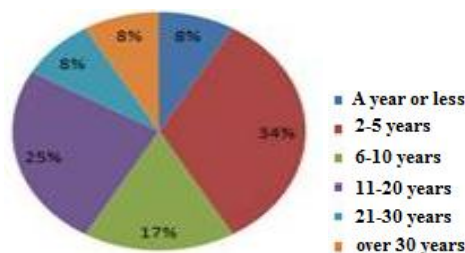
**Figure 3 Level of usage information technology in courses (MISI and Danubius Survey)**

From the above chart results that those of average level with a percentage of 42% hold the largest share in this field by the academic rank, being followed by 2 equal shares each having 29% between the limited level and extended level is the usage of information technology in university.

After the age in the higher education it can be observed a division of 48% those who have an average level, 38% after those who have an extended level, 13% after those who have a limited level, and a percentage of 1% for those who haven't used the information technology in the university. Below we have exemplified on graphic a repartition of the professors after their didactic rank and age.

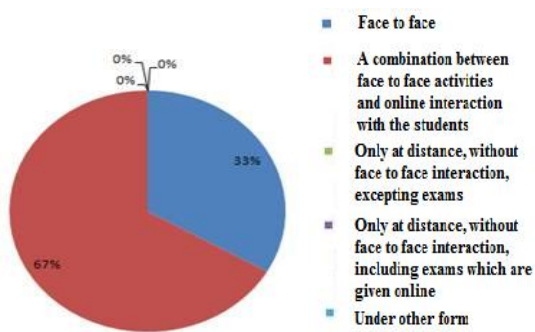


**Figure 4 Repartition of the professors after their didactic rank**

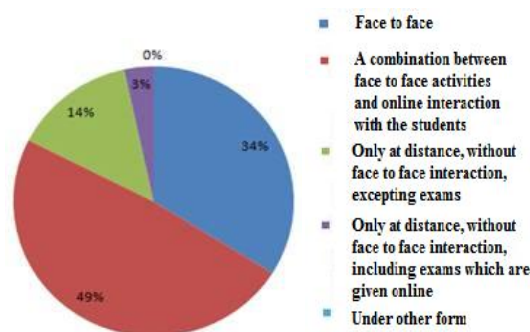


**Figure 5 Repartition of the professors after age in the superior education**

After the didactic rank the largest share have the lecturers with a share of 50%, followed by the Professors with a 21% percentage share, the third are the Assistants with a 17% share and lastly the Readers with 17% share of total. After the age in the superior education the first two shares are having the ones with age between 2-5 years with a 34% percentage share, being followed by the age between 11 – 20 years with a 25 % percentage share. The third with a 17% share is the age contents the 6-10 years, and the last three are all divided into 8% percentage each.



**Figure 6** The form under which are developed the didactical activities at which are participating (professors)

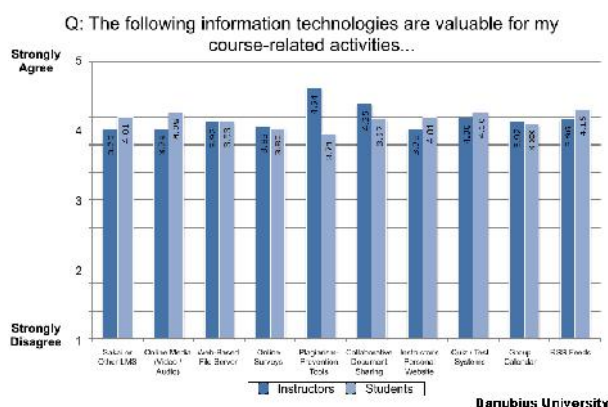


**Figure 7** The form under which are developed the didactical activities at which are participating (students)

The only methods under which the professors developed their didactical activities were as noted in the graph, the combination between face to face activities and online interaction with the students with 67% share and the face to face type with a 33% share.

The responses of the students are a little bit different, 49% having the face to face activities and online interaction with the largest share of the students, followed by the face to face type of activity with 34% share, 14% that declared they had only at distance, without face to face interaction excepting exams, and lastly 3% which declared that they had the activities only at distance.

The significant results for this area of interest have been in the usage in the education activity and scientific area of certain software products and equipments as well as: systems of preventing the plagiarism and web sites for the socialization network, the online collaboration instruments through the document sharing, instant messaging systems, online systems of learning management, online media techniques and web-based teleconferencing systems.



**Figure 8** Top 10: IT valuable for Course Activities

Regarding the benefits of using the ICT, the participants at survey considered of greatest importance the following ones presented in the graphs below.

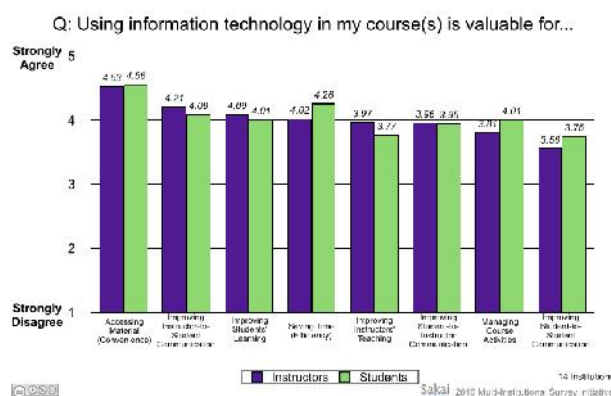


Figure 9 The greatest benefits of using ICT (MISI 2010)

In order of priority as indicated in Figure 10, at Danubius University the teaching staff believes that the most valuable benefit, regarding the using information technology in course(s), is represented by the instructors' teaching improvement, followed by the possibility of accessing materials any time, from any location (convenience).

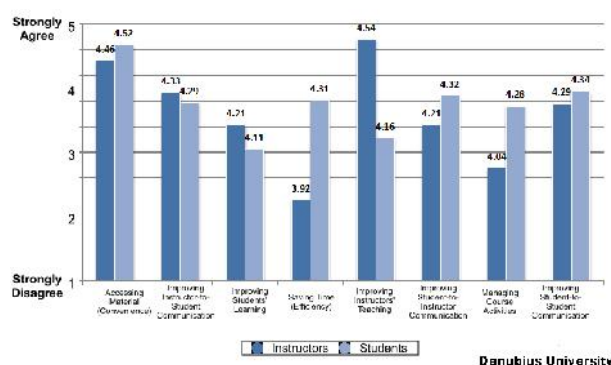


Figure 10 The greatest benefits of using ICT (Danubius)

From students' point of view, the most important benefit is the possibility of accessing materials any time, from any location (convenience), followed by the improvement of students' communication with each other.

#### 4 Conclusions

After the experience gained in the pilot phase, conducted in the academic year 2009 – 2010 it was decided that from 1 October 2010 to be proceeded to the stage of production. To this end, it was installed the Sakai version 2.7.1 and was significantly increased the number of course sites that operate on the Online Danubius portal, the trend being of generalizing at all the courses within the university. There were introduced more ample using indications, both for students and for professors. Most of these indicators are now accessible directly from the portal entry page. It also extends continuously the number of project sites. At the same time, is starting the assimilation period of the Sakai version 3m with the intention to move to this new version since 2012.

Within our university the impact of using ict on professors and students had an important role of which we mention the following advantages:



- offers the distribution possibility and access on the course materials through the course sites before or after the lecture was held in front of student;
- offering a unique point access towards all online materials necessary to students;
- publishing on web the grades and scores obtained by the student;
- possibility to created ad-hoc groups or student teams to conduct certain activities;
- structuring and rescheduling the activities performed by the student collaborated and returning the paper or theme sent by these with the corrections, observations and comments of the professor;
- monitoring and following the students' progresses and/or of the way in which they fulfill their commitments;
- they can ask feedback from students regarding the courses and seminars where each can tell his own opinion about the development way;
- collaborative work and interaction between student had a rather important role in integrating the collective and discovering the strengths of each individual;
- the students can read and/or comment the works prepared by their colleges, and in the same time to generate or prepare instructional material which they would use in common with the other students.

## 5 Acknowledgement

The authors wish to acknowledge the active support provided by the involved persons from Sakai Project and Sakai Multi-Institutional Survey Initiative and to the University of Michigan which has offered to analyze the combined 2010 quantitative dataset.

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REALITIES AND PERSPECTIVES

## Balance Sheet Taxonomy

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**Abstract:** The general objective of the financial statements is to provide information about the financial position, financial performance and cash flows of an entity, information that is useful for a wide range of users. For the current paper is very interesting to take into account is the presentation of the important role given to assets even in defining the subject of accounting, both in economic and financial concept.

**Keywords:** balance sheet; financial position; results; revenue; expenditure

**Jel Classification:** M40; M41

### 1. The Concept of Balance Sheet

The concept of *balance sheet* comes from Italian language from *bilancio* and it was introduced in the circuit of the accounting literature as a *key of double accounting* (Rusu, 1972, pp. 14-15) by Luca Paciolo through his paper “*Summa de Arithmetica, Geometria, Proportioni et Proportionalita*” from 1494, as specific instruments of the double entry accounting. At that time the concept of balance sheet was confused with the one of balance, due to the way of its preparation and structure, with the two sides in balance, and of the fact that at its turn the *bilancio* came from Latin from *bis* and *lanx*, which meant a balance taler in balance.

Currently, the concept of balance sheet refers to that synthesis documents from the composition of the financial situation through which the economic entity is presented from the perspective of the assets owned and operated, but also from the perspective of the sources of financing of these assets. It comprises two parts, namely: one destined to the resources or assets and other one destined to the sources of funding from the part of owners and creditors (Stolowy, Lebas, & Langlois, 2006, p. 64).

### 2. Structures of the Financial Position

The financial statements of an economic entity, allow in accordance with IAS 1 (par. 7), a structured representation of the financial position and of the financial performances of that entity. To this end, the general objective of the financial statements is to provide information about the financial position, financial performance and cash flows of an entity, information that is useful for a wide range of users. Thus, we identify within the financial situation information about:

- a. Assets;
- b. Debts;
- c. Own Equity;
- d. Revenue and expenditure;
- e. Other changes in equity;
- f. The cash flows of the entity.

To answer to the informational requests required by the users, within the financial statements we identify the following concepts:

- The balance sheet to regroup the information with regard to the assets, debts and own equities of the economic entity;
- The profit and loss account, to regroup the information with respect to the revenue and expenditure of the economic entity;
- The situation of changes in own equities, to regroup the information related to obtaining a dynamic picture of how the equity component has evolved from the balance sheet, in the reference period;
- The situation of cash flows to highlight the entrances and exists in and out of the economic entity's treasury;
- Notes containing a summary of the significant accounting policies and other explanatory notes used to obtain/prepare the above components.

The correspondence between the information offered by the financial statements and their components is highlighted by us in the table below.

Category of information from the financial statements	Components of the financial statements	Representation	Objective of the financial statements	
Assets	Balance sheet	Static	Financial position	
Debts				
Own equities				
Revenues and Expenditure	Profit and Loss account	Dynamic	Financial performance	
Other changes in own equities	Situation of changes in own equities		Information about	Explanation of the evolution in dynamic of a structure from the financial position
Cash flows of the entity	Cash flow situation			Cash flows

As follows from those mentioned above, from static perspective, the financial position is highlighted by the entity's balance sheet, in which we find information about the structure of assets, debts and own equities, which an entity holds at a given time. In other words, knowing the financial position of an economic entity involves acquiring knowledge about assets, debts and own equities.

The financial position is defined by the economic resources that the entity controls, by the financial structure of the assets, debts and own equity, of liquidity and solvency of the economic values and ability to adapt to the changes of the environments in which is carrying out the activity (Guide 3055 – p. 84).

Fundamental equation of the financial position has the following form<sup>1</sup>:

$$\text{Own equity} = \text{Assets} - \text{Debts} \quad (2.1)$$

### 2.1. Assets as Structures of the Financial Position

From the conceptual perspective the assets describes in terms the concrete way in which are presented the factors of production made available to an economic entity in order to achieve the essential

<sup>1</sup> \*\*\* Practical Guide of Applying the Accounting Regulation in accordance with the European Directives approved by OMFP no. OMFP nr. 3055/2009, CECCAR Publishing House, Bucharest, 2010, p. 84

objective for which it was created, namely the minimum financial performance expected by its owners.

In synthetic way the assets are defined as “*economic resources from where is expected in the future to benefit the business*” (Hornigren & W.T., 2007, p. 11) or company.

Through the general framework IASB from 1989 (approved in 2001), par 49 defines an asset as “*a resource controlled by the entity as result of some past events from which is expects to generate future economic benefits for the entity*” (Stolowy, Lebas, & Langlois, 2006)<sup>1</sup>.

From a structural point of view the asset is a component of the balance sheet (*situation of the financial position*) of an economic entity.

For our approach, it becomes very interesting to take into account the important role given to the assets both in defining the study subject of accounting, and the economic conception as and the financial one (Horomnea, 2008, pp. 120-123). By economic concept on the subject of accounting, supported by leading representative among such as J.F. Schar, R.P. Coffy, E. Leautey, A. Guilbaut, I. Evian, I.C. Pantu, is considered that the subject of accounting is the capital, which leads to the relations below:

$$\text{Economic goods} = \text{Own equity} + \text{Obligations} \quad (2.2)$$

or

a. After the materiality criterion

$$\text{Fixed Capital} + \text{Working Capital} = \text{Capital} \quad (2.3)$$

As seen in economic optic, the use of the concepts of fixed capital and working capital correspond to the concepts of fixed and circulating assets. Consequently, the second criterion highlights the structure of economic goods from the relation 2.2, which lead for the economic goods at the relation 2.4

$$\text{Economic goods} = \text{Fixed assets} + \text{Circulating assets} \quad (2.4)$$

Similarly, the financial concept of defining the object of accounting puts in the center of discussion the economic resources that cover from financial point of view all the assets of the economic entity. Thus, is reached at the relation 2.5, which will impose to group the economic goods in sustainable use , ie fixed assets and temporary uses, ie circulating assets, as shows in relation 2.6.

$$\text{Economic goods} = \text{Permanent Resources} + \text{Temporary resources} \quad (2.5)$$

$$\text{Economic goods} = \text{Sustainable uses} + \text{Temporary uses} \quad (2.6)$$

Accordingly, within the assets we delimit two categories namely: fixed assets and current or circulating assets.

Important for the structure of the financial position is the *recognition in a entity's balance sheet* of an asset which is realized when it is likely the achievement of an economic benefit by the economic entity and when for that asset is reliably identified a cost or a value after an specific operation of assessment.

Thus, finding the asset in the balance sheet assume either the occurrence in counterpart of a debt in the balance sheet, or finding an income in the profit and loss account in counterweight with the occasional costs by the consumptions of value required to obtain it.

To include them in the balance sheet the General Framework of IASB (par. 100) refers to the following assessment bases:

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<sup>1</sup> \*\*\* General Framework for Preparing and Presenting the Financial Statements, in the *International Standards of Financial Reporting (IFRSs)*, IASB and CECCAR, CECCAR Publishing Hiysem Bucharest, 2007, p. 44.

- a. *historical cost*, which assumes for the assets the registration at “amount of cash or cash equivalents paid at the time of their purchase or at fair value of the amount paid when it was purchased”;
- b. *the current cost*, which means that the assets to register “amount of cash or cash equivalents that should be paid if the same asset or a similar one would be bought currently”;
- c. *the achievable value*, which means that the assets are registered at the “amount of cash or cash equivalents that could be obtained currently through normal sale”;
- d. *actualized value*, which for the assets consists in using for registering the actualized value of the future net cash inflows, which will be obtained in the normal course of business.

By reference to IAS 1 “Presentation of the financial statements” the assets are grouped in current assets and fixed assets. In the financial position reflected by the balance sheet will be found in the category of current assets for which are verified any of the following conditions (para. 57):

- a. is expected to be completed or is held with the intention of being sold or consumed in normal course of exploitation cycle of the entity;
- b. is held, mainly, for the purpose of trading;
- c. is expected to be realized within twelve months from the balance sheet date;
- d. is cash or cash equivalents (as they are defined in IAS 7), except the case in which is prohibited its use or change to extinguish a debt for a period of at least twelve months from the balance sheet date.

According to IAS 1, in the fixed assets category are included all the others assets that do not fulfill any of the above conditions, that there aren't currently assets.

Thus, are entering in the category of the **fixed assets** or of the **sustainable uses** the non-currently *tangible, intangible* and *financial* assets on a term exceeding twelve months, while in the category of the current assets we delimit the *stocks, commercial claims* and *liquid assets*, including the *investments securities* that are expected to be made in twelve months after the balance sheet date.

Regarding the fixed assets, the literature in the field (Stolowy, Lebas, & Langlois, 2006, p. 134) holds the following synthetic definitions:

- a. intangible fixed assets refers to rights without physical substance from where the entity expects long – term economic benefits.... From where we start to influences on the financial position
- b. tangible fixed assets include goods used by the economic entity for the production or supply of goods and provision of services, or to be leased to third parties, or for administrative activities, that the entity expect to use them during the exercise;
- c. financial fixed assets which refers to participation titles in subsidiaries or loans granted to its subsidiaries or to its employees.

## 2.2. Debts as Structures of the Financial Position

**The debts** are current obligations of the economic entity that arise from past events and for the offset of which is expected to result in an outflow of resources that embodies economic benefits.

Thus, the **recognition in the balance sheet of a debt** is made when it is probable that an outflow of resources embodying economic benefits will result from the offset of a current obligation and when the value at which it will be made this offset it can be reliably assessed.

Extinguishing the debt within the balance sheet is made by cash payment, through transfer of other assets, by provision of services, by replacing with another obligation, by the conversion in the element of capital or eve giving up from the creditor's side. The French accounting plan defines a debt as being a certain liability whose maturity and amount are set in a precise manner<sup>1</sup>.

To include them in the balance sheet, the General Framework of IASB (par. 100) refers to the following assessment bases:

<sup>1</sup> \*\*\* Plan comptable general francais, art. 212-2, apud (Stolowy, Lebas, & Langlois, 2006, p. 68).

- a. *historical cost*, which includes for debts registering at “*the value of the obtained equivalents for the purpose of obligation or at the value that is expected to be paid in cash or cash equivalents to extinguish the debts, in the ordinary course of the business*”;
- b. *The current cost*, which means that the debts are recorded at “*the undiscounted amount of the cash or cash equivalents needed to discount in present the obligation*”
- c. *The achievable value*, which assumes that the debts are recorded at their value of offset, ie “*the outdated in cash or cash equivalents that must be paid to pay off the debts in the ordinary course business*”;
- d. *The actualized value*, that for debts is in using for registering the actualized value of the future cash outflows which is expected to be necessary to offset the debts in the ordinary course of business”.

As in the case of the assets, IAS 1 “Presentation of financial statements”<sup>1</sup> groups the debts in current and on long term. Thus, from para. 60 in the financial position reflected in the balance sheet there will be found at the category current debts those debts for which are verified any of the following conditions:

- a. is expected to be discounted during the normal course of exploitation cycle of the entity;
- b. is held primarily to be traded;
- c. is eligible within twelve months from the balance sheet date;
- d. the entity has no unconditional right to delay the payment of debt for at least twelve months after the balance sheet date.

By completeness, according to IAS 1, in the debts that aren't current are classified as long-term debts.

Thus, in the category of short-term debts are included:

- financial debts with maturity exceeding one year;
- debts suppliers with term of maturity exceeding one year;

At the same time in the category of the short-term debts are included:

- financial debts with term of maturity below 1 year;
- account overdrafts;
- debts suppliers with maturity under one year

### **2.3. Own Equities as Structures of the Financial Position**

As part of the financial position, within the General Framework of IASB, para. 49, the *own equities* reflect the residual interest in the assets of an entity, after deducting all its debts. In other words, the own equities (Stolowy, Lebas, & Langlois, 2006, p. 69) are the funds and goods brought as contribution or left to the entity's disposition by its owners (shareholders). Thus, they include: the capital (capital social), reserves and result of the exercise.

*The capital* refers to the original contribution of the owners reflected in the financial position at the historical costs from since the subscription, resulted in cash or in goods.

*The reserves* are a part of the exploitation, financial and extraordinary results of the entity over which the owners of the capital decide to be left to the entity's disposition every year, as well as the favorable and/or unfavorable differences that arise as a result of the assessment operation of the assets and debts, of the special operation related to capital and of other similar operations. The reserves have a fluctuating character from year to year compared with the capital (equity) which is relatively constant.

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<sup>1</sup> \*\*\* IAS 1 „Presentation of Financial Statements” in *the International Standards of Financial Reporting (IFRSs)*, IASB and CECCAR, CECAR, Bucharest, 2007, p. 820.

### 3. Conclusions

The balance sheet is a system that represents the correlation between the economic means and resources of formation of them, in a relation of balance between asset and liability, provided by financial results – profit or loss – obtained in the reference period.

In the market or competitive conditions, the data contained in the balance sheet can provide a comprehensive and effective picture on the economic and financial situation of each economic agent. Such information is equally useful both for the company itself, as and for third parties (represented by suppliers, clients, banks, investors, competitors and state administration).

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REALITIES AND PERSPECTIVES**

**Evolutions and Trends in Presenting the Profit and  
Loss Account as Part of the Annual Financial Statements**

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**Abstract:** The financial performance is the engine of the evolution of financial position. It is an internal contribution to the increase of the financial position of the economic entity through the capability to generate reserves taken from the results of the period to be incorporated into the own equity. Unlike the balance sheet that provides a static picture at a given time, the profit and loss account offers a dynamic situation of the revenues and expenditures cumulated of the financial exercise.

**Key words:** profit and loss account; financial performance; results; revenue; expenditure

**Jel Classification:** M40; M41

**1. The Main Landmarks of the Evolution of the Concept of Profit and Loss Account**

It is important for our approach in terms of highlighting the financial performance to point out the main moment from the route followed by the concept of profit and loss account in the evolution of accounting.

Yet the very idea of accounting leads implicitly to achieving a purpose of informing on a family, business, activity, or private, of an investment or on a project.

We believe in the evolution of accounting from proto – accounting to memoirs accounting, to simple entry accounting and finally to double entry accounting, were moments when the state imposed the organization of a minimum evidence, as we are all equally convinced that the progress of accounting had a internal source in the respect that many houses of the ancient and medieval Europe was even fashionable to keep their records in the most performing way possible and to bring improvements to the practiced accounting system.

We believe that the appearance of the account of capital completed by the profit and loss account has decisively marked the course of the double entry accounting development and finally as effective information system.

We all agree that the man is a being oriented towards gain, which means that it could not put to himself the natural question whether he gained or not from the undertaken activities. Thus within the memoirs accounting appeared the need to note all that was spent and what was obtained from a business, which finally lead at obtaining an information with reference at the advantages/disadvantages obtained from all the businesses conducted with all the partners in a year. It was thus born the first link between all the accounts used in the memoirist accounting and one account, which would become the profit and loss account. Thus, the first step towards double entry accounting was made.

Striking this account at the end of the period raised the natural problem of taking the favorable or unfavorable result on the account of the entrepreneur, namely based on the Capital. In this way it was



reached at creating new connections between accounts that were closing the circle of relations between accounts.

In addition, the desire to control and limit the possibilities of fraud or embezzlement led to designing a system of accounts directly linked between them.

## 2. About the Result in Double Entry Accounting

In Italy, in 1427, 349 tax laws created a tax base closer to the revenue and capital: *castato*. The text of law required that each subject to provide a list its properties and a copy of each penny of stock company where he was partner. Making these assessments was therefore (it was certainly the first time in the world) mandated by a tax law. But the effect of this obligation was limited in time. *Castato* on business and investments was suppressed in 1458, because of the fraud degree and the difficulties of detecting and of course the hostility of the nearest merchants who opposed to any idea of administrative control of their accounting documents<sup>1</sup>.

The extract of the Ordinance of 1356 p. 172 – 173 (in J. Facier, op. Cit., 1971, p 183): “ Any man who has 100 pound of revenue and above, or an inheritance or life in wages due to office, of pensions on life,

The core of double entry accounting *is first* the appearance in the list of the accounts used in the simple accounting entry “*Raison sociale*” or “*Cavedale*” at Italians, which is actually the first form of the account *Capital* and through which it was wanted to highlight the debt of the company to associates. *Later*, the apparition of some pluses and/or minuses in the relations with a partner, being customer of supplier, led directly at the idea of determining the gain or loss with that partner, and finally by centralizing these gains/losses in another account led at the appearance of a separate account entitled “*Profit and loss*”.

There are evidences that the practice of using the accounts mentioned above was presente from the beginning of the fourteenth century, when from the desire to identify and eliminate the frauds, the Genoese bankers were practicing a accounting with tools specific to that of double entry. Thus, in 1340 in the public accounting of Genoa to stop the frauds and dilapidations it was decided to introduce the system “*admodum banchi*”, through which there were used forecasting, persons, values, revenues, expenditures, profit accounts and the capital account.

The subordination of the expenditure and revenue accounts the “*Profit and Loss*” account to highlight the result on a certain period of time.

The occurrence of Benedetto Ctrugli’s works, *Dela mercatura et del mercante perfeto*, written in 1458 and published in 1573, and of Luca Paciolo, *Summa de Arithmetica Geometria, Proportioni et Proportionalita*, published in 1494, marks from theoretical point of view the transition from the simple entry accounting to double entry accounting, by describing the technique already applied for more than a century in the practice of companies and in public management.

The accounting system synthesized by Luca Paciolo in his chapter places in the center of the accounts system *Capital* and the *Profit and Loss Account*, calle it *Pro e Danno* or *Avanzi e Dizavanzi*. (Rusu, 1980, p. 25)

From the mid of the fifteenth century until the emergence of the work of Edmond Degranges – father, „*La tenue des livres rendue facile*” in 1975, the accounting fall into obscurity in terms of its technical developments. It is transmitted through various specialty works, which does not exceed by technique what Luca Pacioli managed to systemize through his work. The classical form of the accounting that we know and in the present was made by Methieu de la Porte through his work „*Science de negociants et des teneurs de livres*”, published in 1712.

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<sup>1</sup> Obert, R. (1999-2000), *La construction du droit comptable*, at the link [http://robert.obert.pagesperso-orange.fr/La\\_construction\\_du\\_droit\\_comptable\\_2011.pdf](http://robert.obert.pagesperso-orange.fr/La_construction_du_droit_comptable_2011.pdf), p. 82.

Regarding the topics of interest in the evolution of accounting we note (Rusu, 1980, pp. 38-47):

- a. *the subject of accounting* to authors such as Bertrand – Francois Barreme and Edmond Degranges – father, R.P. Coffy, Joseph Barre, Morrinson, Th. Ștefănescu, C.D. Augspurg, Sp. Iacobescu, Al. Sorescu, I.C. Panțu;
- b. *The concept of fund* in accounting at Th. Stefanescu;
- c. *Accounting as art* at Quesnot L;
- d. *Accounting as technique of study of the enterprise* at authors such as: Schmalenbach, Osbahr, Leitner, I.N. Evian;
- e. *Field of application of the accounting* at Francesco Villa, L. Gomberg;
- f. *Theories of the account* such as Ed. Degranges- father, F. Besta, Batardom, Ullman, Bellay, G. Faure, Th. Ștefănescu, W. Le Coutre, Fr. Marchi, G. Boccardo, G. Cerboni, L. Galeotti, A. Graffini, G. Massa, F. Villa, C. Petrescu, Courcelle – Seneuil, N. Brenkmann, M. Berliner, A. Novak, G. Seidler, L. Kohlmann, H. Biederman, G.D. Augspurg, F. Hugli și Fr. Schar, H. Nichlisch, I.C. Panțu, I.N. Evian, V.M. Ioachim, D. Voina, Sp. Iacobescu și Al. Sorescu
- g. *The value as cornerstone of the accounting and the account as a class of units of values* by J. Dumarchey;
- h. *Legal and economic substantiation of accounting* by V.M. Ioachim and D. Voina;
- i. *Pure accounting* concept developed by E of Fages.

*The personalistic theory of the accounts with a series of accounts* or the theory of personalized conformism, identify the need to imagine an official for the *profit and loss account* that organizes the results on categories of services. This theory was supported by authors such as Batardom, Degranges, Kohlmann, Ullman, Bellay, Courcelle, Faure, Th. Ștefănescu. For our analyze is interesting that the theory of personalized conformism could not explain after the rule who receives is debited and who givers is crediting the relation between the *capital* account and the *profit and loss* account.

At her turn the *personalized theory with two sets of accounts* or the theory of personalized duplicate, represented by authors such as Fr. Marchi, G. Boccardo, G. Cerboni, L. Galeotti, A. Graffini, G. Massa, F. Villa și C. Petrescu, the *profit and loss account* is included next to *Capital* in the category of the owner's accounts. Thus, there are identified two sets of accounts, on the one hand the accounts of the entrepreneur and on the other hand the accounts of the company. Each of the two sets of accounts has a specific operating rule. We mention that in this theory it appears a matter of explaining the relations between the *Capital* and *profit and loss* accounts in terms of personification and applied operating rules, in the case of profit and in the case of loss.

The supporters of *the materialist theory with one set of accounts* come with own pints of view in their theory, but entirely the common side is in regrouping all the accounts in one series with one rule of operation. Among them we mention: Courcelle – Seneuil, N. Brenkmann, M. Berliner, A. Novak, G. Seidler, L. Kohlmann, H. Biederman. The most important of the materialistic theories is that of Manfred Berliner by which all the accounts are from the same series, but reflects the positive wealth and the negative one. The losses and expenditures are graded as positive wealth, while the capital, debts and the profit are the negative wealth.

As in the case of the personalist theory with a series of accounts, the materialistic theory with a series of accounts groups formally the liability accounts in the same series with those of assets, which leads implicitly to unnatural explanations offered for some operations. Thus the profits were considered the negative wealth while the losses are considered the positive wealth.

*The materialist theory with two series of accounts* is in dividing the accounts in two categories, but each author of theory places and a central idea from which is developing the own construction, as follows:

G.D. Augspurg believes that we have two series of accounts structured in accounts of the “total wealth” and accounts of the “clean wealth”. Finally he applies the same operating rule on all the accounts on the principle of debit (+) and credit (-). The professors F. Hugli and Fr.Schar considered

the two groups of accounts, including in the clean wealth Capital and Results. Thus the basic relation is:

$$A - P = K \quad (3.1)$$

where: A - Assets, P-Liabilities and K = Capital

Interesting for our analysis is the concept of Schar who considers as object of accounting the “*movement of individual capital, valuable and quantitative flow of all the tangible and intangible goods from a private company such as the economic calculation*” (Schar, 1890).

In our country, the professor I.C. Pantu from Brasov sustained the materialist theory of the Hugly and Schar professors, and referring to the accounting he considered it as being “*the mathematics of the human economy in general and especially of the commerce and industry*” and “*the science of accounts or the science of balance sheets (balance of values) by that using the mathematics and within the existent laws, is inversed the course and the result of the activity of a trader or of a commercial company...*”.

Still a materialist theory with two sets of accounts formulated and the professor H. Nischlich (Nichlisch, 1922) in his work *Wirtschaftliche Betriebslehre*, indicating that the central idea is based on the relation:

$$A = C \quad (3.2)$$

where: A – Assets and P-Liabilities

The capital accounts have operating rule contrary to the assets accounts that reflects the means that the company has at its disposal. In the category of capital accounts we find and the own capitals and the borrowed equity.

The economic theory of the professor Nichlisch was supported by I.N. Evian from our country.

The Romanian professors V.M. Ioachim and D. Voina make a materialist economical and legal based on two sets of accounts, starting from the relation known:

$$A = P \quad (3.3)$$

The professor D. Voina, by his paper *General Accounting* (Voina, 1947, p. 411) apud (Rusu, 1980, p. 360) puts in the category of the wealth accounts and amending posts, including the “*formal assets*”, ie those expenditure and losses anticipated and outstanding revenue, and at liabilities in addition to funds or resources and those amending jobs, including the “*formal liabilities*”, meaning anticipated revenue and expenditure and outstanding loses to pay.

In Bucharest, the professors Spiridon Iacobescu and Alexandra Sorescu, over 20 years, between 1913 and 1933, formulate the economic and legal theory of the patrimony in which there will be found two sets of accounts, reaching at the same central relation:

$$A = P \quad (3.4)$$

Walter le Coutre is that starting from the relation Asset = Liability + Equity, formulates a materialist theory with three sets of accounts, assigning to each component from the right of the balance sheet a separate explanation, which justifies the formation of three sets of accounts. In this case, the results affect only the capitals, while the foreign equity accounts are considered closer to the wealth accounts. However for the liability and equity accounts, is applied the same operating rule which in the opinion of many critics is not merely than a development of the materialist theory with two sets of accounts. Fervent supporter of this theory was and the American professor HA Finney from the Northwestern University from Chicago and who develops a number of regularities (Rusu, 1980, p. 363) on the same central relation from which it started and Walter le Coutre.

After 1970, the professor Gh. Enache is the supporter of the idea that the object of accounting is “*the existence and movement of funds... under the aspect of how to purchase and use, and setting the final*

result of these movements and changes, reflected and transformed into standard money...” (Enache, 1977, p. 31).

A universally accepted definition in the Romanian literature on the subject of accounting is provided by the inter-university paper, coordinated by Professor I. Vaduva places the financial result in the sphere of accounting subject, next to the “*evidence, calculation and control ... state and movement of funds grafted on a heritage*” (Văduva, 1982, p. 21).

### 3. Recent Approaches in Determining the Outcome through the Profit and Loss Account

As we saw in the precedent paragraph that in the practice of keeping registers of the profit and loss account began to be used mainly in the big houses, enterprises and cities of the middle Ages from Italy towards the fourteenth mid-century beside the capital (equity) accounts. Both accounts were the catalyst that the simple entry accounting needed to shift to double entry accounting. Thus, Luca Paciolo places them in the center of accounts system that is the essence of double entry accounting.

From conceptual point of view, the accounting balance sheet and the profit and loss account have been coupled through the works published in France in the eighteenth century by the Methieu de la Porte by his paper “*Science de negociants et des teneurs de livres*” published in 1712 and Edmond Degranges – father, „*La tenue des livres rendue facile*” published in 1795. Later the ties were cemented by papers that developed the theories of accounts and balance sheet theories on the fund of establishing the study object of accounting, culminating with the dynamic conception on the balance sheet putted in circuit by E. Schmalenbach, in the papers..., where the attention focuses on measuring the result (Feleaga, Malciu, & Bunea, 2002, pp. 67-68).

On the accounting literature from our country, D. Iarcu is who presents the Profit and Loss account under the form of *Helpful and Damage*, in his papaers, *Doppia Scriptura*, published in 1844 in Bucharest. Thus, it within the *Master* was taken according to the European practice the winnings and losses during the year (exercice) , and finally transfers the result in *Capital* (Rusu, 1980). The same idea of an profit and loss account is taken and developed later by Th. Stefanescu in 1874 at Bucharest by his papers *Double entry accounting course*, by C. Petrescu in 1901 in Iasi through his paper *Accounting and administration* and by I.C. Panty in 1907 in Brasov by his paper *Science of accounts*.

The profit and loss account is that financial situation that measures the success or the financial performance of a company, providing information to the users interested regarding the economic value generated by it during a period. The information identified by the users can serve to an analysis of the repayment capacity of debts that the company presents them through balance sheet.

In the 30's in the United States within the conventional accounting theory, the professors W.A. Paton and A.C. Litelton, were considering the profit and loss account a summary of use on a period of time by managers of resources made available by the contributing men of capital through the production factors that the company owns. Thus, the function of accounting is concretized in determining the residual value between revenue and expenditure of the period, value that will be embedded to the initial capital of the period.

In France, the professor B. Colasse sustains the idea of including the profit and loss account in the category of equity accounts, given the definition of the result from heritage perspective as variation of company's heritage during a year.

The literature of specialty (Bernheim, 1998) (Lezeu, 2004) (Langlois & Friederich, 2007) (Feleaga, Malciu, & Bunea, 2002) (Helfert, 2006) (Feleaga & Malciu, 2004, p. 2004) (Feleaga & Malciu, 2004, pp. 16-26 and 39-59) shows several approaches regarding the performance that result from the profit and loss account.

a. Anglo – Saxon approach

**A first approach is that of economic and legal type** formulated by Y. Bernheim (Bernheim, 1998, p. 78) (Lezeu, 2004, p. 100), in 1998, by supporting the idea according to which the result must be the consequence of transactions carried out in a year through the simple difference between revenue and expenditure in the economic concept, but to have as finality the *patrimonial enrichment/impooverishment* of the company in legal conception. By patrimonial enrichments is understand that the favorable result of a period is added to the initial situation of the own equities, while the *patrimonial impooverishment* would present the situation in which the initial own equities are added the negative result. At their turn, the own equities from the two moments are the result of determining in legal conception, as is presented in the table below.

Table 3.1 – Legal – economic approach of the result

Legal conception	Explanations	Economic conception
$A - P = K$		$R = V - C$
$R = K_n - K_{n-1}$	If there are investments from the owners and distributions to owners	
$R = K_n - K_{n-1} - I_p + D_p$	If there are investments/distributions from/to owners	

A – assets, P – debts to third parties, K – own equities,  $I_p$  – investments from the owners (contribution),  $D_p$  - distributions to owners (dividends), V – revenues, C – expenditures, R – result

From the previous table we observe that in the legal conception of determining the result is operating with the structures specific to the financial position, assets, debts and own equities, at different moments of time, which leads us to the highlighting it under the form of a flow of own capital. Meanwhile, in the economic conception is operated with the structures of revenues and expenditure, which are through themselves the flows of value consumptions and of recovering them from the economic environment in which the entity is operating, mainly with their clients, but not only.

Thus, we can appreciate that in both conceptions, the result given by the profit and loss account are two forms of manifestations of the dynamic image of changing the financial position on a given period, one on equities and the second on the variations of assets and debts in terms of revenue and expenditure.

Regarding the *final result* of the company, we mention that it consists of results afferent to the three activities: exploitation, financial and extraordinary. Thus it can be appreciated the ability of the entity regarding the performance degree on each of three levels, but and the ability to optimize in real time its revenue and expenditure afferent to the environmental conditions specific to conjuncture at a given time.

Interesting to represent the economic concept of representation on dynamic of the revenue and expenditure is the modeling of French professors, G. Langlois, and M. Friederich (Langlois & Friederich, 2007, p. 16), who made the following suggestive representation to highlight the way of formation of the company's outcome from the revenue and expenditure for an economic cycle.

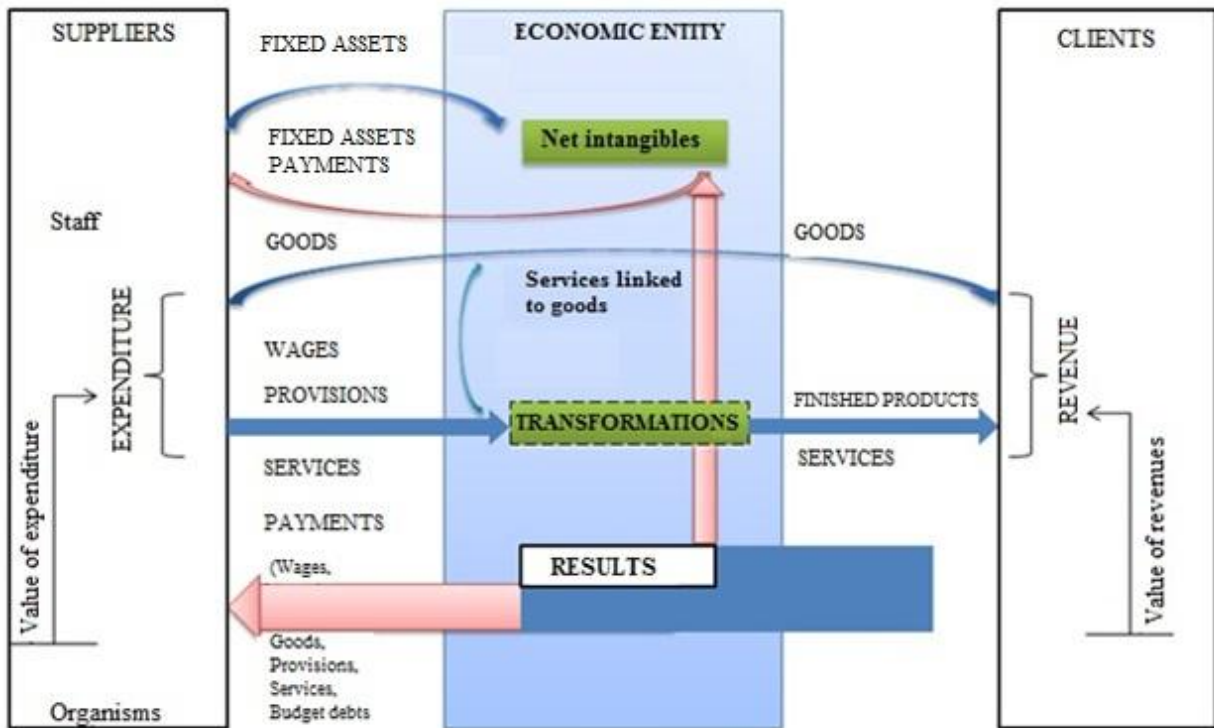


Figure no. 3 The method of forming the result of an economic entity ( Processing and adaptation after Langlois, G., Friederich M.)

Regarding the representation in dynamic of flows of revenue and expenditure for an economic cycle, we mention that we completed the original representation with the inclusion of the employees in the outflows, of social organisms and of state both in the input and output flow, that in our opinion in the category of services we include and the services provided by banks and other financial institutions and that referring at the outcome we envisaged an allocation of a part of it but and from the flow of input afferent to revenue to finance the investments in fixed assets.

**A second approach referring to the performance of an economic entity** highlighted by the profit and loss is oriented on the necessity of analysis and diagnostic of financial performances of it. This conception is the result of the pressure exerted by the users of financial information interested to measure the company's performance on the three functions of it, but especially of exploitation, as well as and in the view of appreciating the yield of the future investments. In this respect the professors Feleaga, Malciu and Bunea (Feleaga, Malciu, & Bunea, 2002, p. 75) (Helfert, 2006, p. 21) insists on orienting the information provided by the profit and loss account towards an analysis of the performance achieved by an economic entity as a result of implementing a set of economic and financial policies, but and towards an analysis of the company's relations.

This approach is used by the financial analysts in their quality as accounting professionals in assessing the past performances and in the forecast of the future necessary to establish value of an economic entity, ie of the market value on own equities. Thus, the results analysis of an economic entity will allow obtaining answers at two questions, namely: *how there were formed the results during the period of analysis and how they are distributed by type of activity or by its main functions.*

The purpose of this approach is determining the net result in financial logic (Toma, 2005, p. 61):

**Net result = Capacity of auto-funding – computed expenditure**

Regarding the possibility of determining the company's performance by the indicator net result based on the data offered by the profit and loss account the user has available the public information of the

company provided by it in one of the 4 forms recommended by the Fourth Directive – of the European Communities.

Through the Minister of Public Finances Order no. 3055/29.10.2009 for approving the accounting regulation in accordance with the European directives<sup>1</sup> is required to entities from Romania to prepare the profit and loss account after the format as in the second column in the table below. Thus, the form of the profit and loss account is in great extent in accordance with a form recommended by art. 23 from the Fourth Directive of the European Communities, presented by us in the table below in the first column.

**Table 3.2 – Comparative presentation of forms of the profit and loss account**

<b>Directive IV – a (art. 23)</b>	<b>OMFP 3055 (pct. 32)</b>
1. Net amount of turnover; 2. Stock variations of final products and in course of production; 3. Works performed by the company in own administration and reflected in asset; 4. Other revenues from exploitation; 5. (a) Expenditure with raw materials and consumables; (b) Other external expenditure. 6. Expenditure with staff: (a) wages and benefits; (b) social expenditure, with separate mentioning of the contributions for pensions; 7. (a) Value adjustments for constitution expenditure and intangible and tangible fixed assets; (b) Value adjustments for circulating assets, to the extent that they exceed the normal value adjustments in the company; 8. Other exploitation expenditure; 9. Revenue from participating interests, with separate mentioning of those obtained from affiliated companies; 10. Revenue from other securities and claims recording as fixed assets, with the separate mentioning of those obtained from affiliated companies; 11. Other interest and similar revenue, with separate mentioning of those obtained from affiliated companies; 12. Value adjustments of the financial assets and of the real estate values registered as fixed assets; 13. Interests payable and similar expenditure, with the separate mentioning of those concerning the affiliated companies; 14. Tax on the result from ordinary activities;	1. Net turnover; 2. Stock variations of final products and in course of production; 3. Production made by the entity for the its own purposes and capitalized; 4. Other revenue from exploitation; 5.a) Expenditure with raw materials and consumables; (b) Other external expenditure. 6. Expenditure with staff: a) wages and benefits; b) Expenditure with social insurances, with separate mentioning of those related to pensions. 7. a) Value adjustments concerning the tangible and intangible assets; b) value adjustments concerning the circulating assets, in the case in which they exceed the amount of value adjustments which are normal in the entity; 8. Other exploitation expenditure; 9. Revenue from participating interests, with separate mentioning of those obtained from affiliated companies; 10. Revenue from other investments and loans that make part from the fixed assets, with distinct indication of those obtained from the affiliated entities; 11. Other interests to be collects and similar revenue, with distinct indication of those obtained from the affiliated entities; 12. Value adjustments concerning the financial fixed assets and investment held as current assets; 13. Interests payable and similar expenditure, with separate indication of those concerning the affiliated entities;

<sup>1</sup> ORDER 3055/29.10.2009 for approving the accountable regulations according with the European directives published in *Official Monitor no. 766*

Directive IV – a (art. 23)	OMFP 3055 (pct. 32)
15. Net result from ordinary activities; 16. Extraordinary revenue; 17. Extraordinary expenditure; 18. Result from extraordinary activities; 19. Tax on the result from extraordinary activities; 20. Other taxes not included in previous posts; 21. Result of the exercise.	14. Profit or loss from the current activity; 15. Extraordinary revenue; 16. Extraordinary expenditure; 17. Profit or loss from the extraordinary activities; 18. Tax on profit; 19. Other taxes not shown in the above elements; 20. Profit or Loss of the financial exercise.

#### 4. Conclusions

The profit and loss account is a document that provides a fair presentation on the financial information, summarizing in an explicit income the revenue and expenditure from a period of management and on this basis presents how the economic results are formed. For the accounting outcome to measure correctly the company's performance is necessary to respect the principle of connecting the expenditure to revenue, since the moment of accounting an income in the results account must be accounted and all the expenditure that have contributed at obtaining the respective revenue. The conclusions drawn after the analysis of profit and loss account, correlated with those obtained from interpreting other available data, allow to take fundamental decisions, in order to potentiate the future development of a unit and improvement the company's performances.

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