Journal of Knowledge Management, Economics and Information Technology

Economics Essays
JKMEIT PLUS - Special Issue December 2013

www.scientificpapers.org
# Table of contents

**Mădălina Albu**  
*Environmental Protection - An Integral Part of Sustainable Development* ........................................ 1

**Ghiorghe Batrinca, Gianina Cojanu**  
*The Dynamics of the Dry Bulk Sub-Markets* ............................................................... 13

**Borcoşi Corina Ana, Neamţu Ion**  
*Successful Business Managers during the Current Economic Crisis* ........................................ 24

**Ciobanasu Marilena**  
*Knowledge Management – Innovation and Positive Practices* ........................................... 37

**Florin Constantin Dima, Corina Maria Ducu**  
*Corporate Governance – A Key Element of the Entity* .................................................... 52

**Ioana Duca**  
*Efficiency, Effectiveness and Profitability – Concepts Used in Assessing Public Expenditures in Education* .............................................................. 63

**Vasile Dumbravă, Vlăduț - Severian Iacob**  
*Using Probability – Impact Matrix in Analysis and Risk Assessment Projects* .................. 76

**Enea Constanța, Enea Constantin**
Different Styles of Leadership in Organizations Touristic and their Benefits and Disadvantages ................................................................. 97

Loredana-Maria Paunescu

The Economic Progress in the Sustainable Human Resources Development .......................................................................................... 112

Cristina Gradea

Romanian Companies Performance - Approach by Value Signals ................................................................................................................. 120

Negruțiu Magdalena, Calotă Traian-Ovidiu

Study on the VAT Special Scheme for Travel Agencies and it’s Implications on Profitability ........................................................................... 128

Dan Dumitru Ionescu, Alina Măriuca Ionescu, Elisabeta Jaba

The Investments in Education and Quality of Life ................................................................................................................................. 141

Oana Claudia Ionescu

The Evolution and Sustainability of Pension Systems the Role of the Private Pensions in Regard to Adequate and Sustainable Pensions .......................................................................................................................... 159

Valeriu Ivan

Economic Intelligence ...................................................................................................................................................................................... 182

Iulia Jianu, Roxana Ruiu, Ionel Jianu, Mihaita Ruiu

The Value and the Evaluation Process in Accounting ......................................................................................................................... 199

Maurizio Lanfranchi, Carlo Giannetto, Irina Dragulanescu
A New Economic Model for Italian Farms: the Wine & Food Tourism

Alina Lazoc
Information - Seeking as Optimal Consumer Experience. An Empirical Investigation

Mădălina Albu
Considerations Regarding Cultural Values in Multinational Companies

Loredana - Maria Paunescu
The Development of Economic Competitiveness Based on Knowledge

Negruţiu Magdalena, Calotă Traian-Ovidiu
Study on the Accounting and Tax Scheme of Second-Hand Goods Such as Cars

Oncioiu Ionica
Between Form without Substance and Substance without Form: Estimating the Brand Image of Romanian Smes

Enea Constanţa, Enea Constantin
Consequences of Corruption and Prevention Program in Romania

Elena Pîndiche, Roxana Ionita
The Influence of Micro and Macro Environment Components on Trade Companies in Romania
Paraschiva Grigorie, Popa Marineta, Ramona Georgiana Busuioceanu,
Ilie- Alexandru Grigorie

Contributions of Emotional Education Youth’s to Improve or Change Teaching Methods ................................................................................................................. 338

Mirela Anca Postole

Debt Sustainability .................................................................................................................. 363

Dănuț - Octavian Simion

Using Java Objects and Services for Database Business Applications ................................................................................................................................. 376

Victor Troacă

Models for Analyzing the Business Solvency under Economic Crisis Conditions ......................................................................................................................... 386

Teodora Vătuiu, Mioara Udrică, Naiana Tarcă

Cloud Computing Technology - Optimal Solution for Efficient Use of Business Intelligence and Enterprise Resource Planning Applications ................................................................................................................................. 395

Oncioiu Ionica

The Impact of Innovation in Romanian Small and Medium-Sized Enterprises on Economic Growth Development ................................................................. 409

Popescu Silvia

Scientific Research between Real and Desirable ........................................................................... 423
Environmental Protection - An Integral Part of Sustainable Development

Author: Mădălina Albu, Petroleum – Gas University of Ploiești, Romania

Environmental management tends to be, and in our country becoming more integrated practice management to community involvement. Environmental management is a component of the overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy. With all the concerns in each country and internationally oriented environment and protecting natural resources, preservation of life, ecological diversity is widely appreciated that efforts are insufficient and unevenly distributed around the globe.

Keywords: management; resources; environmental

Introduction

The twenty-first century has taken a great unsolved problem of the previous century - environmental protection. Currently, there are many warning signs of excessive pollution and depletion of natural resources. With all the concerns in each country and internationally oriented environment and protecting natural resources, preservation of life,
ecological diversity is widely appreciated that efforts are insufficient and unevenly distributed around the globe. Financial support for environmental spending is dependent on the economic situation of each country, so the gaps between countries will make deep and this area.

Environmental reform is to increase taxes on energy-intensive processes, water, raw materials, land occupation and simultaneously decrease other taxes of the working staff, ensuring transparent use of funds obtained from the ecologic taxes.

National and international debates and trying to establish limits on the consumption of natural resources, protection under a variety of environmental issues, but without stagnating progress and the creation of new jobs. Some require tough measures, the policy of small steps, others more quickly. At the same time requires a long term vision for 20-40 years because existing pollutants have long-term effects, some effects are not well known, or the simultaneous presence of several pollutants does not allow quantification of the effects of immediate and long. Therefore, in addition to appropriate software needed to reduce pollutants, are necessary modern means of control and information on the level of pollution and protecting the environment.

Environmental management issues led to the development of international standards ISO 14000 series. They were adopted in European Union countries. Romania has recognized these standards and developed similar standards.

Environmental management tends to be, and in our country becoming more integrated practice management to community involvement. Environmental management is a component of the overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy.

Environment Department, documented under the law, must be concerned with ensuring the organization's environmental performance. Department of Environmental Management, ISO 14001 documented and
integrated with other management systems, to ensure continuous improvement in this area.

Growth prospect in current circumstances, without promoting a policy of environmental protection is not possible. Environmental management is based on the following principle: Prevention is always better and more economical than treatment.

**Concept of Sustainable Development**

In a very general sense the concept of sustainable development includes the idea of developing without depletion by moving beyond the affordability and regeneration of ecosystems. The basis for this concept is the need to integrate environmental and economic objectives with environmental protection.

According to the declaration of the World Commission on Environment and Development, sustainable developments meet the needs of current generations without compromising the ability of future generations to meet their own needs. Thus, the development can generate prosperity, if it regenerates resources and protect the environment.\(^1\)

Sustainable development addresses the complex concept of quality of life, economically, socially and environmentally, by promoting the idea of balance between economic development, social equity, efficiency and environmental conservation.

The key element of sustainable development is reconciliation between the development and the environment, promoting the integrated development and decision-making, globally and regionally, nationally or locally. Also, sustainable development depends on proper distribution of costs and benefits of development between generations and nations.

Economic and social policy objectives for achieving sustainable development are:

\(^1\) Cămășoiu C., Economia și sfidarea naturii, Editura Economică, București, 1994, p. 14
- resizing economic growth of the conservation of natural resources;
- changing the quality of growth processes;
- basic needs for all people (labor, food, energy, water, housing);
- ensuring a controlled population growth;
- preserving and enhancing the resource base;
- technological restructuring and putting under its control;
- integrating decisions on the economy, energy and environment in a unique process.

It was found that in order to achieve sustainable development; it must be combined with economic and demographic development, in order to ensure that measures to protect the environment and save resources.

In 1987, the World Commission on Economic Development and the United Nations environment through the Brundtland Report, the importance of the concept of sustainable development enshrined in Romania known as the sustainable development.

Definition was that "sustainable development is development that meets the requirements of the present without compromising the ability of future generations to achieve their own aspirations."

This concept was reinforced by the 1992 Rio Conference through Agenda 21 document outlining practical lines of action in adopting a common strategy of the world to meet the requirements of sustainable development.

The overall objective of sustainable development is to find an optimal interaction between the four systems: economic, human, environmental and technological. For the model to be operational viability have this support or to be applicable to all subsystems that form the four dimensions of sustainable development, that is based on energy, agriculture, industry, and to investments, human settlements and biodiversity.
If macroeconomic concept of sustainable development is used to illustrate the link economy-environment-technological and social development, micro-economic level is used concept of eco-management, the latter being defined as the science or art of developing productive activities or doing business that have a minimal impact on the environment.

The concept of sustainable development actually combines the two concepts above, plus taking into account the factors of influence such as the desire and aspirations of progress characteristic of human civilization and the implications arising from the impact of technology and products life cycle environmental impacts (eco-cyclical approach to products and technologies).

Ecology requires a harmonious coexistence between man and nature; growth under proper environmental management, management must become a priority and responsibility.

**Environmental Policy**

Environmental policy is declared by a company, company, firm, enterprise, authority or institution, whether public or private intentions and its principles on global environmental performance which provides the framework for action and setting goals and targets its environment.

A large number of international organizations, including governments, industry associations and citizens' groups have developed guiding principles that have helped to define the general area of their commitment to environmental protection organizations offering a different set of values. Such principles can assist the organization in developing its policy is unique.

Achieving effective results in environmental policy depends on:

- an organization monitoring environmental factors;
- an environmental audit;
- an eco-industry market development;
- an environmental management.
Environmental policy (environmental or ecological) can be regarded as a set of measures developed at macro and micro in order to reduce the deterioration of human health and the environment, nature quality (maintaining the richness and diversity of life) and environmental factors affecting production (soil, vegetation, materials, etc.).

To specify the environmental policy is necessary to identify and describe environmental issues, thereby creating the possibility of knowledge and understanding of trends in environmental quality, favorable and unfavorable mechanisms to maintain the functionality of natural systems.²

Meanwhile, due to the conditions for the implementation of any environmental policies, disclosure of environmental matters is to be done in a language that allows efficient transmission of the message with respect to receptor diversity. Among these environmental conditions are noted the need for the greatest possible number of people, representative of the multiplicity and diversity of interests to environmental goods and services.

Once the scope of environmental policy to reduce costs and increase efficiency of operationalization in terms of economy, it is preferable to make an objective assessment of environmental policy applied in the past.

This ensures notification policy areas covered by environmental factors jam location of environmental policy, all of this is the premise of improving the set of measures and means of preserving ecological balance.

Environmental policy, from the point of view of the instruments used has the following components:

A. Global regulatory policy - refers to all businesses in all categories of citizens and has the tools:

framework law, general environment and its components;
- standards, rules, limits;
- studies and environmental impact assessments.

B. The specific regulations call policy instruments such as:
- responsibilities for hazardous goods;
- liability risk;
- right to accurate information in real time.

C. Policy c persuasion is most effective category, and the specific tools mentioned:
- promoting green technology and research;
- use of market mechanisms;
- promote awareness and education.

D. Policy information transfer using social media tools such as:
- education;
- media and public relations;
- public access to information systems.

E. Economic and financial policy stimulus. The tools used to implement this policy are:
- fees and penalties;
- subsidies and taxes;
- tax exemptions for investment and environmental protection activities.

Regulatory policy is an exercise which formalizes an acceptable minimum level of environmental quality as a variable economic and social welfare, and human intervention aimed at overcoming some of the limitations of the market economy in reflecting real social costs, namely to ensure optimal system operation socio-economic system, restricted by the limited resources and environmental services.

Policy rules include: environmental law, environmental standards and norms, conditions permitting and environmental
authorization, physical planning law, the terms of reference for impact studies and assessment of actual environmental impact.\(^3\)

Because some economic activities have a high level of environmental risk are needed more specific regulations such as:

- the terms of reference of the plan in the event of environmental accidents;
- nomination hazardous activities and products, clarifying production, handling, storage, consumption;
- the terms of reference of the reports and information under the right of civil society to be informed current and emergencies.

At European Union level, the rationale policy is characterized by economic and environmental factors:

a. Economic factors:

- advantages and / or disadvantages of harmonization of standards and the level of development of each EU country;
- advantages and / or disadvantages of the implementation of directives in EU countries.

b. Environmental factors:

- trans boundary pollution, imports and exports risky, acid rain, etc.;
- protecting the ozone layer, the greenhouse effect, biodiversity protection;
- protection of streams, rivers, and coastal surface waters.

European Union principles on the base of environmental legislation are:

- Prevention is better than cure;
- Environmental impacts should be considered at the stage of investment;
- Operation of nature that produce ecological imbalances should be abandoned;
- Take action must be based on the scientific knowledge;

\(^3\) Rojanschi V., Bran, F., Diaconu S., Grigore F., Abordări economice în protecția mediului, București, Editura ASE, 2003
The "polluter-pays" translates into costs by polluting pollution prevention and remedying damage;

Activities of a Member State must not cause damage to the environment of another state;

Environmental policy in the Member States should take into account the interests of developing countries;

Member States should promote environmental policy in international organizations;

Environmental protection is everyone's responsibility, as required, to this end, educational activities;

Environmental protection measures to be taken at the appropriate level taking into account the type of pollution, the actions required and the geographical area to be protected. This principle is known as the "principle of subsidiary";

National environmental programs should be based on a unitary term, and policies should be harmonized across the Community.

The practical application of these principles can be achieved in the following ways: adopting environmental policies harmonized with development programs, mandatory procedure for environmental impact assessment in the initial phase of projects, programs or activities; linking environmental planning with the planning and territory planning, introduction of economic incentive or corrective development of rules and standards, their harmonization with international regulations and the introduction of compliance programs, promotion of fundamental and applied research in environmental protection.

Joining the European Union imposes environmental policy and practice alignment with EU directives in accordance with the national strategy of economic development of Romania in the medium term and will be conducted by:

- Developing sustainable management of water resources in accordance with the provisions of the Dublin Conference (1992) and the Summit of Rio de Janeiro (1992);
Achievement of national program planning and sustainable land use and soil erosion;
Assessment of the Natural Capital of Romania in line with its current diversity and vulnerability, development of the National Network of Protected Areas;
Taking measures to restore areas damaged natural capital;
Implementation of the national program of urban and industrial waste management, recycling and reuse of products and materials;
Building the necessary financial instruments relating to the environment, to take over the acquires, in particular as regards the exploitation of water environmental protection in industry, agriculture, soil and land degraded organic protection and certification of organic products;
Strengthening institutional capacities and skills training needed to achieve a partnership between environmental institutions in Romania and the European Union, thus providing administrative support for the opportunities and major advantages offered by the European Union through the strategies and tools to support our country integration in the Union;
The legal and institutional training to facilitate and stimulate the dialogue between authorities and civil society on strategies, policies, programs and decisions on the environment and socio-economic development of the country;
Conservation and environmental development of human capital through better education system formative and informative, enabling research and promotion of specific works.

The evolution of concepts concerning the relationship between socio-economic and environmental activities in the context of sustainable development principles was made in two directions:
First direction, binding, consisting of obtaining the socioeconomic agents of permits, approvals, permits operation with the authorities in relation to the environmental protection.
In this situation, the environmental impact assessment forms are regulated by national environmental legislation framework and detailed secondary legislation and national tertiary in this field; 

- Second direction with voluntary agencies through which socio-economic, stimulated by certain potential advantages, is committed to increase environmental performance. In this case the environmental impact assessment forms covered by these standards (ISO 14000 and EMAS) with a European or international recognition.

Emergence of new environmental regulations related to impact studies for new investment objectives and balance environmental goals already in operation, requires a heavy workload.

**Conclusions**

Dynamic economic equilibrium involves moving from the concept of growth (quantitative improvement) in the development (qualitative improvement), but not a simple development, environmentally sustainable but one that does not preclude the ability of the environment to provide raw materials and energy and absorb wastes and residues.

Moreover, such development entails consideration of human ecology, so social sustainable development. Implementing ecological economics reinforces the humanistic character. This will boost the formation of a new development concept of sustainable development, environmentally and socially sustainable, represented by

- human development that requires investment in people, through increased educational opportunities, the development of better systems of health insurance, the emergence of new jobs;
- human development concerning both human capacity development and productive use in ecological conditions;
- human development involves the development of people, by people, which includes participatory approaches.
References


The Dynamics of the Dry Bulk Sub-Markets

Authors: Ghiorghe Batrinca, Assistant Professor, Constanta Maritime University, Romania; Gianina Cojanu, Assistant Lecturer, Constanta Maritime University, Romania

International shipping plays a vital role in global trade. As history has shown, shipping is a cyclical and volatile industry and its evolution is strongly correlated with other industries. In this sense, the analysis of different shipping markets may provide useful and reliable information regarding the worldwide economic activity. The indices produced by Baltic Exchange offer a comprehensive outlook of different shipping markets. Moreover, the analysis of their dynamics from a time period to another improves price transparency and market understanding.

Keywords: market; shipping; exchange

Introduction

Baltic Exchange produces a wide variety of shipping indices covering different vessel sizes and different cargo types. These indices provide useful and reliable information that may be considered fair and accurate representations of prevailing market conditions. The indices have been introduced successively in order to track a better progress in each sub-
market. Therefore, they are widely recognized as being unfailing indicators of market conditions in the shipping industry, improving price transparency in a market that has always been very secretive.

These indices are baskets of spot freight rates designed to reflect the daily movement in rates across dry-bulk spot voyage and time-charter rates. No specific cargo or tonnage requirements are represented, but each route is given an individual weighting to reflect its importance in the world-wide freight market (Kavussanos and Visvikis, 2006).

The Baltic Capesize Index (BCI) considers cargo movements of Capesize vessels and consists of five voyage routes and four trip-charter routes. The voyage routes are quoted in terms of US$/mt of cargo transported and the trip-charter routes are measured in terms of US$/day for each day of hire. The voyage routes reflect freight rates for iron ore and coal cargoes. Regarding the trip-charter routes, they cover the four major trading routes on which Capesizes operate: Atlantic Trade, Pacific Trade, trips from the Continent to the Far East and trips back from the Far East to the Continent.

The Baltic Panamax Index (BPI) considers cargo movements of Panamax vessels of 74 000 mt dwt and consists of four trip-charter routes whose geographical structure is broadly similar to that of the Capesize routes.

The Baltic Supramax Index (BSI) reflects freight rates for a 52 000 mt dwt Supramax-type vessel and consists of six trip-charter routes whose composition is broadly similar to that of the BCI and BPI.

The Baltic Handysize Index (BHSI) reflects freight rates for a 28 000 mt dwt Baltic Handysize vessel and consists of six trip-charter routes that equally cover cargo movement in the Atlantic basin and in the Pacific basin.

The Baltic Dry Index (BDI) is a composite index of the Capesize, Panamax, Supramax and Handysize Timecharter Averages and came into operation on 1 November 1999, replacing the Baltic Freight Index – the first shipping index published by the Baltic Exchange. This index is considered to be a general market indicator for the dry bulk shipping.
Over the years, the contributing indices and the methods of BDI calculation have been modified. Currently, for the computation of BDI the following formula is used:

$$\frac{(\text{CapesizeTCavg} + \text{PanamaxTCavg} + \text{SupramaxTCavg} + \text{HandysizeTCavg})}{4} \times 0.113473601$$

where TCavg = Time charter average.

The BDI can be viewed as the equilibrium price of shipping raw materials, determined by the supply of cargo ships and the demand for transporting raw materials by ship. The Baltic Dry Index is sensitive to changes in the demand for raw materials and oil price changes. Movements in the BDI are reflected in changes of global demand for manufactured goods. Moreover, this demand influences the price of crude oil, which in turn influences the cost of maritime shipping.

The Baltic Indices are calculated every market day by the Baltic Exchange from data supplied by a panel of independent shipbrokers. The freight rate which is reported in the market is the simple average of all the panel-lists’ assessments received by the Baltic Exchange on that day. The average freight rates are then multiplied by a constant number to convert individual freight rates into an index number. The multiplier is a unique constant number for each route and reflects the importance of each component route for the calculation of the overall index. The composition of the Baltic routes has to reflect current trends and developments in the freight market and its updates are decided regularly by the Baltic Exchange and its appropriate committees, which consult with the industry, market users and derivative brokers to ensure that market information remains representative of market trends. In selecting the component routes, the Baltic Exchange is guided by the following three principles: market coverage, liquidity and transparency.

---

Literature Review

The academic literature provides various research papers on the dry bulk market and its representative indices. According to Veenstra and Dalen (2008) many of the industry indices are unreliable as indicators of market developments in shipping. Therefore, they suggest different approaches to index calculation and compare their results against the existing indices in the industry. The authors notice that if there is a large amount of data, weighted unit value indices are quite robust to weighting, matching and quality correction. Also, they perform a hedonic analysis which shows that there are no structural quality aspects that influence price indices. Furthermore, they estimate price indices which take into account the duration of contracts.

Due to the fact that the Baltic Dry Index is computed as an equally weighted average of the sub-market indices, BDI weights more on larger-size market. Thus, as a reference indicator, BDI may produce larger-size bias. Ko (2010) attempts to fulfill the need of searching for another indicator for the status of global dry bulk freight market by applying a dynamic factor model. By analyzing a dynamic factor model of the change rate of BDI constitutes indices, the author succeeded to measure the synchronicity and idiosyncrasy of the sub-markets in a unified framework.

Alizadeh and Talley (2011) investigate vessel and voyage determinants of individual dry bulk shipping freight rates, vessel and voyage determinants of the individual delivery times of chartered ships and the relationship between dry bulk shipping freight rates and laycan periods of individual charter contracts, by applying a system of simultaneous-equations on a large sample of individual dry bulk chartered contracts from January 2003 to July 2009. Their research highlights the fact that the Baltic Dry Index and its volatility represent one of the determinants of the laycan period.

Duru and Yoshida (2011) consider that previous and current index measures can generate fluctuations in long run and probably
simultaneous results. Thus, they attempt to construct a composite freight index based on averaging percentage changes year-by-year, by using monthly fixtures data of eight years including cargo, port and ship particulars. Also, the authors assess previous econometric models of dry cargo freight rate and seaborne trade. According to their research, life expectancy represents a significant indicator for both seaborne trade and dry cargo freight rates.

Stefanakos et al. (2011) examine the behavior of the dry bulk indices in order to prepare reliable market research. They use extensive regression analysis between indices related to Capesizes, Panamaxes, Supramaxes and Handysizes bulk carriers. According to their research, most of the results give a very good coefficient of correlation. In addition, the authors study the univariate probability structure of the indices which provide a better understanding of probabilities of occurrence of the value of the various indices for each examined time period.

The Baltic Dry Index is especially relevant for the trade of the least developed countries. The least developed countries consist of 48 countries located across Africa, Asia, Latin America and the Caribbean, with exports mainly made up of primary goods, many of which relying on bulk carriers for international transportation. Lin and Sim (2012) try to construct a new measure of trade cost, based on the Baltic Dry Index as an instrument for trade. The authors notice that the BDI generates a statistically significant and quantitatively large response in the trade of the least developed countries.

**Data and Methodology**

In this study, different dry-bulk market indices produced by Baltic Exchange were analyzed because their dynamics reflect the evolution of each dry-bulk sub-market. By examining these indices, we can have a complete outlook of the dry-bulk market and we can observe their behavior in different time periods. Thus, the differences identified from a
time period to another may help us to look for the proper economic reasons. This kind of analysis may provide a better understanding of the shipping market and may increase market transparency.

For the empirical study, the daily data series of various Baltic Exchange indices were used, covering the following time periods: 01.1985 – 09.2013 Baltic Dry Index, 09.2000 – 09.2013 Baltic Capesize Index, Baltic Panamax Index and Baltic Supramax Index (in the case of BSI, for the time period 04.09.2000-30.06.2006 the BHMI values increased by 10% were used due to the change of the standard vessel), 05.2006 – 09.2013 Baltic Handysize Index. Data were collected from Baltic Exchange database and the analysis was performed with EViews 7.

4. EMPIRICAL ANALYSIS

Table 1 and Figure 1 provide information regarding the evolution of the Baltic Dry Index in two different time periods. The first time period is characterized by a low volatility of the index which is reflected in a relative low standard deviation, skewness and kurtosis. The index has recorded values between a minimum of 554 points and a maximum of 2352 points, with a mean value of 1282 points. As the barometer of the dry bulk-market, the evolution of the BDI during 01.1985 – 12.1999 reflects a stable time period with low volatility, a recovery period after the early 1980s’ economic recession. The level of shipping transactions was low due to the fact that consumers’ confidence in shipping was affected. During those years, the shipping industry was not considered to be a profitable economic activity.

According to Table 1, compared to the first time period, the second time period is characterized by a higher volatility of the index which is reflected in a high standard deviation, skewness and kurtosis. The index has recorded values between a minimum of 647 points and a maximum of 11 793 points, with a mean value of 2889 points. In this case, the evolution of the BDI during 01.2000 – 09.2013 reflects an unstable time period with high volatility, determined by fluctuations of crude oil prices and of industrial productions. The strong industrial development in the economies of China, India and Southeast Asia, since the turn of the
twenty first century, has resulted in a significant increase of the annual growth rate of the demand for dry bulk commodities, leading freight rates to all time highs. During 2008, the financial crisis affected the shipping industry due to the fact that many industrial producers reduced or stopped their production. Overall, the index is extremely volatile in the last decade compared to the first 18 years of existence, as a consequence of the worldwide economic booms and recessions. Furthermore, volatility and cyclicality are inherent in the shipping industry.

**Table 1:** Descriptive statistics for BDI

<table>
<thead>
<tr>
<th>Time period</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.1985 – 12.1999</td>
<td>1282,414</td>
<td>1287</td>
<td>2352</td>
<td>554</td>
<td>342,6156</td>
<td>0,344713</td>
<td>3,048197</td>
</tr>
<tr>
<td>01.2000 – 09.2013</td>
<td>2889,254</td>
<td>2133,5</td>
<td>11 793</td>
<td>647</td>
<td>2252,87</td>
<td>1,664262</td>
<td>5,627867</td>
</tr>
</tbody>
</table>

Source: own estimations

**Figure 1:** BDI during 01.1985-09.2013
Table 2 and Figure 2 provide information regarding the evolution of the Baltic Capesize Index, Baltic Panamax Index and Baltic Supramax Index during 09.2000 – 09.2013. Comparing these indices in terms of descriptive statistics, the Baltic Capesize Index seems to be the most volatile, followed by the Baltic Panamax Index and the Baltic Supramax Index.

**Table 2: Descriptive statistics for BCI, BPI and BSI during 09.2000 – 09.2013**

<table>
<thead>
<tr>
<th>Index</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCI</td>
<td>4153.996</td>
<td>3108</td>
<td>19 687</td>
<td>830</td>
<td>3341.978</td>
<td>1.776570</td>
<td>6.310945</td>
</tr>
<tr>
<td>BPI</td>
<td>2914.721</td>
<td>2175</td>
<td>11 713</td>
<td>418</td>
<td>2235.543</td>
<td>1.589730</td>
<td>5.351021</td>
</tr>
<tr>
<td>BSI</td>
<td>2124.952</td>
<td>1686.3</td>
<td>6956</td>
<td>389</td>
<td>1386.4</td>
<td>1.326431</td>
<td>4.257245</td>
</tr>
</tbody>
</table>

Source: own estimations

As far as concerns the Baltic Handysize Index, Table 3 and Figure 3 reflect its evolution during 05.2006 – 09.2013. It can be noticed that the
BHSI reached the highest volatility during 2006 and middle of 2008, recording a maximum value of 3407 points and a minimum of 268 points.

**Table 3:** Descriptive statistics for BHSI during 05.2006 – 09.2013

<table>
<thead>
<tr>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1162,784</td>
<td>836</td>
<td>3407</td>
<td>268</td>
<td>773,9297</td>
<td>1,171325</td>
<td>3,326926</td>
</tr>
</tbody>
</table>

Source: own estimations

![BHSI chart](image)

Source: own estimations

**Figure 3:** BHSI during 05.2006 – 09.2013

The Baltic Dry Index (BDI) is a composite index of the Capesize, Panamax, Supramax and Handysize Timecharter Averages. According to the Pearson Coefficient Correlation Matrix (Table 4), which was computed for the 09.2000 – 09.2013 time period, the BDI has the highest correlation with the BPI, followed by BCI and the lowest correlation with BSI. Also, it can be noticed that the correlation between BCI and BPI is stronger than the one established between BCI and BSI.
Table 4: Pearson Coefficient Correlation Matrix (09.2000 – 09.2013)

<table>
<thead>
<tr>
<th>Index</th>
<th>BDI</th>
<th>BCI</th>
<th>BPI</th>
<th>BSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>BDI</td>
<td>1</td>
<td>0.98917</td>
<td>0.9915</td>
<td>0.77424</td>
</tr>
<tr>
<td>BCI</td>
<td>0.98917</td>
<td>1</td>
<td>0.96859</td>
<td>0.73652</td>
</tr>
<tr>
<td>BPI</td>
<td>0.9915</td>
<td>0.96859</td>
<td>1</td>
<td>0.76672</td>
</tr>
<tr>
<td>BSI</td>
<td>0.77424</td>
<td>0.73652</td>
<td>0.76672</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: own estimations

Conclusions

The indices produced by Baltic Exchange provide useful and reliable information, improving price transparency in a market that has always been very secretive. In this study, different dry-bulk market indices produced by Baltic Exchange were analyzed because their dynamics reflect the evolution of each dry-bulk sub-market. By examining these indices, we can have a complete outlook of the dry-bulk market and we can observe their behavior in different time periods. Thus, the differences identified from a time period to another may help us to look for the proper economic reasons.

As the leading index of the dry bulk-market, the evolution of the BDI during 01.1985 – 12.1999 reflects a stable time period with low volatility, a recovery period after the early 1980s’ economic recession, when consumer’s confidence in shipping was strongly affected. The strong industrial development in the economies of China, India and Southeast Asia, since the turn of the twenty first century, has resulted in a significant increase of the annual growth rate of the demand for dry bulk commodities, leading BDI to its all time high. Even though volatility and cyclicality are inherent in the shipping industry, BDI is extremely volatile in the last decade compared to the first 18 years of existence, as a consequence of the worldwide economic booms and recessions.
References


Successful Business Managers during the Current Economic Crisis

Authors: Borcoși Corina Ana, Titu Maiorescu University, Bucharest, Romania; Neamțu Ion, Titu Maiorescu University, Bucharest, Romania

Professional managers are essential for successful business they lead. A particularly good manager is a hard-working person, productive and efficient that appreciates the most personal performance.

Good managers attract exceptional staff, making a perfectly every employee working in a perfect team employer - successful manager. Successful manager helps to increase the market share of its business products and services, add new profits and reduce on-going costs.

Successful manager, by his conduct, will create the context in which the company and the entire staff will prosper, contributing personal and professional to fulfilment of its employees and therefore the success of his business.

Keywords: business; manager; employee; staff

Introduction

The business world is one of the most dynamic today, and this automatically implies dynamism and instability, especially in the present economic crisis.
In a functioning market economy, defining is free and fair competition and fight for satisfaction of customers for profit. [6]

"We live in the most challenging times for business and economics we passed along our existence. Only those capable will survive. The race started, and you participate in it. If you are not determined to win, to conquer the race, despite all difficulties, will be removed and beat the people and companies that are geared toward victory "[5]. Survivability does not belonged often powerful men, and especially those who are best adapted to the changes.

The best managers are those who fully understand every aspect of the business they manage and the industry in which it operates. The competitive advantage of each organization is generated by its people. [2] Successful business managers provide job security for its employees, who encourage them to build a long-term perspective on the workplace and on organizational performance [4].

Managing a successful business does not mean you only have success as a manager, but also help your team to have success in what they realize [3].

Managers of performing success are knowledge managers. In these firms, the relationship between knowledge managers and knowledge workers are especially collaboration and not of subordination, knowledge managers themselves learning from experts in the company. [1] In knowledge management, power holders in the company are specialist networks, coordinated, trained, not led by a manager of our time, called the knowledge manager who will never reach the performance to know everything he knows group of specialists team. This, more than consults with employees only make decisions based on knowledge that they must execute without thinking [1].

To the origin of successful business are entrepreneurs, individuals who possess some creative and innovative features, motivated by material rewards, spiritual, moral and social, able to take risks creation and management of micro, small, medium or large enterprises.
Successful Business Managers during the Current Economic Crisis

Business Successful

Efficient management of human resources produce substantially improved economic performance. It was considered that there are seven main features, generating success that makes profitable the firms that have [4]:

- job security;
- selective hiring of staff;
- self-teams and decentralization of decision making;
- offering rewards based on company performance;
- continuous training, in detail;
- reducing social differences in clothing, language and so on;
- wide distribution of information about the performance of the enterprise.

Job security does not mean that the company keeps employees, people who have poor performance or working efficient with others. Job security is fundamental to the implementation of performance management practices: selective hiring, training detailed, distribution of information. Companies do not invest in new employees unless there is an expectation that these people stay long enough company employees so that it can recover its investment.

Hiring staff selection means recruiting people they need from the start. Self-teams and decentralization of decision-making were shown to generate greater autonomy and decision makers working teams and bring them rewards, satisfaction at work. Offering rewards based on company performance is definite evidence that employees are truly valued.

Continuous training is specific detailed successful firms that trained people always associate profits. Reducing social differences clothing, language and so on, which makes all members feel important business and engage in improvement. Wide distribution of information about the performance company makes employees to be informed and forward them to employees that the company has confidence in them.
Managers Successful Businesses during the Current Economic Crisis

a) The qualities of the successful managers

It was identified several important qualities that we hold successful manager, but only seven of these qualities have been considered as the most important [5].

The most important quality of successful managers is the vision. Successful managers can see ahead, have a clear idea of the direction he is heading and why you wish to realize. If he has a clearer vision of what it wants to realize, the successful manager will be easier to take decisions to transform in the current reality, all things expected. To succeed, especially during the current economic crisis, when the company's internal and external environment is in constant transformation, the manager must follow the often own rules, letting it interfered with unexpected problems.

Courage is the second quality of a successful manager. Being a manager means courage to take risks, without the guarantee of success. In business as in life there are no certainties, each entrepreneurial action that includes exposure to a particular risk. The future belongs successful managers, that assume the risk, abandoning the safety of tomorrow to survive and even thrive, especially when economic current crisis. Although as a successful manager, you own more information, ask for more opinions before deciding which you consider most appropriate, risk can never be eliminated and it is always present.

Integrity is the most respected and admired quality of a successful manager and is characterized by honesty, dignity, justice. Integrity is the quality which guarantees all successful managers the other qualities. Integrity means always tell people the truth, no matter what. Successful manager, integrity, is honest with him, striving continually to labor quality to satisfy customers.

"There is no middle way regarding the principles in business - and in life. There are basically three kinds of people: those without
success, those with temporary success and those who become and remain successful men. It's all about character. [5].

Modesty is the fourth successful quality manager. Being modest does not mean being weak, unsure of yourself, but rather, means being confident, aware of their own forces. Successful manager is modest, recognizing the value of others without feeling threatened by it. To be modest means to be willing to admit that sometimes you do not have all the answers to all questions that address to you. Modesty, humility, not undermining authority of successful manager in front of the employee, but rather arrogance, inspires distrust.

Predicting represent the quality of successful manager to see things in perspective, to predict what will happen. Based on what is happening now, and all the information it has on the future, successful manager has the quality, the ability to accurately predict what will happen in the future. To provide the future as a successful manager, you have the advantage of acting first in the most appropriate way possible, anticipating and overcoming crises. Ability to predict of successful managers helps them provide further obstacles in the way of their business success, so they can eliminate in time and move on.

Concentration is the sixth quality successful manager that means focus all personal resources and the organization to solve the most important problems of the company. Successful managers focus on results, the clients on what they should make and on what should make every employee of the company. Successful business managers are focus on the future, they act now, effectively, to have a prosperous future of the business.

"Things that matter most should never be at the mercy of those, that matter least" [5].

Cooperation is the last of the most important qualities of a successful manager is the ability to work well with other managers, employees, customers, suppliers. Cooperation means the ability to cooperate with everyone, to work together to ensure the success of your business. In a company with 100 employees, the average of 20 people,
contributes to 80% results of that company. Ability to select these people to cooperate well with them every day, it is essential to business success.

Successful managers "make special efforts to understand better with key people, on which depends the company. They think really that people, are its most valuable resource"[5].

To be a successful manager is to have a successful, profitable company, even if internal or external economic environment is not always favorable.

b) The ability of successful manager to solve problems

Manager’s success depends on its ability to effectively solve the problem. Regardless of hierarchic level of the manager, his true purpose is to solve problems. To fulfill this mission successful manager must cultivate the following qualities necessary to be proven over time [5].

The first quality of a successful manager is the ability to focus only on solving a single problem, without ever getting bored or tired.

The second quality is mental flexibility, which means that successful manager judgments only after considering all possible ways of addressing or solving a problem.

The third and final quality of manager is successful is that he solving any problem uses a method they use frequently, and which proved significantly increase its ability to think things to a higher level. Frequently applying this method, it will generate more ideas of good quality, leading, and therefore a better solution for all problems.

Below is presented the method of systematic solving problems of a successful manager [5].

The first step is to clearly identify the problem to be solved.

The second is setting and other problems that are derived from the main issue. This step is necessary for the manager to create as broad a vision on how to solve the problem.

The third step means reformulating the problem to be solved, it can be made easier to understand and easier to solve.
The fourth step is to determine all the causes that led to the problem. It is a stage of investigation, the questions are asked.

The fifth step involves finding all possible solutions to resolve the problem.

Step six means that once the problem has been analyzed thoroughly and identifying all the causes and possible solutions for solving, successful manager take decision that it considers most suitable. It is considered that it is better to make a decision, whatever it may be, than to ignore the problem and do not adopt any decision to solve it.

The seventh step is to choice of people in the company who will take to implement the solution adopted to solve the problem.

In step eight included the deadline for implementation of the solution adopted.

The ninth step is the implementation of the solution. It is said that "a weak solution, but well applied in practice is better than a great solution, but bad applied" [5].

In step ten check that the solution implemented had success. If not, it is always necessary that successful manager to have another plan, an alternative to solve the problem.

Successful managers are firm. They take decisions which they then implement, in this way they cultivating the ability to solve problems and achieving the best results they are able at a time.

c) The responsibilities of the successful manager

The most important responsibilities of the manager in a company, with the ability to meet these responsibilities, define successful manager. There are considered to be seven important responsibilities [5].

The first responsibility is to establish and achieve business objectives, and have directly link to managers on all hierarchical levels.

Another responsibility is to innovate and promote continuous to maintain the interest of existing customers and attract new customers.

The third responsibility of the successful manager is to solve problems and make decisions in any situation occurring in the enterprise.
Hierarchy of activities and focus on the most important tasks is another responsibility of the successful manager.

The fifth responsibility is that the manager to be an example to others, he imposing by its character, by their attitude, personality, professionals habits, and especially by its behavior with people.

The sixth responsibility of a successful manager is to convince, to inspire and motivate employees for them to follow you in what you want to enterprising.

Like the employees to follow the vision of manager, to support and meet the objectives, understand and adhere to the mission of the company, the employees must be motivated. The key to a manager's performance is to win confidence and respect of others.

Last important responsibility of the successful manager is to act and to obtain expected results. Ability to obtain desired results is the critical point that differentiates the successful manager other managers.

d) Strategic principles applied by the manager of a successful business

The manager of a successful business apply more strategic principles [5] in order to create a profitable enterprise, even in times of economic crisis.

Principle of setting goals refers to the importance of establish in advance of clear objectives to be explained to the persons responsible for carrying them into the organization. Objectives are achieved targets on short, medium or long term and contribute to fulfillment the mission of the enterprise.

Principle of the offensive involves taking action to gain your clients as large, especially clients is obtained by promoting the company's image and marketing of its products. In times of economic crisis, the company must also focus on increasing sales and number of customers.

Mass principle applied in the enterprise means concentrating forces on vulnerable parts of the competition, while enhancing own company. Successful managers identify and monitor critical factors for successful business, developing the highest potential value for business.
Successful manager, using the maneuver principle, mobilizes its resources to act on the market exactly at the points and at the most vulnerable moments for the competition. The principle of maneuver is based on innovation and flexibility. Innovation means continuing to satisfy customer requirements, seeking new ways to produce cheaper, quality and sell as fast, and flexible means trying something new, original, to bring success.

Informing principle is the base all actions of successful manager. The manager must always know the market position of his company compared to the competition. In business, the more you know and understand more about the market, competitors, their most attractive deals, the more you will be able to work to better sell your products and services.

Concerted action principle means that manager harmonizes all its and the team actions to achieve its target.

The principle of unity of command is the need for managers to establish the all hierarchical levels, along with their responsibilities. Successful managers meet regularly to discuss with team about undertaken activities.

The principle of simplicity means to elaborate and implement simple, clear, plans, easily understood by those responsible for their implementation. An understandable plan can be applied easily.

The principle of security is necessary to protect the business against surprising elements. Manager must look at things in perspective and anticipate the possible events that could affect the business.

The principle of surprise is to create elements of surprise, that to create positive effects for the enterprise. So bring to market new or improved products, can attract new customers. This principle leads to the search for new ways to generate profit.

The principle of economy is based on the company’s limited resources against needs that can grow indefinitely. All actions, all goods and services produced by the enterprise, must be made at the lowest possible cost. Successful business manager must always be sober.
The principle of exploitation is based on the manager's determination not to stop never to always want success, fame. Manager must determine team is never satisfied with just one win.

**Case Study: The Manager of a Romanian Successful Smes during the Current Economic Crisis**

SC ILIANA SRL is a successful SMES during the current economic crisis. Its activity is production of layered wooden CAEN code 2020 - Manufacture of layered wood: plywood, veneer, wood chip boards, fiberboards etc. [1].

The company is a medium-sized enterprise with a total of 120 employees, of which more than half are women. Headquarters are in town Targu -Jiu, Gorj County. Qualified personnel are 70%, with the following specializations: economist engineer, economist-engineer, carpenter, electrician, fireman, locksmith and mechanic.

Staff worker is 98 % of its workforce.

SC ILIANA SRL is equipped with advanced machinery used in the manufacture of wood windows and doors (CNC machining centers, grinding machines, multiple circular and so on). The products are of best quality and special design. Most customers (90%) are external customers (Germany, Austria, Italy) [1].

The manager, successfully apply the knowledge management, which is a method of management that appeared from the need that manager to adapt to changes Romanian society in particular and the international situation in general.

Thus, to cope with the multitude of information, to know all that is new in all areas of interest in a company, there were specialists at the company, the knowledge workers. Then, for managers can harness the knowledge of employees - practice has proved that the classical management based hierarchy was not current and no longer effective - there is a new type of management and a new type of manager: management based on knowledge, applied the knowledge manager [1].
The essence of this new type of management and the manager is given the increasing collaboration between managers of all hierarchical levels and employees based knowledge - business professionals. It is reduced the role of authority manager and strengthened the role of collaborator, trainer of team managers - specialists. The specialists are at the same time, employees at the company and their own managers being responsible for the decisions they take in various situations [1].

Management based knowledge is centered to knowledge that is considered the main resource of the company, other factors of production, traditional as: land, labor and capital, giving them a secondary importance. If there are in the company specialized knowledge, the traditional production factors can then be easily obtained.

Successful manager of success SME - SC ILIANA SRL applies the knowledge management of the following needs objectives [1]:

- manifests acute need to improve the way of assessment, treatment, remuneration of human resources;
- to be competitive, SMEs need to be informed, to have the latest knowledge;
- SMEs must be able to adapt, to survive competition.

Key features of successful manager of SC ILIANA SRL, who has made of SC ILIANA SRL a successful company during the current economic crisis, is:

- is a good manager in his relationship with people;
- excels in time management;
- he reserves time for personal development;
- know how to manage the conflicts that arise and negative behavior efficiently;
- used delegation whenever possible;
- participate actively to development and motivating of employees;
- establish clear objectives and discussed with employees;
- participates to interviewing and selection of the employees;
Successful Business Managers during the Current Economic Crisis

- focuses on the customer and how to improve business performance;
- manage change efficiently, seeking continuous improvement;
- apply a good strategic management;
- it is a good organizer doing himself the planning and organizing activities;
- manage efficiently the risks and stress.

Successful manager of SC ILIANA SRL is a good manager. He develops himself and his own business.

Conclusions

Opening a business is an act of courage. It is not easy to adventure with all the resources you have available and try to go on your own way, to transform an idea into a way to get success for you and your employees.

Opening a business during the current economic crisis began to be considered as a dangerous adventure than as an opportunity [7].

Successful managers are formed over time. They have a clear mind and a vision of what is to accomplish. They need to evolve and adapt continuously.

A key to successful manager for a successful business is the relationship between the manager and his staff. It's how managers manage people to be good and become exceptional.

Good relationships are based on trust, the commitment. The essential role of a good manager is to build these relationships to benefit the organization, so that tasks, that are established to be fulfilled with enthusiasm, efficiently, on time and with the desire to undertake more.

To be a good manager is essential to successfully lead your own business and even in everyday life, it is good to have the qualities of a successful manager.
References

Knowledge Management – Innovation and Positive Practices

Author: Ciobanasu Marilena, Titu Maiorescu University, Bucharest, Romania, marinaciobanasu@gmail.com

Knowledge management represents one of the greatest challenges in the functioning of an organization. The approach implementation for information and knowledge management is particularly important for organizations where a high quantity of information is necessary for activities progress, also where access to information is problematic or simply when the organization wishes to structure available knowledge and distribute them to all employees.

The fast and complex development of our companies clearly show that technologic, social or economic changes are tightly connected to the quality of the information available; more so they are connected to our ability to manage that information. This has lead, particularly in the last couple of years, to an increase in interest for knowledge management techniques and creation and transfer of good practices, these becoming equally important to both the private and public sectors.

In the public sector, public agencies have discovered that knowledge management can help with the retaining of collective knowledge, so ensuring institutional continuity and continuous performances on their strategic objectives. Presently, driven by information technologies acceleration and by the value of collaboration networks, the real competitive differential factor – human skills – ensures market advantage.
Keywords: knowledge management; information; change; data; public sector; transparency; innovation

JEL classification: H12, G00, M11, M12, M54

Introduction

The development of knowledge management over the past decades is a result of the organization’s needs to obtain a competitive edge and strategic differentiation considering globalization and the explosion of information phenomena; this has made it into a valuable instrument for ensuring success. Industrially developed countries consider that in recent years a third era of development has started based not on agriculture or industry, but on information and knowledge.

The knowledge management concept is not a new one. In 1950 Peter Drucker introduced the „knowledge workers” concept for workers capable of using the organization’s knowledge to create intangible products. Many organizations used in an informal manner knowledge management techniques for decision making of goods and services production, but this was not done deliberately.

The new aspect in knowledge management is the act of being aware of the existence of a knowledge management process. Knowledge management can be seen as an ensemble of instruments and abilities that each organization must develop in order to manage knowledge as resources and knowledge as actives.

The term “knowledge” is one of the most confusing aspects in the knowledge management theory due to the confusion between knowledge, information and data. While data reflects a number or letter description of actions, processes, fact, phenomena, information brings increased knowledge by reflecting an ensemble of data grouped in certain patterns and shapes while knowledge groups an ensemble of information with strong human and contextual factors. So knowledge
describes an ensemble of information acquired or applied to a certain context through human thinking. A significant difference between information and knowledge is determined by their transfer. While information can be easily transferred from one person to another, knowledge has a lower degree of transferability, as there is a contextual psychic-social content which reflects intuition, creativity and experience for the person holding the knowledge. The European Union has established over time what we now know as the four freedoms: working, goods, capital and services. It is now time for a fifth: “freedom of knowledge” (Janez Potočnik, European Commissioner for Science and Research).

“The best lesson ever learned is how to maximize the company’s intellect. You need to gather knowledge from individuals, communicate those ideas and celebrate their communication. This is the way in which a company finally becomes grand.” (Jack Welch, former Chairman and CEO for General Electric 1981-2001).

“In the vortex of the world economy, knowledge is a convertible currency for large enterprises. In the 21st century only companies which manage to capture, store and apply what their employees know will succeed” (Lewis Platt, Executive Director of Hewlett Packard). The most used and accepted interpretation for knowledge management is that it represents the process of generating added value for the organization’s intellectual capital.²

Gulick³ defines management as being characterized by the functional elements of the executive’s tasks. These elements are planning, control, financing, budget and reports, organization and

---

¹ Quote from the speech of EU Commissioner Janez Potočnik, taken from „Cordis focus Newsletter“ magazine, article „EU Commissioner urges universities to embrace modernisation“
coordination. Besides these, executive tasks include the responsibility for operation’s management and informational systems.

Knowledge Instruments

It must be understood how an organization can capitalize knowledge in order to gain a competitive edge and stay on the market. Economic growth was until recently perceived as an increase in capital, work and natural resources used. Successful Japanese enterprises have adopted four fundamental principles:

- a preconceived opinion on progressive development;
- a systematic interest for the competitor’s activities;
- creation and ruthless exploitation of a competition advantage;
- a financial strategy and personnel politics coherent with the previous points.

So for Japanese managers there is the equality:

\[ \text{SURVIVAL} = \text{PROGRESSIVE DEVELOPMENT} \]

If for western managers it is dramatic to see a decrease in profits, for Japanese managers there is a much greater risk and that is being overtaken by a competitor.

If there is no progressive development this means that either the ensemble of activities developed by the enterprise is situated in areas which have reached maturity phases – this is not good for the future, or that the enterprise is regressing compared to its competitors in areas that are in development?

The key factor for prosperity and creation of new jobs is the degree in which innovations and new technologies are implemented throughout the economy. Growth is based not only on capital increase but more importantly on increasing the amount of knowledge and the

---

4 Theory held by BCG consultants - Tokyo, James Abegglen and Georges Stalk in their work „Japanese enterprises strategy“.
number of innovations implemented on a large scale. Knowledge economy is not only a knowledge based economy, but also on:

- knowledge management of all human processes;
- unprecedented dissemination of knowledge to all citizens.

The new leadership approach – knowledge management uses the intellectual capital concept to identify and define goods, intangible actives – knowledge which can be transformed – nowadays vital for the economic organization.

An innovation process – conception of an idea, industrial application considering financing and a certain technologic process, a new presentation, new organization, new management and work planning, strong market impact and strong protection – can only be successful if the new knowledge is assimilated by adding value in one of the following ways:

- generation of flexibility and operational efficiency;
- attracting new groups of customers or entering a new extended global market;
- improving customer requirements satisfaction;
- offering new products or services;
- redefining the manufacturing process or the business model.

Very rarely this information is combined to obtain systematic knowledge. This article presents the opportunities offered by the implementation of knowledge management techniques in the public sector as an important method in the development of a modern administrative structure.

The evolution for passing to an knowledge based informational society is necessary to ensure durable development in the context of a “new economy” mainly based on goods and intellectually intensive activities and on the development of an advanced social-human civilization. Organizations have accepted that their main values are what they know and the ability to use that knowledge on organizational technologies and processes, which could get them the competitive edge.
In industrial society there were different types of organization, coordination and planning for technological resources, goods and financial resources, while in the knowledge based informational society planning accent is put on finding principles, investigation methods and techniques, planning, and organizing the critical resource – knowledge.

Knowledge differs from information by the following:

- knowledge is a human act;
- knowledge is the results of thought;
- knowledge belongs to communities;
- knowledge travels through the communities in different ways.

In an organization knowledge can be classified as:

- easily communicable explicit knowledge distributed as data, scientific formulas expressed through words and numbers. These can be divided into structured and unstructured knowledge. Structured knowledge is composed form specifically organized information and data for future referencing (documents, data bases, work sheets and others) and unstructured knowledge (e-mails, images, audio and video selections) with contained information not findable through usual finding operations.
- highly personal and difficult to formalize tacit knowledge that depends on experience and characteristics of individuals. Less concrete than explicit knowledge, difficult to access and many times not shared (many people are now aware of the knowledge they possess and their value to others).5

Knowledge management represents the process for organizing and coordinating knowledge for the organizations knowledge base. This involves:

---

5 Michael Polanyi said „We know more than we can say“. Polanyi is considered the founder of modern theories for understanding tacit knowledge. He sees knowledge as a process in which individual aspects and culture interact. In this context Polanyi’s research is focused on the idea that it is impossible to express all knowledge in current communication, as a person’s actions are based on individual experience.
knowledge grouping on types of knowledge starting from the main sources of the organization, on processes, until constituting the internal memory;
knowledge centralization for efficient storage in the organizations knowledge infrastructure;
knowledge classification for evaluation and prioritization that reflect knowledge quality and degrees of proper use for different processes;
knowledge selection that allows the user to use identification criteria for most relevant knowledge.
knowledge dissemination – knowledge stored in different forms (tacit or explicit) are accessed by all organization members, even stakeholders – customers, suppliers and others.

Most of the times identifying and coding knowledge actives is done by using informational systems in the process, so that a competitive edge could be gained. However this obsession for instruments and techniques leads to failure for the implemented systems as several basic factors are not taken into consideration. Even the most efficient system can fail when confronted with resistance for the human factor by overestimating the effects of using information technology on organizational performances on side and on the other it is assumed that knowledge can be coded, which is not always true.

The failure of company’s data and information management is generally a result of a significant lack of cohesion between the management system, technologies, processes and results. This can have several consequences on the quality of the management system, such as:

- storing incomplete and limited information on own activities;
- wasting valuable time in finding the necessary information;
- inadequate collaboration between components form the same organization;
- incomplete general profile of the organization;
- maintaining sub systems which are insufficiently connected to the mission and purpose of the organization;
lack of cohesion for the system in general;
proper management of values, information and property owned;
organization’s reduced compatibility with the general regulatory frame (internal/external).

For a system to work all people must be willing to contribute to the development of the knowledge base and to use the knowledge stored in those systems, this represents an optimistic assumption as there can be difficulties in understanding mental models from others. This is not unusual especially in interdisciplinary areas.

A very important element for innovation is known as being connected to the remodeling of success factors, a group analysis process for experiences learned from projects or business activities, form studied management activities. Participants involved in these types of post operational evaluation groups are invited to analyze their actions, errors, accomplishments or failures starting from the claim "if I were to do it again I would do the following"...; this perspective is highly productive for innovation learning (re-engineering). Factors usually considered for such causal reflections are connected to the following aspects:

1) increase of management abilities (active and more consistent involvement);
2) adjustment of the strategic lines (considering the organization’s or company’s strategic line);
3) elaboration of recommendable business situations (with measurable objectives);
4) checked methodologies (connected to the company’s process and strategic vision);
5) effective change management (considering predominant cultural model);
6) assuming responsibilities (direct or collective);
7) implementation team remodeling (starting from professional quality and compatibility relation).

For the private sector there is a significant amount of literature that shows the aspects, challenges, opportunities and solutions for using
knowledge management, the same cannot be said for the public sector where there are very few analysis made.

Public administration involves great amounts of data, most of them activities of the public authorities referring to the elaboration of knowledge and information for the citizens, business environment and society. Also, most final products form government activities is delivered also as information and knowledge. As information and its processing represent the “heart” of public administration, the ability to collect and generate useful information can be defining for any modern state. Information generates information, but very rarely this information is combined to obtain systematic knowledge. Moreover, the need to optimize the educational activity, the implementation of an efficient management, insuring the quality and the compatibility of the educational systems has led to numerous investigations in this area by adopting, as a theoretical reference framework some organizational models to explain the functionality of the educational system and to define a performance appraisal system. (Gherghina and Vaduva, 2009)

The size and the geographic dispersion of the public sector make important knowledge that can be reused available in one place but missing in another. New governing techniques were introduced to eliminate these differences, these are known as electronic governing (e-Government) and allow for electronic collection and distribution of knowledge situated at the center of the relations between citizen and government such as the detailed presentation of administrative and political activities which lead to increased responsibility for those elected, government auctions, population demographic and cadastral surveys.

A high degree of operational efficiency of information sources can't be achieved without the existence of internal regulations founded and specific strike. Thus, recalling the Rules of Organization and Operation, internal rules and Quality Manual, embodied by each employee job description must clearly set out all responsibilities and deadlines for receiving and recording data, providing the structures
involved, processing, compilation and dissemination of documents, reports and information for all carriers. (Calotă Traian Ovidiu, 2010, Doctor’s Thesis)

**Success Practices**

Although applying success techniques to the public sector and public organizations has been suggested, the main differences in human resources management policies and practices, ethic management aspects and the decision making process have imposed special strategies for knowledge management.

The main differences are defined by the following aspects:

- Competitiveness pressure and cost reduction are less important than in private companies, although their importance has started to increase lately as knowledge represents a critical determinant for competitiveness in the public sector. In a knowledge based economy governments are more and more confronted with national and international competitiveness for service delivery and policies implementation. At an international level non-government and government organizations are in competition with similar foreign institutions that provide the same services. At a national level the competition between public organizations is fueled by decentralization.

- Private companies produce goods and services which are more and more intensive in intangible capital and compete directly with organizations from the public sector that provide goods and services such as education, security, science and knowledge. For example, distance learning with classes and information supplied on the internet allows private companies a greater influence on public education - traditionally offered in the public sector.

- There is a vertical hierarchy in public organizations form a management point of view, and so few stimulations for
innovation and teamwork with results that are less clear and harder to measure.

➢ Activities in public organizations involve more knowledge and information and the staff must by highly trained. These organizations cannot function correctly without specific mechanisms for knowledge management. Knowledge is an important element in a competition and a strategic resource in the governing process. Efficient governing is based on efficient acquiring and dissemination of knowledge.

➢ The public sector operates in an environment where transparency and access to information are encouraged.

➢ The frequent clerk transfer between departments creates opportunities for knowledge and institutional memory preservation.

➢ Analyses performed in several countries have shown that a significant number of senior public clerks will retire in the next 5-10 years (for the US 71% of clerks will be retired in 2007, for Finland 85% by 2012) (OECD [12]). Public organizations must take measures to preserve their knowledge in the organization memory.

Declared a priority area of research, in 2004 the first analysis on knowledge management practices in public organizations form OECD member countries was conducted. Unfortunately no Romanian institute was involved in the making of this study. Here are some of the general conclusions:

➢ Knowledge management is on the agenda of most organizations involved in the study in the top five management priorities;

➢ Although there was an increase in transparency for applied policies and in the level of investments in informatics technologies which has led to an improves efficiency in the public sector, the applied knowledge management policies (increased competitiveness for public clerks, promotion of
continuous formation and others) did not produce the expected structural modifications.

- Perfection of knowledge management practices, besides the usage of new instruments, processes and strategies, involves a long term effort to determine changes at the level of the organizational culture.

By analyzing the basic elements that need to be considered for the public sector knowledge management it has been observed that these are focused on:

- the human factor and the organizational culture for stimulating and forming transfer and knowledge use aptitudes;
- methods and processes for searching, creating and transferring knowledge;
- technology for storing and processing knowledge in order to allow working in common without having the people in the same place.

The human factor is the most important as knowledge management depends on the people's availability to spread and reuse.

Positive practices were developed in different countries and are focused on various areas. For example the UNESCO data base based on Indigenous Knowledge and International Migration shows around 200 positive practices throughout the world, with an average yearly number of visitors for the webpage of over 200,000 this is a great example for the inspired aspect of positive practices for the audience that accesses this organization’s electronic resources.

“Positive practices are analyzed in qualitative terms and are defined as practices considered being superior in approach and with better results compared to other practices. Such practices can appear as processes, studies, surveys, indicators or research. They represent the experiences, results of specialized researches and elements of the knowledge industry”, while remaining perishable over time. The action of “innovation” or “assimilation of a positive practice”, measurable in terms
of efficiency and effectiveness, can help a community better capitalize on its available resources.

Although Siemens, a global telecommunication service provider, with activities in more than 100 countries, had a significant market share in the telecommunication market, changes in the business environment in the mid 90’s took the ICN Siemens division by surprise. Managers of the company noted that: The Siemens ICN Division was forced to rely more on frontline company activities, which had solid knowledge on the latest discoveries and innovations in the area. Sales representatives had to act more as consultants and abilities such as financial analysis, planning, externalization although spread out throughout the company became more and more necessary. Selling solutions became an activity with a high added value; efficient accomplishment of this activity involved quickly identifying the best practices and disseminating them on a global scale so that they could be used in similar conditions to obtain profit. The solution for a knowledge based management consisted in the creation of Sharenet network - “global network for knowledge sharing” that included tacit knowledge, and explicit knowledge used in the sale process, with added value: business environment knowledge, project know-how, technical and functional solution and others aspects on one side and on the other there was an accent on experience knowledge, which included comments, claims and field expertise for sales projects. The reward system was also a success factor. For each valuable contribution the members would receive Share net “stocks” or bonus points in a similar system to “air miles”. The stocks allowed the holder to attend international conferences or courses and seminars which they wished to attend even if the subject for these conferences was not related to their professional activity.

Positive practices represent the ideal vehicles for transplanting positive experience within organizations, followed by innovations and performance evaluation indicators, as instruments for stimulating creativity and adaptation capability for social groups. A defining characteristic for positive practices and innovations is represented by the
proven aspect of their performance when compared to other practices that have not reached the same parameters. So the key to society changes is the identification of performance parameters (benchmarks).

Knowledge Management is based on three important pillars:

- **E-workers (Knowledge Workers)** – individuals with thinking, learning and acting capabilities.
- **Processes (Best Practices)**, which follow an innovative approach for the optimal execution of certain tasks or functions. They lead to collaboration and teamwork and supply consistency and accessibility for the evaluation procedures.
- **Products (Platform)** represent technologies or systematic approaches that activate knowledge management. Innovative or sophisticate systems need to be accomplished through technologic processes and need to be easily incorporated. Comprehensive (intelligent) systems maximize accessibility and help employees adapt easier and more naturally to knowledge management systems. Intelligent knowledge management systems have to comply with the organization’s functions, with its objective and purpose.

The three pillars presented above are equally important, if one of them is missing then the implementation process for knowledge management might not be as effective or it might even fail.

**Conclusions**

The main element that defines most successful organizations with recognized accomplishments is, without a doubt, the quality of management – which creates a good spirit, favorable for innovation, teamwork and creative leadership. Organizational culture must have collaboration among its fundamental principles, this ensures the maximization of the collective’s potential. Also this brings the necessary maturity for handling critical situations. An organizational culture based on learning and innovation helps maintain a competitive position. There
needs to be a connection between people, processes, culture and technology; success in only ensured when every part is clear and understood and so a balance is maintained. The value of knowledge must be permanently checked, ensured and it must coincide with the organization’s objectives.

References

Corporate Governance – A Key Element of the Entity

Authors: Florin Constantin Dima, “Constantin Brâncoveanu” University, Pitești, Romania; Corina Maria Ducu, “Constantin Brâncoveanu” University, Pitești, Romania

The present economic crisis has shown that the failure of ethical norms leads to the spread of negative effects globally. This propagation is performed according to the degree of dependence of the states with global economy. Certainly this event, which is considered to be normal in a market economy, highlights the threats facing any economic activity at any level of aggregation. Conducting corporate governance processes within the entities represents a new direction related to the correct development of the economic activities, the effectiveness of managerial decisions in order to reduce the threats generated by the current economic context.

Keywords: threat; entity; corporate governance; internal audit

JEL Classification: M40

Introduction

The business environment has undergone a rapid and revolutionary change with consequences reaching organizations worldwide. In the last
half of the century due to the increasing trade and investment flows we increasingly talk of globalization.
Management responses to global competition have included quality improvement, initiatives to handle threats, reorganization of structures and processes, and greater accountability.
In such a climate, it is no surprise that the internal audit function in corporate governance process supports management decisions to adapt organizations to the current economic context. Moreover, corporate governance aligns all parties’ interests, the intended objective representing the good functioning of the entity.

The Importance of Corporate Governance within the Entities

The term corporate governance, recently emerged in the literature, is presented as the cornerstone of the overall management of an entity. Sir Adrian Cadbury, considered one of the pioneers in introducing this concept, mentioned in the Report of the Committee on the Financial Aspects of Corporate Governance that corporate governance as “the system by which companies are directed and controlled”. A similar approach is the one proposed by the Institute of Internal Auditors which defines governance as “a combination of processes and structures implemented by the board of directors to inform, lead, direct and monitor activities of the organization in order to achieve objectives.”

Another definition is the one published by the International Federation of Accountants: “corporate governance is a set of practices of the board of administration and executive management exercised to ensure strategic directions for action, achieve goals, risk management and responsible use of financial resources”.

According to the Organization for Economic Cooperation and Development, the structural elements characteristic to corporate governance are:
“a set of relationships between the company’s management, the board of administration, shareholders and other interest groups in the company;

the structure through which the company objectives are set, the means used to achieve these objectives, namely to monitor performance;

the system of incentives offered to the board of administration and to the managers to develop objectives meant to improve the company's business activity and the shareholders’ benefits and to facilitate the monitoring, encouraging companies to use resources in a more efficient manner.”

Corporate governance actually refers to the way of distributing rights and obligations between the different categories of participants in the company’s activity, to the way of adopting decisions and formulating strategic objectives and strategies, the means by which this is achieved and the system of financial monitoring.

<table>
<thead>
<tr>
<th>Beneficiaries of corporate governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interested parties</td>
</tr>
<tr>
<td>Investors</td>
</tr>
<tr>
<td>Banks</td>
</tr>
<tr>
<td>Suppliers</td>
</tr>
<tr>
<td>Citizens</td>
</tr>
<tr>
<td>Founders</td>
</tr>
<tr>
<td>Public</td>
</tr>
</tbody>
</table>
According to the specialized studies, two main models of corporate governance have been identified:

- corporate governance oriented to the shareholders, which aims at optimizing shareholders and managers’ decisions;
- corporate governance oriented to stakeholders, which does not only seek to maximize the shareholders’ wealth, but also to protect the interests of all parties involved in the entity’s activity (employees, partners, shareholders, managers, etc.).

Regardless of the adopted model, corporate governance should be guided by a set of well-defined principles, available internationally, which should not impose restrictions and must not excessively focus on the need for timely implementation within the national legislation.

The main objective of such principles is to provide a reference system, aiming to identify the goals and the means for implementing them.
Entities must continuously improve their corporate governance policies and constantly adapt to the changes that occur as a result of the innovation. This confers corporate governance some evolutionary principles, requiring the need to analyze and revise them in accordance with the evolution of the global business environment.

The principles of corporate governance formulated by the OECD deal with six aspects:

1. Ensure the fundamental framework of corporate governance by promoting the principles of transparency and efficiency of markets, harmonized with the legal and clear formulation of the principle of separation of responsibilities between supervisors, normalization authorities and implementation ones;

2. Guarantee the shareholders’ rights and of those holding key positions related to ownership;

3. Provide fair treatment to all shareholders (including foreign and / or minority), reiterating the need to ensure compensation for all those whose rights have been violated;

4. Recognition of the shareholders' legal rights, respectively of the cooperation between shareholders and companies in the field of generating added value and jobs;

5. Providing an accurate picture of performance, capital, financial position and entity governance through a fair and transparent reporting system;

6. Clearly defining responsibilities of the Board of Administration to ensure effective strategic coordination of the entities and effective supervision of executive management.

Currently, the OECD principles are universally recognized as one of the 12 basic standards of a solid financial system. They serve as a frame of reference for the national corporate governance codes in the EU countries and beyond.

The set of corporate governance principles were initially focused on the efficient administration of the stock entities. Later on, this concept was extended to other types of organizations. For this reason
there is a strong focus on the role and rights of shareholders, the transparency of information and the crucial importance that some company managers have. A basic element of the principles is the transparency of financial and accounting information because it underlies the decisions of the information users. The quality of this type of information plays an overwhelming role in the efficient management of entities, leading ultimately to the increase of their market value.

Internal Audit – An Essential Element to Improve the Process of Corporate Governance in Organizations

A multitude of accounting and auditing studies have highlighted the role of corporate governance through the “Agency Theory” examining the way in which monitoring made by the board of directors and audit committees was oriented to ensure the protection of shareholders’ rights.

Audit committees must have a comprehensive general structure, incorporating elements of corporate governance, risk and control. Without such an efficient structure, monitoring itself is a potential risk. Therefore, many organizations are now involved in complex processes to eliminate redundant control functions and inefficient methods used in risk communication.

It is known that most of the times managers and shareholders of an entity have different pecuniary interests. Corporate governance brings to the fore precisely this type of relationship, a mismatch between the interests of owners and managers.

Managing financial resources and patrimonial values of other persons, managers do not show the same vigilance and care that the members of a company manifest in ensuring their financial stability and welfare.

In this context, supervision is the solution that provides a solid operating basis for an entity. This requires the adoption of the entity’s internal regulatory framework uniquely defined, designed to ensure the implementation of risk management and internal control systems.
Internal audit is part of the process of proper control systems. If the auditor’s opinion and recommendations are made without reservations about the financial statements and financial reporting framework, the entity must properly manage all the activities and the information recorded in the accounts should reflect as accurately as possible the transactions that have occurred in a certain period of time.

The audit mission also requires the auditor to increase the effort of identifying the possible manipulation of the information provided by the accounting department because there may be situations in which managers take advantage of the lack of expertise of the owners and report “embellished” or false performance.

It is clear that inefficient governance provides opportunities to express creative accounting. Removing such difficulties represents one of the functions of the internal audit department, which must be able to identify threats and elaborate efficient management strategies.

Everyone involved in the corporate governance system should evaluate the risk management system and that of the internal control in a comprehensive manner because poor governance generates manipulative behaviors.

A complete and cross-functional approach of the threats evaluation process is a key element of corporate governance. This process must be oriented in the following directions:

- Know all significant risks;
- Identifying risks at global level;
- Ensure that risks are clearly identified and correctly correlated with the entity’s objectives;
- Promote appropriate and proportionate allocation of resources to control and monitor risks in relation to their importance;
- Respect the principles and the codes of good practice.

All these are meant to direct managerial leadership for the proper functioning of the organization, thereby maximizing the shareholders’ interests. Therefore, the task of internal audit is to watch over the interests of all parties involved.
Internal audit in the context of corporate governance has gained an increased importance in time more precisely due to his active role in the evaluation of internal control and risk management as they have direct consequences for financial reporting.

In this regard, the Standard 2130 of the Institute of Internal Auditors emphasizes that: “the auditing activity should evaluate and make appropriate recommendations to improve the corporate governance process in the following objectives:

- promoting appropriate ethics and values within the organization;
- ensuring effective organizational performance;
- effective communication of risk information and control in appropriate areas of the organization;
- effective coordination and communication between the board of administration;
- external and internal auditors and management”.

Therefore, the results of the internal audit activity aim at improving the entity’s corporate governance.

Conclusions

As a result of the current research, we consider corporate governance as a process implemented in order to reduce the effects of the current economic crisis and as a component of a more complex set of solutions that could be the way out of the crisis through the following measures:

- to ensure transparency, fairness and reliability of the financial and economic information;
- to harmonize the interests of related parties on the proposed objectives;
- to develop and implement a range of strategies aimed at limiting risks;
- internal audit, as a key component of corporate governance, should be exercised in relation to a system of internal control, an
accounting systems and financial and accounting reporting which should equally serve investors, beneficiaries or users of the information from reports of any kind.

References


[2] Avram V. - Managing the process of value creation in the context of enterprise governance (Managementul procesului de creare a valorii în contextual guvernării întreprinderii), Economica Printing House, Bucharest; www.oecd.org (versiunea revizuită în limba engleză, 2004);


[13] Renard J. - Teoria și practica auditului intern, ediția a 4-a, tradusă în România printr-un proiect finanțat de PHARE, sub conducerea Ministerului Finanțelor Publice, București, 2003;
[17] Vladu B., Matiș D. - Corporate governance and creative accounting: two concepts strongly connected? Some interesting insights highlighted by constructing the internal history of a literature, article presented within the international workshop 2010 „Advanced research and trends in accounting, audit and finance”, „1 Decembrie 1918” University Alba Iulia, 2010;
[23] IIA – International Standards for the Professional Practice of Internal Auditing (Standards), 1999;
Efficiency, Effectiveness and Profitability – Concepts Used in Assessing Public Expenditures in Education

Author: Ioana Duca, Titu Maiorescu University, Bucharest, Romania

The author's scientific endeavour aims at presenting the three given concepts from a theoretical perspective and at emphasizing the importance of expenditures efficiency, effectiveness and profitability in the education activity. At the same time, the author emphasizes the differences in defining the concept of economic efficiency and effectiveness in education. This research also presents the two important types of education activity efficiency indicators, namely physical and value indicators.

Keywords: efficiency, profitability, effectiveness, education

Introduction

In an economy in which public needs require public goods with high values, in continuous development as well as diversified, on the one hand, in the context in which the state's financial resources do not increase at a high rate, there appears a gap that mostly leads to insufficient resources necessary in performing all the economic activities and implicitly the education activity.
The state’s financial effort in terms of the education activity is represented by the consumption of public financial resources (resulting from taxes levied by the state) allocated to this activity. The use of these public resources is a legitimate right of the state, as well a responsibility of those who administrate them to use them to the benefit of society. If we consider this from the perspective of optimizing expenditures in education, we may state that the optimum way to allocate financial resources to the education activity is also efficient, but no efficient way may also be optimum. Moreover, due to the constant changes in the economy, to progress, practically the absolute optimum cannot be reached. Specialists state that ‘it is as the horizon line which moves further away as one approaches it’ (Staicu – coordinator, Pârvu, Stoian, Dimitriu, Vasilescu, 1995, p.55).

**Concepts Used in Assessing the Level of Public Expenditures Allocated to the Education**

In the opinion of Romania specialists Vasilescu, Românu, Cicea, 2000; Staicu, Pârvu, Dimitriu, Stoian, Vasilescu, 1995; Cistelecan, 2002; Vasilescu, Gheorghe, Cicea, Dobrea, 2004) “the efficiency of expenditures in education must be analyzed in terms of the dual character of this activity, namely as social – cultural activity and at the same time economic activity.

As a result of performing the education activity, efficiency may express the results obtained by employing material, financial, human resources”.

Also, other specialists present in their papers aspects of education efficiency, of the teaching staff credentials, of setting certain efficiency indicators. They present ‘the issues of macroeconomic efficiency in education, also setting the indicators to illustrate it, they research and quantify the efficiency of workforce credentials as the result
of vocational training through education’ (Enache, 1975; Păun, 1974, p. 66-80).

In order to define the efficiency of expenditures in education, we must start from the purpose of the education activity, following the way in which it may be achieved. Thus, ‘the training, vocational training of the members of society is the main objective’ (Gherghina, Văduva, Postole, 2009), and the efficiency must be analyzed and calculated according to the rational production and use of resources allocated to training the individuals.

Efficiency represents from a material point of view the quantitative aspect, of the amount of achieved indicators as a result of education; and from a value point of view, it expresses the quality of the education action effects, reflected in the increase in gross domestic product.

This may be quantified as a ratio of the results obtained by performing the education activity and the expenditures on performing this activity in a certain interval, or as a ratio of the amount of effort consumed in the education activity and the increase in effects (results) obtained by means of performing the respective activity.

On the other hand, in presenting the concept of education efficiency, we must take into account the ‘general forms thereof’ (Cistelecan, 2002):

- natural efficiency (emphasizes the natural factors feature of triggering favorable effects especially at social-human existence level);
- technical efficiency (reflects the technical factors feature of triggering useful effects as a result of physical effort made by man, of his intervention upon machines or by means of supervising automated processes).

Another form of efficiency is the economic one expressed in the quality of activities (in our case, education), of actions taken in this domain in order to trigger favorable economic effects (of a social-human nature) with a minimum effort. We consider the economic efficiency of
education to be an external efficiency as it reflects the results of the education activity outside this process.

Yet, an economic efficiency of education may also be obtained at the level of graduates from various education levels, and the education process results appear both at the level of each individual (material gains for the trainees) and at the level of the whole society.

We emphasize that the economic efficiency is of interest mostly because in the majority of human actions the economic effect are dominant, and they do not have a concrete, material, measurable character, which allows us to directly assess the quality of the respective activities’ results, in this case education.

In order to know and assess the economic efficiency of education, it is necessary that in research bigger steps are made in terms of establishing the elements that characterize the efficiency of this sector. Consequently, a cause for the delay in the domain of research on efficiency may be the fact that, ‘generally, the content of the respective action’s efficiency is harder to be included in fixed elements, because the results have a wider span and there are difficulties in expressing their values’ (Ştefănescu, Văduva, Ciobănaşu, Postole, 2008).

At the same time, the economic efficiency of education may be considered from two perspectives: material (as a number of graduates, according to education forms, specializations, etc.) and value (as increase in revenue due to the social-economic activity performed by the staff trained in the education system).

A specific feature of economic efficiency is the fact that the education activity must not be analyzed as a consumption process, but as a knowledge gaining process, one of training individuals to be competitive in a knowledge society.

One of the links in the system of efficiency general types is social efficiency. But, specialists do not define the concept of social efficiency clearly, yet they state that this type of efficiency is the expression of life quality. Under these conditions, the decision makers proceed to selecting and ranking social needs, respectively to calibrating public expenditure
Efficiency, Effectiveness and Profitability – Concepts Used in Assessing Public Expenditures in Education

According to several criteria: priority, opportunity, efficiency and effectiveness, quality of public services.

As a result, the financial effort materialized ‘in expenditures in education must result in training skilled staff capable of yielding as high a productivity as possible in all the domains of economic and social life’ (Gherghina, 2009).

As the education activity is considered a complex one due to its character, the efficiency of this sector also has a complex character as a result of two categories of persons participating to this process: the teacher and the student.

Therefore, education efficiency surfaces at the level of each participant to this process and includes both ‘the efficiency of the information sender, of the information receiver, of the teaching process on the one hand, and the final efficiency which is the most difficult to explain and quantify’ (Vasilescu, Român, Cicea, 2000, p. 166).

**Effects and Effort in the Education Activity**

In assessing the efficiency of using public funds, the direct relationship between benefits (effects) and the society’s effort to financially support the education system must not be avoided, but on the contrary considered a criterion for access to resources.

Taking into account the interdependence links among the areas of human activity, increasing the economic efficiency of activities in the non-material area directly influences the economic efficiency in the material production area which benefits from the education, culture, and healthcare activities.

Thus, by increasing the economic efficiency level, by advancing the effects compared to the efforts required by these non-material activities supplementary resources are obtained, which may be used in the productive area, thus increasing its allocated financial resources. Nevertheless, we consider that there are prerequisites for efficiency to be reflected in certain indicators that act for the plane substantiation of the
Efficiency, Effectiveness and Profitability – Concepts Used in Assessing Public Expenditures in Education

education activity from a financial point of view. Reflecting the education activity quality, the social-economic efficiency of education is achieved through a system of indicators which express physically or as values the ratio of effect and effort, using indicators of effects or effort for each element.

The economic efficiency of education must be expressed through indicators that reflect the quality of the activity performed in education, thus comparing the effects to the effort. A system of indicators ‘must operate as a dashboard. It allows us to emphasize the issues and to measure their spans’ (Sauvageot, 2003, p.18).

Physical indicators – directly reflect the efficiency of the education process in terms of the pupils’ and students’ training. They are mostly expressed at the level of the whole economy, in all education, or at levels, forms, types of education.

In calculating these indicators, we use ‘information related to the elements specific to the education structure: number of pre-school pupils, pupils, students enrolled in education, forms and levels of education, number of graduates according to school years and levels of education, number of education institutions overall and according to specializations etc.’ (Bodnar, 1981).

Physical indicators are calculating as ratio (for example) of the number of graduates and the number of enrolled persons, or ratio of their total number (graduates and enrolled) according to education levels. The calculus is as follows:

\[ I_{EF} = \frac{N_{Abs}}{N_{Ins}} \]

where: \( I_{EF} \) - is the efficiency indicator;

\( N_{Abs} \) - is the number of graduates; \( N_{Ins} \) - is the number of enrolled persons.

Value indicators – indirectly reflect the results of the education process by presenting the effects of using those trained in various education levels in the economic activity. The calculation of these indicators is based on information on the financial resources and the
effects obtained by using these resources resulting from the education process.

Moreover, macroeconomic efficiency indicators may be calculated, which reflect the economic efficiency of expenditures in education by means of the increase in national revenue obtained, compared to the overall expenditures in education or in term of ratio of secondary education and higher education staff to the overall active population, etc. In addition to these macroeconomic indicators, microeconomic indicators may also be calculated according to education institutions, reflecting the efficiency of the funds allocated to performing the education activity. These efficiency indicators are also established according to the type and place of the effects they trigger.

There are several groups that these effects are divided into, among which three groups: training-educational effects – represented by the direct results of the education process (number of graduates, expenditure per pupil, student, education level, expenditure per school employee, expenditure per graduate); economic effects – usually appear outside the education process and reflect the capacity of the workforce vocationally trained in the education process to contribute to the increase in work productivity and national revenue; socio-cultural effects – they generally lead to the increase in the culture level. If we analyze the level at which the effects of the education level are produced, we identify ‘effects surfacing at the level of individuals and effects surfacing at the level of the whole society’ (Zgreabăn, Gherghina, Postole, 2009).

But, not all effects can be measured, as their nature does not allow for the direct assessment of their size. Thus there appear changes in terms of the financial effort in the vocational training interval, changes or influences that are felt at the level of the effects obtained.

Thus, specialists must find the means and tools by which to assess the results of the education activity which, compared to the financial efforts, will emphasize the economic efficiency. In presenting the effort in the education activity we must take into account the specific character of this activity, both quantitatively and qualitatively. For
example, ‘quantitatively the expenditures on obtaining the ‘finished product’ are made during a longer interval of 8, 12, 16 or even more years, and their structure is different from the other expenditures’ (Bodnar, 1981).

Analyzing the effort qualitatively, we notice that we obtain bigger efforts by means of efficiently using and managing the funds allocated to this important sector, namely education. In obtaining skilled, trained workforce, the main effort is materialized in expenditures in education; the activity performed by the workforce trained in various education levels has higher labor productivity, thus leading to the increase in national revenue and also to the increase in the individuals’ standard of living.

By graphically presenting the effects and efforts (fig.1) we notice that as the efforts increase, so do the effects, but we specify that this increase in effects is boosted up to a certain efficiency level.

![Figure 1: Evolutions of the effects according to the efforts made](source: I. Vasilescu, I. Românu, C. Cicea, Investiții, Economica Publishing House, 2000, p. 74.)
After achieving this level, there is a degree of saturation, when we notice their evolution is slightly increasing, decreasing or even leveling off. As a result, the effort/effect ratio involved in each education action or process, as well as the quality of their positive development at social-human level through their variety and complexity require establishing social relations related to the type of effort made and the effects, their span, organization factors and levels that surface in the education action.

The education effects may be grouped inside the system, but they are manifested outside it in two main directions: the first is represented by the activity performed by the trainees in economic-social life, and the second one is given by the activity of the teaching staff who remain inside the education activity. Thus the effects appear only after the education process is completed, they are manifested during a longer interval, thus being difficult to customize. If the efforts can easily be determined (for example, expenditures allocated to the education activity), the effects are more difficult to quantify. In addition to the concept of efficiency, the specialized literature on assessing the level in general (in our case assessing the value of expenditures in the education action) two concepts are also used: effectiveness and profitability.

In this research we consider the concept of effectiveness to be as important as the concept of efficiency as, in the opinion of specialists in the domain, the effectiveness of education is the feature of the education action to produce the forecast results. Quantifying its effectiveness is given by ‘the ratio of the actual result (effect) obtained from performing the education activity and the result (effect) forecast in designing the education activity’ (Văcărel et al, 2007). Consequently, effectiveness reflects the ratios, be them only of the effects obtained as compared to the forecast ones, or only of the consumed assets (consumed efforts) as compared to the forecast ones. The third concept we used is public expenditures profitability. This compares ‘the ratio of effectiveness and the level of achieving the forecast results’ (Văcărel et al, 2007).
The analysis of the three concepts described that are specific to this public service (education) sets the premises for making a correct decision when allocating budget resources, which are indeed limited, in order to obtain effects as good as possible as well as a proper management of public funds by each and every institutions in order to increase the educational act quality.

**Conclusions**

Consequently, the interest in the way budget resources are allocated to and used in the national education system, the criteria for achieving, redistributing and using the revenues obtained in the domain of activity sets the premises for a complex analysis of the efficiency and effectiveness of using these funds. In this context, the aspects presented in this analysis lead to the following conclusions:

- the efficiency of the financial resources allocated to education is directly related to the education-training process, being influenced by a series of variables with direct implications on the results, such as the size and content of the knowledge base, convergence of the training process and the practical use of what has been learnt;

- because we have as reference the defining elements of the efficiency concept, namely the relationship between allocated financial resources and results obtained during the graduates’ entire active life, we estimate that the budget funds used in financing education cannot be assessed in terms of immediate efficiency;

- effectiveness or the degree to which the objectives have been achieved is expressed in terms of benefits, respectively positive effects triggered in other domains of social-human life and which are difficult to quantify;

- education efficiency may be expressed by means of indicators that must reflect the aspects typical of this activity, and
calculating them must be necessary and it must correspond to the requirements of the respective activity;

- in calculating the education efficiency indicators, we might mention (as characteristic) the gap between the interval when the effort is made by the state in relation to the education action and the interval when the results (effects) of this action are obtained;

- the system of efficiency indicator calculated for the education activity have a certain information power, they are transferable in certain situation and they are used in various educational policies objectives.

By studying the indicators we identify new action directions along the line of improving the use of financial funds in the field of education, which are not insignificant per se, as information, but only in relation to certain criteria, regarding the educational process objectives and system purposes.

**References**


Using Probability – Impact Matrix in Analysis and Risk Assessment Projects

Authors: Vasile Dumbravă, Titu Maiorescu University of Bucharest, Romania; Vlăduț Severian Iacob, Stefan cel Mare University of Suceava, Romania

During the course of a project it may appear different threats being usually placed either in account of human resources or the funding account. However, they are not the only threat.

In achieving successful designs, its management must take into account sudden changes in the environment (natural disasters), of the political, the socio-economic (armed conflicts, strikes, new regulations, etc.). Completion of a project may also be threatened by labor incidental, movement and more.

Thus, difficult situations or risk management is of key importance in project management. Proper management of the threats of the type listed involves a more precise prediction of the effects that could be caused by events considered at risk. Of the reach of managers interested in determining the size of risk are qualitative, semi-quantitative and quantitative methods. The content of this study, in addition to highlighting a theoretical form of the key issues of risk and its management will be considered an example of how can be used probability-impact matrix as qualitative risk analysis method.
Keywords: management; probability; analysis; risk

Introduction

Performed by individuals any activity that is registered as risky involves incidents or accidents generating damages, especially economic. Sometimes the manifestation of these incidents can cause loss of human lives. Therefore, institutions, companies, and projects are permanent concern of the persons appointed mandatory to identify potential activities that could be characterized as threats or risks in achieving objectives. Avoiding the generation of hazardous events is possible if the projects are thoroughly analyzed and properly assessed, and, of course, corrected at time. Thus it is switched from a higher or high-risk on a acceptable lower level. If it is considered this period affected by the economic crisis, the approach of the policy makers of the potential risks of projects in a serious and pragmatic manner this shall mean a guarantee that the project has increased chances of completion.

The increasingly importance of risk management made possible its emergence and development, especially in the countries with functioning financial markets. In Romania this subject is just beginning to be taken into account, there are few "organizations with their own mechanisms for measuring and risk coverage, others do not know the advantages that you would get by applying the procedures already established" (ANCS, 2010). Adopting the principles of this branch of management by an ever increasing number of economic entities increased in our country is mainly related to the need for safety in all activities. It is no less important the trend in this direction registered at European Union level. Put pressure towards the analysis and risk assessment the preparation of draft requesting the EU funding can also be a good support in faster acceptance for risk management and its methods.
Specific to the assessment of event risk is a two-dimensional approach: on the one hand, from the point of view of the uncertainty occurrence (probability) and the other hand from the viewpoint of the outcome effect (impact). Quantification is possible using quantitative, qualitative and semi quantitative methods. When assessing major risks "is recommended quantitative evaluation methods that provide an accurate estimate of the possible consequences" (Iacob, 2013). The result based on a quantitative analysis may lead the decision makers to establish specific measures in order to ensure better protection for the potential receptors of risky events. For risk categories with lower impact quality assessment methods are preferred, which, even if they are slightly biased, give to interested parties a suggestive image of the size of the risk analysis. This material was conceived in order to present the main concepts related projects, risk and its management in projects and examples of risk assessment using qualitative methods: probability-impact matrix.

**Risk within Projects**

**The project**

The aim of human activity is to meet the various needs of getting a result, to complete a certain job, etc. Thus achieving a goal or set of goals could be recorded as a realization of a "project". Following this argument we can say that most of the things around us are the result of projects, the thinking of designers and effort of individuals or groups of individuals to put them into practice. If reference is made to the "the world wonders", taking into account their age could appreciate that the projects exist for millennia. However, in today's sense, the concept of design is relatively young.

In recent decades the term "project" has been defined by many experts (Rutman and Mowbray, 1983; Conrad and Hedin, 1987; Hayes, 1989; Valadez and Bamberger, 1991; Munns and Bjeirmi, 1996; Mățăuan, 1999). The last years of the millennium bring to the fore a new generation
of authors (Lewis, 2000; Ciobanu, 2002; Turner and Simister, 2004; Borgăoanu, 2005; Bulat, 2011; Opran, et al., 2012) retaining and enriched the definitions of their predecessors. In this way the project is a set of "specific elements: objective data specifically allocated resources, planned activities dedicated team fixed” (Pascu, 2005). Following the European Commission (1986), the project is defined as a "group of activities to be performed in a logical sequence to achieve a set of predetermined objectives formulated by the client” (Istrate, 2004). Subsequent appreciations designate the project as "an action that has a beginning and an end and is undertaken in order to achieve the objective, in compliance costs, calendar and plan quality criteria" (Hayes, 1989). In a recent definition with no significant differences, the project is "a set of actions performed over a period of time, with moments defined start and end with a clear purpose of the work performed by a own budget and a specified level of results achieved." (Lewis, 2000). Consequently, "the projects share a number of elements: a unique purpose, for a period of time for completion (with start and end time), consumption of material, financial, human” (Iacob 2013).

The many and diverse needs are found in the multitude and variety of projects. The new way to do something is the project. Projects fever swept across the world. There are projects on all continents in all economic and noneconomic sectors, for all sorts of ideas. In Romania the new fashion spread in all areas "mingling with the need to obtain project grants” (Negoiescu, 2003). The existence of different types of funds made available by the European Union for development seems to be "enlightened” guidelines for resolving diverse needs of businesses, institutions or other organizations. Romanian projects try to give a fresh face and impose a new pace in industry, agriculture, tourism, music, health, administration, etc. They are not a whim to be fashionable but also are a necessity. Without the project it cannot be capitalize any business idea cannot get money for the programs financed by the Union. Also, it should be noted that a draft drawn up improperly is ineligible to finance. The solution to a draft document, well written may be working
with people specialized in this direction. These specialists will be able to overcome the oppressive realities facing many projects: insufficient documentation, conflicts within teams, failure to comply with deadlines and budget, work unreasonable (in advance or additional) low after completion functionality poor, budget and time inconsistency, inadequate employment, insufficient documentation etc.

The project, as a whole assigned action in a particular temporal and spatial context in which allocations occur, should produce changes for the better. In any project allocation the decisions taken by the manager must take into account the purpose, time, and cost (Figure 1). These are the constraints of "the iron triangle" (Weaver, 2007; Lock, 2010)

Figure 1: The Project Management Triangle

Even if the project manager seems "trapped" in these constraints, he can maintain the quality of the project, if he has skill and sufficiently openness to manage a "a flexible triangle" (Ambysoft, 2012), in which at least one point varies.

**Project management**

Proper operation of the project processes is observed by the project manager. He does not do this by himself but helped by a team. The team
can be smaller or greater depending on size of the project. Within the team the decisions are taken for allocating available resources, identifying and analyzing potential risks, there are outlined possible measures, responsibilities and tasks to be assigned for each person. The success of the project depends on how the team assumes the project objectives. Project goals "provide a starting point for decision making and not a hard set of rules that the project team must work" (Coates, Koyl and Langford, 2008). When designing the project, it is preferable that these objectives to be chosen based on SMART criteria (Specific, Measurable, Achievable, Relevant, Time-based). A good management should pursue profitability of the project, to take into account the competition to lead to the "satisfaction of the beneficiaries and third parties" (Kerzner, 2003). As the "ingredients" of success should not be omitted: organizational resilience, executive commitment, ensuring planning and control, leadership of the project manager (Javed, 2009). In essence, project management is a methodical approach for the management and coordination of the processes within a project from start to finish or a "set of activities for achieving a successful group of objects. This includes planning, programming and support for the conduct of project activities "(WOD, 2010).

**The notion of risk associated with projects**

Complex structural relationships in the current social and economic system change with the development of science. Any progress is accompanied by tensions that could lead to risks. The theoretical and practical aspects of the concept are treated differently depending on the level where there is the possibility of the event risk:

- at the individual level - insurance, pensions, personal investments, health, etc.
- at the level of project - strategy, plans, management etc
- at the level of business - business strategy, corporate governance, etc..
- at the society level - food security, economic performance, terrorism etc.

Hillsong and Webster (2004) argue that although the term risk is common to both areas, in theory and practice there is not yet a consensus interpretation. However various professional organizations and national and international standards (AS/NZS4360 1999 Project Management Institute 2000 British Standards Institute 2000 Institution of Civil Engineers 2002) addresses in a scientific manner, the risk getting closer to a comprehensive clarification of this concepts.

The existence of different views does not preclude acceptance of risk as a result of its two dimensions: the likelihood and impact (Hillson and Hulett 2004; Mitruț, 2005). Likelihood is derived from uncertainty of risk occurrence. The impact is the effect of the contingency. Potential event of loss designating risk (R) is translated in mathematical terms as a result of the product of the size of the impact (I) and likelihood of (P).

\[ R = I \times P \]  \hspace{1cm} (1)

Risk costs. It may affect the integrity of the environment, property and individual being perceived as "potential harm" (Mitruț, 2005). For this reason, stakeholders want to know "risk event effects (results), their chances of occurrence (probability) and the severity or impact on the affected perimeter" (Druică, 2011). Any risk manager knows that the risk-within the projects can be caused by tolerating deviations from the planned initiative. An eventual materialization of the risk requires taking responsibility. Avoiding the development of pressures within the project and to third parties relating to the various effects of risk is possible by designing, developing and presenting a risk plan by the project manager. This document will allow the identification, formulation, calculation, preparation of response measures, monitoring and control of project risks.
Risk Management within the Projects

Through appropriation of being unique in its own way, any project can face specific risks previously inexperienced. If one of uncertain events occurs, the project objectives may be affected. The first step in risk management is the recognition of a potential risk. Project management task is to seek solutions to avoid risky situations. Hillson and Hulett (2004) points out that "there is no collection of lessons" learned from the various projects that provide the solution to overcome certain types of risks. Otherwise, to resolve difficult situations, each project manager, based on experience and by virtue of the similarity of the situations previously faced must challenge the project he leads. Going through all the stages and phases of its life cycle it is essential to complete the project. The project team will consider the objectives (to budget, achievement of milestones, compliance deadlines, insurance and resource consumption, etc.) and avoiding risks. Inadequate coordination of team, undocumented and hasty actions, failure planning can make difficult situations even stated objectives at risk. An effective way to manage critical situations and adopt the best measures of positive consequences, thus minimizing the risk materializes, is to give importance to proper risk management. From the literature (AS / NZS 4360:2001, Fraser and Cooper, 2005; Mironescu, 2005) it is drawn the conclusion that the application of risk management in projects involves the following steps: establishing the context in which risk occurs, it's correct identification, risk analysis, risk assessment, risk control, Figure 2.

In the risk management process each stage has its importance.

First stage. Determine the context of management, organizational and strategic establishing the composition and risk assessment procedures. Also here will be given precise ways of consultation and communication with stakeholders or affected.
The second stage. It is by far one of the most important steps in project risk management. Here risks configuration occurs associated with the identification of hazards and consequences. It’s where risk management occurs. One cannot think anything related to a particular risk and is not useful to make action plans if that risk status does not belong to the context. Risk identification begins where the problem comes. It is necessary to study the basic organizational goals, the similar risk scenarios if any. As a result of these analyzes may create a risk map. Road to the success of the project is provided through the permanent risk of this map.

Identification of risk in projects or organizations with a holistic approach is not suitable. Such treatment is counterproductive and does not stimulate creative thinking team. Moreover, in order to correctly identify
potential risks, decision makers should pay equal attention to every significant aspect of the project. Thus, about the technical side of the project, possible risks such as misunderstanding of drawings, degree of difficulty in assembling two components, improper use of new technologies, etc. Regarding project management can identify risks of misallocation of human resources, indiscipline etc., It can also be identified organizational risks, eg conflicts on access to, resources, funding interruptions, non-succession of works, project no longer wanted etc. Besides these, there might be external risks, other than those forming part of the force majeure, eg adverse weather conditions, as country risk, changes in legislation, changes in market outlets etc..

Third stage. Risk analyse. The third step involves qualitative and quantitative risk analysis, establishing opportunities for control and effect of control measures regarding the consequences and estimating the probability of risk. There will also be assessed frequency and severity of risk.

In the evaluation of the risks, costs and benefits are estimated activity being communicated to stakeholders. Evaluation criteria should be concise and for the efficiency of the measurements must be small. In the assessment must be captured all sides of activity.

- risk probability (almost certain / likely / likely / likely / rare)
- the level of risk (extreme / high / moderate / low / negligible)
- consequent (catastrophic / high / moderate / low / insignificant).

If the risk occurs, its treatment is to identify the measures that should be taken. Development of mitigation measures is to respond to threats and to introduce corrections. Applicable solutions should be obtained by methods known to be well founded. They should give confidence that there are no other risks after application. Risk treatment involves drawing up a plan that targeted risk mitigation procedures predefine This plan is part of the risk management plan.

The last stage of the risk management process is risk monitoring entails:

- check the validity of the assumptions on the risks identified
is intended that the measures at risk are implemented as planned
• there is response measures to correct the effects of implementation risks
• identify possible new risks either seek symptoms of known risks
• development seeks exposure

Probability Impact Matrix, Qualitative Method for Assessing the Risk

Generalities regarding risk assessment methods

Effective management of a project is not only to identify what types of risk can influence completion. In today’s economic climate, more than the increasingly, decision makers need calculations and results that give a level of magnitude of risk analyzed, based on which to assess the consequences that may result from its influence. As they made clarifications in text, risk assessment methods are quantitative, semi-quantitative and qualitative.

Quantitative and semi-quantitative analyses are performed using statistical methods (Monte Carlo, PERT, MCA, etc.) and include the use of quantitative or numerical data. Their result is quantitative. This approach is more objective and accurate. For the results to be more relevant it is necessary to use the correct input parameters from valid sources. In the case of the quantitative results of risk analyzes "should not be regarded as an exact numbers, but estimates of a variable that depends on the quality scale data" (Török, 2010).

The qualitative assessments have usually descriptive results and do not imply an accurate determination of risk. They provide support for further quantitative investigation. Successful achievement of a qualitative assessment starts from the module documentation and data collection intended for processing. Although they are considered formal,
quantitative assessments of quality are preferred for several reasons as follows:

- appears to be more easily understood by policy makers and others;
- gives the perception of ease and rapidity in achievement;
- No quantitative assessment is required or insufficient data for such evaluation;
- No qualified staff for the use of quantitative evaluation methods.

Even though sometimes such an assessment is not done quickly or simply numeric data would be preferable to formal ones, the decision makers satisfy their need for information on the results of qualitative assessments. In order to ensure continuity in the determination of an evaluation result to the methods apply the same principles as the unit of data collection. Depending on how the suggestion is appreciated risk profile assessed by qualitative methods, improving information can be decided by a quantitative assessment. That does not mean that the results of qualitative investigations do not provide enough information. Conversely, qualitative risk assessment can capture previously unidentified prospects.

It is recommended that the conduct of quantitative assessments to be followed and qualitative assessments because it can be identified the likely magnitude of associated risks, uncertainties on the data currently available, etc.. The conclusion is that much of the work for a quantitative assessment is made when it was made a qualitative risk assessment.

**Probability Impact Matrix**

Probability impact matrix is one of the commonly used qualitative methods for risk assessment. The two components of risk (equation 1) are actually variable of such matrix. Risk calculation is very simple considering that likelihood and impact of an event is assigned a random basis to the total which can be a particular classification, Table 1.
Table 1: Simplified model of the probability and impact classification

<table>
<thead>
<tr>
<th>Clasificare probabilitate</th>
<th>Score</th>
<th>Impact classification</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>1</td>
<td>Major</td>
<td>3</td>
</tr>
<tr>
<td>Medium</td>
<td>2</td>
<td>Medium</td>
<td>2</td>
</tr>
<tr>
<td>High</td>
<td>3</td>
<td>Easy</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: own

After awarding of the total (scores) for likelihood and impact of risk categories identified by the risk manager or project team members will proceed to multiplying the two variables. The result of this operation will expunge degree of risk.

This method was used in the project "Seminar: Trends in the restructuring and modernization of agriculture in the area of the Local Action Group (LAG) Mountain Valley 2013" to form an image on the risk of not having the audience on scheduled courses.

The first step was to define the probability of risk occurrence:

Table 2: Likelihood score risk

<table>
<thead>
<tr>
<th>Likelihood level</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td>0-20</td>
</tr>
<tr>
<td>Low</td>
<td>21-40</td>
</tr>
<tr>
<td>Medium</td>
<td>41-60</td>
</tr>
<tr>
<td>High</td>
<td>61-80</td>
</tr>
<tr>
<td>Very high</td>
<td>81-100</td>
</tr>
</tbody>
</table>

The the second step was to set the impact on a scale of 1 to 5:
### Table 3: Impact Analysis

<table>
<thead>
<tr>
<th>Magnitude of impact</th>
<th>Impact definition</th>
<th>Score</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>High impact/High probability</td>
<td><strong>Very high</strong> They are the biggest risks that entrepreneurs should pay attention.</td>
<td>5</td>
<td>A</td>
</tr>
<tr>
<td>High impact / Medium probability Medium impact / High probability</td>
<td><strong>High</strong> These risks have either a high probability of occurrence, or a significant impact</td>
<td>4</td>
<td>B</td>
</tr>
<tr>
<td>Medium impact / Medium probability</td>
<td><strong>Medium</strong> There is a medium chance that the risks appear noticeable impact.</td>
<td>3</td>
<td>C</td>
</tr>
<tr>
<td>Medium impact / Low probability Low impact / Medium probability</td>
<td><strong>Low</strong> These risks can occur in some situations and have a low to medium impact.</td>
<td>2</td>
<td>D</td>
</tr>
<tr>
<td>Low impact / Low probability</td>
<td><strong>Insignificant</strong> There are risks with low probability of occurrence and low impact. Can therefore be neglected.</td>
<td>1</td>
<td>E</td>
</tr>
</tbody>
</table>

The third step was to determine the risk exposure resulting values in Table 3.
**Table 4:** Calculation of the exposure risk

<table>
<thead>
<tr>
<th>Nr. crt.</th>
<th>Risk</th>
<th>Occurrence likelihood*</th>
<th>Impact*</th>
<th>Degree of risk exposure **</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Probability</td>
<td>Score</td>
<td>Probability</td>
</tr>
<tr>
<td>1.</td>
<td>Without learners</td>
<td>Very low</td>
<td>20</td>
<td>Very high</td>
</tr>
<tr>
<td>2.</td>
<td>A small number</td>
<td>Low</td>
<td>40</td>
<td>High</td>
</tr>
<tr>
<td>3.</td>
<td>Reasonable number</td>
<td>Medium</td>
<td>60</td>
<td>Medium</td>
</tr>
<tr>
<td>4.</td>
<td>Full house</td>
<td>High</td>
<td>80</td>
<td>Low</td>
</tr>
<tr>
<td>5.</td>
<td>More than places</td>
<td>Very high</td>
<td>100</td>
<td>Very low</td>
</tr>
</tbody>
</table>

For the last step was built a risk matrix as shown in Figure 3.

**Figure 3:** Probability impact Matrix
The analysis matrix shows that the risk of not having learners for maximum fear is a risk class C, so a medium risk.

**Conclusions**

Through this study we made a short presentation of the concepts of risk and risk management projects. The whole text brings the reader structured information, consistent, and well documented. Also, the contents of the study were identified and information on the project and how they are managed under the pressure of "the triple constraints" time - cost objectives, noted for as the "the iron triangle."

Risk management process is a cautious attitude related to the possibility of a risk materializing. Reducing or eliminating the damage that could be caused by the manifestation of that risk lies in constructive decision can be taken based on precisely this attitude. Risk management of a project is subjected can be done only in terms of understanding risk, which is in fact, the general purpose of risk management.

Risk identification and establishment of sizes for these additional actions may sometimes be known as risk assessment or risk analysis. In practice, the most common method is to identify risk checklist (checklist). It is based on the idea that performs a process according to a given standard. The differences from the actual implementation may or may not score in the normal range by the risk manager. This method is not sufficient in assessing complex risk which is why qualitative, semi-quantitative and quantitative methods may be used.

To obtain information relative safety in a descriptive way about risks, managers appeal to qualitative evaluation methods that are approved and that can be more easily explained to third parties. The study concludes with a practical example using the probability - impact Matrix whose purpose is to calculate and determine the exposure in case of an event considered to be at risk. The graphical presentation of probability - impact Matrix was pursued and highlight for the ease of position on a certain level of risk taken in the study.
References


[29] Webster’s Online Dictionary, 2010


Different Styles of Leadership in Organizations Touristic and their Benefits and Disadvantages

Authors: Enea Constanța, Constantin Brancusi University of Targu Jiu, Romania; Enea Constantin, Associate Professor Ph.D., Constantin Brancusi University of Targu Jiu, Romania

This paper studies different styles of leadership in modern organizations touristic and their benefits and disadvantages, with a focus on the characteristics of leaders driven by achievement and what happens when this leadership style crosses the line and becomes damaging for any organization.

Even if the overachieving style of leadership may be successful in the short term, the long term performance of an organization may be damaged and an overachieving leader may demolish trust and undermine morale, reducing overall productivity. In the end, there are presented the different styles of leadership with their pro’s and con’s, giving details to some extent of what makes a good leader nowadays and how personal characteristics affect leadership styles.

It goes on to discuss benchmarking programmes and finishes with a discussion of monitoring within local authorities, both in terms of service delivery and internal management performance.

Keywords: leadership; touristic; organization
Introduction

In the present, we can see more and more very talented leaders crash their business as they are putting ever more pressure on their employees and themselves and this can demolish and undermine morale, reducing productivity and eroding confidence in management, both inside and outside the corporation. On the surface, controlling overachievement sounds like a basic rule: to be less coercive and more collaborative, but this is very difficult to master, as some successful and experienced executives fall into oven achievement again and again.

The drive to achieve is very tough to resist, as most people in Western cultures are taught the value of achievement early on and this feeling of achievement becomes like a drug to them. Meeting or exceeding a standard of excellence or improving personal performance is one of the three internal drivers or „social motives” that explain human behaviour; the other two being affiliation – maintaining close personal relationships and power – influencing or having an impact on others. The power motive comes in two forms: personalized – controlling others and making them feel week; and socialized – empowering others to make great things.

This doesn’t mean that an individual is controlled by either one or the other and every leader is described by the percent these three motives coexist. Although they are not usually conscious of them, they are influencing their behaviour. It is believed that a high concern with achievement within a country is followed by rapid growth, while a drop is linked to a decline in the economy.

But the tendency to cheat and cut corners is one of the downsides of overachieving leaders, as they are too fixated on finding shortcuts for the goal and tend to overlook the means used for reaching them. In contrast, the most effective leaders are primarily motivated by socialized power, channeling their efforts into helping others be successful.
A leader’s motives affect the he or she leads, and despite the advantages of an achieving mentality, overachievement can weaken a company’s or group’s working climate and its ability to perform well. There have been identified six leadership styles used to motivate, reward, direct and develop others. These styles are:

- **Directive** – which entails command-and-control behaviour that sometimes becomes coercive? When leaders use this approach, they tell people what to do, when to do it and what will happen if they fail. It is appropriate in crises and when poor performers must be managed, but it eventually damages creativity and initiative;

- **Visionary** – this style is also authoritative, but rather than simply telling people what to do, these leaders gain support by expressing clearly their challenges and responsibilities in the organization’s overall strategy. This makes goals clear, increases commitment and energizes a team. It is best used by people with a high personalized power drive under low-stress situations and people with a high socialized-power drive when stress is high;

- **Affiliate** – leaders with this style emphasize the employee and his or her emotional needs over the job and they tend to avoid conflicts. The approach is effective when a manager is dealing with employees who are in the midst of personal crises or in high-stress situations. It is affective in combination with visionary, participative or coaching styles;

- **Participative** – this style is collaborative and democratic, leaders who use it engaging others in the decision-making process. It’s great for building trust and consensus, especially when the team consists of highly competent individuals and when the leader has limited knowledge and lacks power or authority, being favored in high-stress conditions, by leaders with high affiliation drives;

- **Pacesetting** – this style involves leading by example and personal heroics. Leaders who use it have high standards and make sure they are met, even if they have to do the work themselves. It can
be effective in short-term situations, but it can demoralize employees on the long-term;

- Coaching – which involves the executive in long-term professional development and mentoring of employees? It’s powerful, but underused approach and should be a part of any leader’s usual repertoire. Leaders with high socialized-power prefer it under low-stress conditions.

There is not just one best style of leadership, each one having it’s strengths and limits, the most effective leaders use a combination of all six styles, resorting the best one to use in each situation. But most managers use the style they are comfortable with, a preference that reflect the person’s dominant motive, combined with the level of pressure in the workplace. People motivated mainly by achievement tend to favor pacesetting in low-pressure situations, but to become directive when the pressure is on. People high in socialized power, by contrast, naturally gravitate to coaching in low-stress situations and become visionary under pressure.

There have also been identified six factors that contribute to performance by affecting the workplace climate and a leader’s behaviour heavily influences the degree each of these factors is present and is a positive influence:

- Flexibility reflects employee’s perceptions about whether rules and procedures are really needed or not. It also reflects the extent to which people believe they can get new ideas accepted;
- Responsibility is the degree in which people feel free to work without asking their managers for guidance at every decision, and in high-performing climates, people feel they have a lot of responsibility. When overachievers use too much the directive and pacesetting styles, as they often do, they limit or destroy flexibility and responsibility in a group;
- Standards represent the degree in which people perceive that the company emphasizes excellence – which the bar is set high, but also attainable, and managers hold people accountable for doing
their best. When standards are strong, employees are confident they can meet the company’s challenges;

- Rewards are the reflection of whether people feel they are given regular, objective feedback and are rewarded accordingly. While compensation and formal recognition are important, the main component is feedback, that is immediate, specific and directly linked to performance;

- Clarity refers to whether people know what they are expected to do and understand how their work contributes to the company’s main goals. This has the strongest link to productivity and without it, all other aspects often suffer. Leaders who create high clarity often rely heavily on the visionary, participative and coaching styles;

- Team commitment is the extent to which people are proud to belong to a team or organization and believe that everyone is working towards the same objectives. The more widely shared the team’s values are, and the greater its commitment to performance, the higher the team’s pride.

A climate with high levels of standards, clarity and team commitment and at most one gap in the other dimensions is very strong. A climate with no significant gaps in standards, clarity and team commitment and two gaps in the other factors is still energizing to employees. Any more gaps and the climate is neutral or demotivating. In such an environment, people tend to do only the minimum required, and performance suffers.

One good news about achievers is that when they have a goal, they do everything to reach it, even if the goal is to manage their achievement style. For an overachiever to broaden his range, the first step is to become aware of how motives influence leadership style. In seeking to assess themselves as managers, there are calibrated tools for measuring the three leadership motives, but this can be simply done by examining the activities they like and why.
- People with high achievement drives tend to like challenging projects that allow them to accomplish something new. They also like to outperform people who represent a high standard of excellence. Achievers tend to be utilitarian in their communication – often brief and to the point;
- Those high in affiliation are energized by personal relationships. They like to spend time with family and friends and are attracted to group activities, simply for the opportunities to build relationships. They make heavy use of the phone and e-mail just to stay connected;
- People mainly motivated by personal personalized power need to be seen as important. They tend to be driven by status and image. They often seek status symbols and engage in prestigious activities;
- Individuals mainly driven by socialized power enjoy making a positive impact. They get satisfaction by helping people feel stronger and more capable. They like to advise and assist, whether or not the advice is wanted or needed. Such people are often attracted to teaching or politics and tend to be charismatic leaders.

A prerequisite for the effective management of destinations is the ability to secure a detailed knowledge and understanding of its characteristics and performance. It is essential to help shape strategies and action plans required to meet future challenges in a structured way. Information should be accurate and timely. If the effect of any actions is not regularly evaluated, the management process will become flawed.

The collection of up-to-date information and the regular monitoring of performance against plans is a fundamental component of good destination management. At the very simplest level, performance monitoring should include a checklist of actions completed. To be robust it should embrace a broader methodology that monitors, interrogates, evaluates and compares performance.
The process should be embedded as an integral part of an effective management system. It should be formulated to suit the individual destination, but most importantly it should be:

- simple
- effective
- easy to administer
- seen as a continuous process.

At the national level data is collected through the International Passenger Survey (IPS) and the United Kingdom Tourism Survey (UKTS). The UK Day Visits Survey measures the impact of day visits and estimates the volume and value of leisure day visits. Visit Britain's website has more information on national tourism data.

**Key components of monitoring destination performance**

The following list gives the main aspects of a destination’s performance that are important to measure.

1. Audit of tourism supply

   Destination managers should have a clear understanding of the number of accommodation providers, caravan and campsites, and visitor attractions in their area. Ideally data on supply will include the total number of bed spaces, self-catering units, and caravan and campsite pitches as well as identifying businesses with quality accreditation, green business and accessibility ratings. This data should be kept on a spreadsheet and updated regularly.

2. Volume and value of tourism data

   An assessment of the number of visitors to a destination and the value of these visits to the economy is the most basic but significant piece of information required for an area. It is an essential part of the understanding process and is more fully covered in 3C: Determining the Local Economic Impact of Tourism. Once collected the information needs to be regularly updated so that basic trends can be established.
There is a cost in using either of the main models currently available, but as the data provided is essential for understanding, planning and development purposes, it is well worth the investment. For the purpose of identifying trends it is important to continue to use the same model and to obtain the data on a regular basis, preferably annually.

3. Overall visitor satisfaction

Visitor surveys are essential to evaluate customer perceptions of a destination and to identify needs. Again, it is imperative that surveys are carried out on a regular basis and that the data collected is consistent to allow for comparison to enable the monitoring of trends, to evaluate the impact of new developments and to assess changing needs. This is covered more fully in 3B: Surveying Visitor Satisfaction. A suggested basic visitor survey questionnaire is given in Appendix 2. This is an example for seaside resorts, but using the basic format with alterations for non-resort destinations will allow for benchmarking across destinations.

4. Local resident satisfaction

On a regular basis, for example every three years, seek the views of local residents as to their level of satisfaction with the tourism services in their area, and their views on the impact of visitors and the provision made for them. This is covered more fully in 3D: Surveying Local Community Attitudes to Tourism.

5. Tourist Information Centre satisfaction

A suggested survey form for use in assessing customer satisfaction with TICs is given in Appendix 3. The form can be handed out to a sample percentage of TIC visitors to provide some feedback on satisfaction levels. Incentives can be offered to encourage completion and return, and attempts should be made to secure the views of a full cross section of visitors.

6. Local industry satisfaction

Regular surveys of the local tourism service providers are essential to ensure that the resources devoted to tourism are being used to best effect and satisfy the needs of local businesses. Suggested
questionnaires for evaluating local business satisfaction are given as Appendix 4A (operators) and Appendix 4B (accommodation providers). The relevant form should be sent to all tourism businesses, preferably on an annual basis.

7. Evaluating the effect of marketing

It is important that some method is used to evaluate the success and impact of marketing activities, including brochures campaigns and websites. A simple response form included in a destination brochure with an incentive to provide important feedback is given as Appendix 5. Survey forms can also be sent out subsequently to those requesting a brochure and questionnaires can be made available in local accommodation to help assess what influenced someone to visit.

Similarly, processes, which can also be used on a comparative basis, are available to evaluate the effectiveness of a destination website in attracting visitors to an area. With increasing pressure on budgets, and increasing competition for market share, measuring the cost effectiveness of all marketing activity is becoming more and more important. Information on website evaluation and methodology for evaluating the return on investment of campaigns are both available as Destination Performance UK (DP: UK) advice sheets. The Advice Sheet Evaluating Marketing Campaigns is included as Appendix 6.

8. Quality issues

A regular review of the tourism businesses operating in an area and an awareness of the take up of quality standards is a fundamental part of basic intelligence and monitoring. A reliable up-to-date database of all establishments (accommodation, self-catering, caravan sites and campsites, hostels, attractions) is essential to monitor capacity and change. Information collected should include at the base level:

- quality grading
- number of rooms, units and bed spaces in serviced and self-catering accommodation
- the number of pitches at caravan sites and campsites.
The number of accessible establishments (both attractions and accommodation) should also be recorded including the take-up of the National Accessible Scheme. Information about changes and the opening of new establishments should be gained from local authority staff, eg environmental health officers, building control officers, planning officers and rating staff, by creating an integrated collaborative framework for regular intelligence sharing.

9. Environmental considerations

Environmental considerations should be an integral part of the service planning and delivery process. Monitoring systems need to be put in place to ensure that sustainability issues are adequately addressed. At the simplest level, the impact of any new development needs to be assessed in broad environmental terms. An evaluation of the effectiveness of any environmental management processes instituted, e.g. local produce sourcing, recycling programmers, green business programmers, should also be part of the monitoring process. See also 3E: Determining Local Recreational Carrying Capacity.

**Comparative performance indicators**

Regular monitoring programmers as described above will provide the information for destination performance indicators that can be used as comparators against other destinations. The quality of performance indicators is often debated; it seems very difficult to devise ones that appear to have any intellectual rigor yet can still be easily collected on a regular basis. What is essential is that there are sufficient monitoring programmers in place to provide the destination manager with the range of knowledge required to inform decision making and planning, evaluate overall performance and allow for easy comparison with other destinations.

The Single Improvement Tool has been developed for local authority cultural services by IDeA in association with the key national cultural organizations. Tourism, as it forms part of the national cultural
services block, has been included in the process. The tool applies equally well to local authority tourism services, even if they are based in other service areas such as economic development or regeneration. The tool contains a list of suggested performance indicators for tourism services. These are based on a set suggested in the Tourism Sustainability Group (TSG) report to the European Commission, and on indicators that have been adopted by Destination Performance UK and the Welsh Audit Commission. It is anticipated that local authority tourism services, and those providing tourism services to or on behalf of local authorities, will use the list in determining indicators for Local Area Agreements.

The indicators have been divided into four main groups to cover.

1. Satisfaction
2. Economic factors
3. Sustainability
4. Organization

The indicators should not be viewed as prescriptive or definitive. The choice of indicators to be used will depend on the nature of the destination, its organizational structure and the level of progress made towards sustainable destination management. However an attempt should be made to collect as many of the core indicators as possible.

The collection of key or core performance data in a standardized format enables a direct comparison to be made of overall performance within a specific sector or grouping. Benchmarking clubs have been in existence for a number of years but their distribution is patchy and they have highlighted the lack of accurate, simple and timely locally-based comparative data. The emergence of individual benchmarking clubs has also emphasized the need for more universal recognition of the role and value of core comparable information to support more effective performance management in destinations.

In England, the establishment of the National Tourism Best Value Group in 1999 was, at its simplest, an attempt to standardize baseline data collection processes for all local authorities.
Across Europe, destination groupings and networks have been seeking the ‘holy grail’ of the perfect set of sustainable performance indicators to be used for Europe-wide benchmarking. Without co-ordination a plethora of different processes have been emerging.

In addition, the apparent need to be exhaustive and visibly rigorous has led to the creation of endless sets of potential indicators that do not pass the acid tests of simplicity, collectability, comparability and reliance. There is much to be learnt from fellow practitioners across Europe and there are benefits to be gained from the ability to share information with a much broader range of destinations. It is hoped that adoption of the TSG report by the European Commission (see Further reading) and the Commission’s commitment to increasing the sustainability and competitiveness of European tourism will lead to increasing use of comparable indicators for benchmarking.

In addition to self-assessment performance benchmarking processes, Tourism South East offers a specific process that can be bought in to provide destination and TIC benchmarking. Destination benchmarking consists of collecting and analyzing a standardized set of visitor survey information for comparison directly with the scores from other destinations. The process is very useful for providing a definitive baseline or starting point for understanding visitor perceptions of the destination and visitor profiles. Regular reviews, using the same process, are essential to monitor changes and the results of any improvements over time. If the full benchmarking process is carried out every three to five years then interim data can be collected as a check, using less expensive techniques.

To provide a definitive baseline, a professionally undertaken TIC benchmarking survey is also an extremely useful exercise. If the surveys are carried out every three to five years, for example, interim data can be obtained by using the TIC customer satisfaction survey referred to in Appendix 3.

Since the mid-1980s, Central Government has been striving to make local government more accountable for its actions and
expenditure. An evaluation of the effectiveness of individual authorities in delivering their services was seen as an essential prerequisite in being able to assess value for money. The Best Value initiatives made it a statutory requirement for all authorities to measure performance and review their services. The Best Value regime evolved around 2002 into Comprehensive Performance Assessment (CPA) whereby the whole performance of an authority was evaluated through a self-completed appraisal. CPA itself is now evolving and the performance focus will be increasingly on Local and Comprehensive Area Agreements and a reduced set of less than 200 national performance indicators.

Performance plans are still an integral part of the process. So is a clear demonstration that service delivery is set within a robust and comprehensive strategic framework, and that performance and customer satisfaction are regularly monitored, and that actions are reviewed.

Authorities need to be able to demonstrate clearly that they can set their performance in the context of other similar destinations, making comparative benchmarking an essential and integral part of the management process. Advice from IDeA and the Audit Commission is that whilst the nature of the process has changed, the expectation that authorities will be engaged in effective and robust performance management most definitely has not. The emphasis has moved considerably towards self-assessment and self-improvement. Whilst there are still no specific tourism indicators in the national set, suggestions have been provided through the Single Improvement Tool for cultural services to support Local Area Agreements.

As well as monitoring the performance of their destination, a number of local authorities and DMOs are now using business planning techniques to understand and improve the individual components of their management processes. Integrated quality management, the EFQM Business Excellence Model, and ISO 9000 are the main techniques being deployed. Visit Wales has useful information on the application of integrated quality management in tourism. EFQM is a membership foundation working on quality management and sharing experience.
The processes include an evaluation of the key components of management: planning, leadership, understanding, resources, most important of all, monitoring.

Conclusions

More complicated and more important than recognizing an overactive drive to achieve is figuring out how to channel that drives into new behaviors and continually practice them until they become second nature.

While behavior is the responsibility of the individual, organizations play a role, even unintentionally, in influencing the executive’s actions. Some companies create cultures that foster and reward the achievement-at-all-costs mentality, but most organizations are less calculated; they simply select and promote high achievers for their obvious assets, let nature take its course, and then look the other way as long as the numbers are good.

But companies can redirect their focus and still achieve good numbers. For example, IBM in the 1990’s set out to regain control of the market by transforming the company into a flatter matrix-driven organization through managers that would orchestrate and enable rather than command and control. IBM needed to move away from its culture of personal heroics and individual achievement and begin valuing socialized power and managers who pay attention to the greater needs of the company.

A large part of the company’s managers were focusing on their own departments or divisions, even if doing so had a negative impact on performance in other parts of the organization. Their client focus was also driven by achievement: they were devoting more time and energy in making the sale than understanding the customer’s needs. The dominant leadership style, which reflected this emphasis on individual achievement, was pacesetting, and the climate lacked a number of the attributes that contribute to high performance.
However, there was a small but successful group of managers that led very differently, as they were working through others, creating strong teams, providing coaching and focused on increasing the capability of the whole organization. IBM incorporated these behaviors into a competency model that over the next years was used to select, develop and promote leaders and also created a group to develop and coach managers in the desired new behaviors. The results obtained after some years were that the coaching style had increased by 17 %, while pacesetting had decreased by 5 %.

Of course, a high achievement drive is still a source of strength, but companies must learn when to draw on it and when to rein it in. The challenges for managers today is to return some of the balance, seeking an approach to leadership that uses socialized power to keep achievement in check.

References:

[1] An introductory guide and toolkit for sustainable destination management, produced by Tourism-Site is available as a download at www.tourism-site.org
The Economic Progress in the Sustainable Human Resources Development

Author: Loredana-Maria Paunescu, Petroleum & Gas University, Ploiesti, Romania, loredana.paunescu@yahoo.com

Human resource management is a factor that increases the firm's competitiveness and the overall national economy, an important factor of economic and social progress. Human resources management contributes decisively to harmonize with the goals of individuals and of society, the interweaving of social benefit reasons rather than economic reasons, both within an Organization and the community and society.

In our contemporary society, the huge progress of scientific knowledge, human resources management proves once again his great performance capacity, contributing to the reduction of the consumption of scarce resources (land, labour and capital) and pollutant emissions (fossil fuel), the reduction of the dependence of economic growth of these limited resources, to harmonize the present generations to future generations, to create better conditions for the conservation of the planet and life in general.

Keywords: scarce resources; sustainable development; community; society; economic progress; process; strategy; economic system; economic indicators; scientific knowledge
Sustainable human resources development

Human resources are the subject of Economics concern by virtue of the fact that they are a "resource like any other", indispensable for production and economic growth. In reality, keeping strictly within its reasoning, the economists acknowledge and accept the fact that human resources are a distinct resource and not some one among all the others.

Progress regarding

Within the concept of sustainable development is the interaction of the four systems, interconnected with a strong compatibility, namely: the economic, the environmental and the technological, the human, so as to satisfy the new needs without compromising the ability of future generations to meet their needs according to the requirements arising at any given time. In this sense, the strategy of sustainable development includes as an essential element in the progress that happens simultaneously in all four dimensions[3].

Figure 1: The Concept of Sustainable Development.
(Source: The Author)
The sustainable development has as starting point the fact that the recognition of a country’s economy lies in the profound changes in a subsystem or other train global change under the existence of the connection between the components.

The sustainable human development strategy should be approached taking into account the great differences existing today in the world, the classification and the shootout between the countries according to their degree of development and their categorisation as being as rich countries or poor countries, countries producing nuclear weapons that are anti-environmental and anti-human and countries with no ability at all[1]. Analyzing the current global development of the world we live in, in terms of economical and ecological investigations undertaken in these areas underlined two conflicting views, namely:

- According to the economic indicators that appreciate the health of the global economy, the world is in a relatively good condition and the long-term economic forecasts are promising; economists believe that advanced technology can be used in a positive way using an effective approach¹

- According to the indicators that measure the health of the environment, every major indicator shows a deterioration of the natural systems: their surfaces, the mountain deserts expand, the ozone layer is getting thinner, air pollution levels that threaten people’s health and the negative impact produced by the acid rain can be seen on any continent²

**Economic indicators**

The differences between these points of view are even more obvious if we consider the main economic indicators and ecological world we live in. Measuring progress through the economic indicators should take into account the debts that the economic development has upon the natural

---

environment; also considering that the environmental impact not only has negative consequences, but these consequences can become irrecoverable.

**Measuring progress**

For a precise measurement of progress, the researchers consider several criteria:

- The human development index proposed by the ONU (HDI);
- Economic prosperity index growth proposed by Herman Daly and John Cobb (ISEW);
- Per capita grain consumption.

Sustainable human development is expressed through a system of indicators covering three essential parameters:

- Economic sustainability indicators;
- Indicators of social sustainability;
- Indicators of the sustainability of the natural environment.

Human development index (HDI) consists of three indicators:

- Longevity;
- Knowledge;
- Control over resources needed for a balanced life in ideal conditions.

Longevity is average life expectancy, for knowledge is recommended increasing the tuition figures, and for the control of resources is of interest per capita GDP.

The human development indicator (HDI) is calculated to highlight the evolution of the quality of life of the people. It includes a three-dimensional approach that covers the highlights, such as life expectancy, literacy and real GDP per capita. Highlighting developments in those three areas is made on behalf of the associated indicators, namely: life expectancy, education index and GDP index. Detailing how each computing approach initiated by highlighting served to the criteria
to be contemplated in their composition and to identify the reasons that allow linking or disconnecting in an empirical manner with the ILE.[7]

Life expectancy index measures a country’s performance in this regard based on the average life expectancy at birth in relation to the minimum level (25 years). The maximum level is 85 years old.

The education index is compiled by aggregating the two milestones: adult literacy and enrolment in schools on the three levels of education. For each of the two shall be determined by an index. The combination of these two indices is achieved on the basis of a two-thirds weighting in favour of adult literacy index and one-third for coverage of the index. The index includes gross domestic product GDP per capita expressed in purchasing power parity. HDI is calculated as the simple average of these three indicators, its values indicating the degree of the development in reverse order. Based on these methodological aspects you can ascertain that the HDI is a tool with very low representatively for highlighting the developments in the field of improvement of the quality of people’s lives. Covers too few and too vast areas to be able to conclude on the developments of the aggregate human development. These areas are not necessarily related and complementary to what might create an overview of the indicator closer to the goal [5]. Furthermore, HDI also has a component dominated by hazard. While the degree of literacy and educational enrolment are measurable, life expectancy can only be estimated. Environmental conditions, genetic issues, the way of life affect the decisive indicators. In these circumstances, it is possible that life expectancy to be high in countries with a system of medical and health insurance sectors that are underdeveloped. The latter are relevant degree milestones of human development of a country. Evolution is explained against the background of Estonia’s best performance in the field of education and of determining HDI as an average for these components.

Heterogeneity of the sub indicators that make up the report, the lack of relevance of the real GDP per capita as an instrument of identification of the standard of living and its determination as the average of the values of the components are essential features that define
it. All this makes the HDI to appear as a dubious way for the liberty of
the economic exposure in tangible results in terms of the human
resources development. The distinctive character of labour resources is
given primarily to the fact that it is the only resource that produces,
creates and opens up the prospect of continuous innovation in
production.

Secondly, the limited employment resources bearing of their
quantitative numerical potential on the one hand and the appropriation
of a potentially unlimited, resulting from their qualitative aspects.
Unlimited character is not so specific regeneration on the reproduction
(in fact as other renewable resources), especially through the creation of
limitless horizons that they give evidence in the entire history of
mankind.

Thirdly, the resources have received, even in the history of the
modern market economy, the unanimous recognition that is "a
commodity is distinct from the world of goods". This means that
resources are formed, used, paid, evaluated, promoted and protected
against the risks of both social and community-wide, and, of course, in
the firm.

Fourthly, the above features have the particularity of resources
"to awaken from the dead ' and to harness all the other superior natural
resources, land, soil and subsoil riches, the accumulated capital etc.
If these characteristics are sufficient resources in order to understand the
importance of them altogether in the world markets, growth factors, yet
they are largely inadequate for complex characterization of resources, on
the one hand and the emphasis on the importance of resource
management, on the other hand.

Fifthly, the resources are particularly Odessa. These both in
terms of their physical potential, as well as from the perspective of the
potential intelligence, education and creation. Any manager will not be
able to ever address the employment resources in the form of average;
they differ from one individual to another in many ways, not only
physically and intellectually, but also through moral perspectives.
Starting from all the peculiarities of people, management can shape and get the behaviors of that company needs.

In the sixth row, regardless of individuals’ potential, they need a differential treatment according to their needs.

Conclusions

Thus, the sustainable human development-marks the entrance of mankind in the environment in which the risks arising from the development of economic processes should be reduced or even removed if they have adverse effects. Through education, culture and science, people can exceed a threshold of perception that will cause people to observe and act on the long term depending on their needs, but also depending on the need of implementing some regulations of conduct. Human resource management is the ability to extract productive, paramount not only from human resources skills. They also have defects, dysfunctions and inconsistencies that can obstruct the affirmation of both the qualities of human resources, as well as the other factors of production.

References


Romanian Companies Performance - Approach by Value Signals

Author: Cristina Gradea, Romanian University of Sciences and Arts Gh. Cristea, Bucharest, Romania

The new form of competitiveness is not a quantitative but qualitative one; less goods and services with higher added value, but with significant implications on the process of funding at the micro level. Competitiveness is the ability to defeat in a competition, regardless of the environment in which it is carried out. To be competitive, the Romanian companies must establish certain goals such as flexibility, (value) position on the market, liquidity and profitability. These objectives can be achieved if: there is initiative, knowledge and rigor in the leading enterprise workers, through fiscal and monetary policy which is consistent and effective, quality of human factor (as factor of production) is increasing.

According to previous statements we notice that the concept of competitiveness at the firm level (a complex notion) will have to be analysed based on aggregate financial and economic indicators that capture all these mutations at the level of this evolved concept and that encompass all the variables that define it. To this end, we think (infer) that such an indicator, which analyses competitiveness at the micro level, can be the firm value. Starting from this premise in our research, we turn to a financial model of the firm value (Gordon-Shapiro model generalized), considering that in understanding variables of this aggregate indicator in terms of value signals can explain competitiveness at a given time.
**Keywords:** competitiveness; company; performance

---

**Introduction**

The strategic objective of the European Union is to make Europe "the most competitive and dynamic economy in the world, capable of sustainable economic growth with more and better jobs and with greater social cohesion" (strategic objective for 2010, set at the Lisbon European Council in March 2000).

Given the context of the amplification of globalization phenomenon, this characteristic became an emblem of the system. Achieving this macro objective will be possible through the transformations that will take place at the micro level. Semantically, in the traditional economic system, competitiveness at micro level has more meaning: reduce costs, increase productivity growth, etc. The new European economic system adds new valences to competitiveness which must be found at micro level, based not so much on resources as on knowledge and innovation. 'Europe must renew their competitiveness base to increase the growth potential and strengthen social cohesion, with emphasis on knowledge, growth, innovation and optimization of human capital. To achieve these objectives, the European Union must mobilize all national and Community resources - including the cohesion policy - in the strategy of the three dimensions (economic, social and environmental), so that their synergies may unite in the general context of sustainable development ".' (Communication from the Commission: Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007 - 2013, Brussels, 05.07.2005, COM (2005) 0299, p.4).

The new form of competitiveness is not a quantitative but a qualitative one; less goods and services with higher added value, but with significant implications on the process of funding at the micro level.
Competitiveness is the ability to defeat in a competition, regardless of the environment in which it is carried out. To be competitive, the Romanian companies must establish certain goals such as flexibility, (value) position on the market, liquidity and profitability. These objectives can be achieved if: there is initiative, knowledge and rigor in the leading enterprise workers, through fiscal and monetary policy which is consistent and effective, quality of human factor (as factor of production) is increasing.

According to previous statements we notice that the concept of competitiveness at the firm level (a complex notion) will have to be analyzed based on aggregate financial and economic indicators that capture all these mutations at the level of this evolved concept and that encompass all the variables that define it. To this end, we think (infer) that such an indicator, which analyses competitiveness at the micro level, can be the firm value.

Starting from this premise in our research, we turn to a financial model of the firm value (Gordon-Shapiro model generalized), considering that in understanding variables of this aggregate indicator in terms of value signals can explain competitiveness at a given time.

The Concept of Signal Value

In what follows we aim to reflect on the market value of the firm (the market value calculated in financial terms in view of future flows that remunerate the investment) of investor perspective (considered in the generic sense), introducing in this way a new concept: the concept of signal value. Our efforts to explain the concept and its importance in the construction of function type variable called value of the company will take into account the following logical-conceptual approach: define the class of objects they refer to, meaning of the concept, universality of the concept.

The working hypothesis in the construction of this concept is the following: the market value of the firm is viewed in terms of buyer or
investor of capital in the firm (we'll use the notion of investor in the section below), which aims at - we feel – the valuing of the initial capital (by buying a majority stake or a number of shares) at a superior rate of return than any other alternative forms of existing business at a given time of financial market.

The market value noticed or market capitalization of the firm, observed by the investors is a consequence due to a combination of causes perceived differently by them (the rate is formed depending on demand and supply for the company shares), often contradictory, in our opinion but which essentially can be embedded and explained in terms of value signals. The market capitalization of a company is increasing or decreasing at some point. This means that investors (in general) are guided in their actions (by purchase or sales of shares owned) according to certain signals, signals regarding the size of the outcome variables issued by the firm.

The first step in our scientific approach we consider to be to identify those microeconomic or macroeconomic variables which are causal factors (subjective) of the firm assessment valuation which is made by the investor. It is about independent variables and consistent with each other (which excludes as far as possible the statistical autocorrelation respectively, the mutual annihilation in determining the market value of a company).

We introduce the concept of signal value (SV) for that variable (microeconomic or macroeconomic, quantifiable even if not measurable) which has an impact that can be tested (at least in the form of inter-subjective acceptance) on the subjective evaluation that the general investor makes on the current or future value of the firm (the future value of company includes, logically, the trend of the firm value expression).

Justification for the choice of the concept of signal value can be explained by the fact that of all concepts subject to express the impact of certain economic variables and / or the financial impact on market value of the
company (present or future), I think it (SV) is the more appropriate, for the following reasons:

- Assessment of overall company or investment portfolio by an investor is a subjective process, sensitive not only to show certain variables but their connotations, so it is, for an investor, a certain signaling or suggestions on determining the –

- One of the functions of the company in the market economy is to build and transmit to the environment external signals on the structure, dynamics and its economic and financial performance;

- Not all economic and financial variables generated by a firm mean something in terms of firm value, the concept of signal value proposes to select, after a certain methodology (which is still in the making), those variables that represent really, for the investor, credible and accepted inter-subjective indicators or if possible, accepted in theory on the size or development of the company's value.

The reference of the signal value concept: the concept of value has the extension (notation) many economic, financial variables or of other nature which are taken into consideration by an investor, as the proof of credible indicators on firm value.

The meaning of the signal value concept: the concept of signal value has as background a certain value of the firm, seen from the investor perspective. Universality of the concept: the concept of signal value is a concept as such, namely it has a unique meaning for any investor, non-ambiguous and not anchored locally (as space and time). This means that our ambitious attempt tries to identify a set of such value signals that are able to be a methodological basis for analysis of forming the firm value in general. The concept character of the signal value is essential in terms of logical research, because otherwise we have to deal with a simple notion or term, thus reducing considerably, at this level, the theoretical impact of our study and then if we succeed, of methodological impact.
We believe that the research of value signals must be based on certain initial assumptions that subsequently have to be relaxed to capture reality in the investment process. The initial assumptions considered in part: at the work of mainstreaming concept of signal value stipulate the following assumptions (which, depending on the context, may suffer future reference relax):

1. Investors (generally) have the same utility function, namely the same model in which the current value of the firm is evaluated, this implies the same set of rational anticipations for each investor;
2. There are no transaction costs (for information about the value signals issued by the companies) or if there are, they are the ones for all investors;
3. The investors are atomic, namely the intervention of an investor on the secondary market capital (for example, transactions of a number of shares) does not change (in general) the model of reasoning of other investors (this assumption can be relaxed later if we take into account aggregate investors that transactions discrete packages of shares).

Other specifications: we consider that the value signals selected should express: the current value of the company, direction toward which it is heading its value: tendency trend, speed which varies, the speed it varies with, thresholds or points of inflection. For the purpose of scientific evaluation of the firm value (from the perspective of a real shareholder or potential, hereinafter investor) requires a set of criteria necessary and sufficient (inter-subjectively accepted) that are led, according to a model to a dimension of the objective value of the company.

Assuming that each investor interested in the firm value or value of its shares will have their own subjective perceptions on forming value (the value determined by him will be subjective). This perception is formed based on their own model of assessment model investigating
an analytical way, its own criteria (subjective) explained by the value signals.

Based on value signals, each investor forms his perception on the value at the level of the subjective value and his economic decision is based on the difference between the objective and subjective value. We can call this difference value gradient (gradient is a vector which characterizes a scalar field, whose value is given by the variation speed of the field on a direction given), which will act the stronger the higher the absolute value will be. Of course the decision will also depend on the algebraic sign of the gradient.

Conclusions

In essence, the concept of signal value, we believe it can explain the market value of the firm expressing the initial cause, primary source, starting point, the energy which is propagated, on certain channels leading to an increasing effect on the value increase or drop, their scientific importance being given by the multitude of theories and models for determining the firm value. Introducing the concept of profit cost is particularly useful for systematization of mathematical and economic type of reasoning on behavior at investment level.

Setting margins of substitutability, respectively of coefficients of elasticity is more important for both the investor and the manager than the absolute values or the relative ones that enter in economic reasoning on regarding investment, or long term business financing. A number of hypotheses considered in the present developing are still too restrictive and they will have to be modified in subsequent research;

References

Study on the Vat Special Scheme for Travel Agencies and it’s Implications on Profitability

Authors: Negruțiu Magdalena, Titu Maiorescu University, Bucharest, Romania, m.negrutiu@yahoo.com; Calotă Traian-Ovidiu, Titu Maiorescu University, Bucharest, Romania, traiancalota@yahoo.com

Tax regulations in force regarding travel agencies allow professionals to control the size of VAT due to the State, but also on the accounting and tax results. Regarding the VAT, a travel agency may apply the normal or special tax scheme. The option belongs to it, with the following exceptions: it is obliged to apply the special scheme, according to Art. 152 point 1 of the Tax Code (i) when the traveller is an individual, (ii) in case when travel services also comprise components for which place of operation is deemed to be out of Romania. For example, travel packages sold by the travel agents, registered for VAT purpose, for the Romanian travellers left in the Community are taxable according to special tax rules, regardless of whether such tourist is taxable or not. If, however, tourism services are provided in the Romanian territory and invoiced to legal entities, acknowledgement of income is the consequence of tax regulations relating to the VAT scheme.

Keywords: travel agency; tour-operator; traveller; travel packages; unique service; normal VAT scheme; special VAT scheme; tax base; corporate tax.
Introduction

In this article, it is hereby reviewed, through case studies, assessment of VAT settled with the state and, depending on the applicable VAT scheme, the assessment of tax result and corporate tax. We can talk, within legal limits of a creative accountancy, which has implications on the tax debts of the travel agency and also on state income. To understand the issue subject to our study, we'll start from some definitions:

<table>
<thead>
<tr>
<th>1)</th>
<th>TRAVEL AGENCY</th>
</tr>
</thead>
</table>
|    | Government Ordinance 107/1999 on the marketing of tourist packages, travel agency, defines the travel agency as "any specialized unit, legal entity, who organizes, provides and sells travel packages or their components."

According to Article 152 point 1 of the Tax Code, the travel agency is "any person who, on its own behalf or as agent, intermediates, provides information or undertakes to provide to people travelling by themselves or in group, travel services including hotel accommodation, guesthouses, hostels, holiday housings, villas and other spaces used for accommodation, air, land or sea transport, organized trips and other tourist services. Travel agencies also include tour-operators".

Tour-operating and retailing travel agencies, in their capacity as taxable persons, registered for VAT purposes, conducting agency services in tourism, apply either the normal, or the special tax scheme.
TRAVELLER

is a beneficiary of the travel services and may act as:

(i) **taxable person** pursuant to Article 127, first paragraph of the Tax Code, i.e. a person who independently carries out business activities, regardless of the purpose or results of such activity (legal person, natural person, group of individuals, public institution);

(ii) **another taxable person**, including any legal or natural person which does not comply with the requirements of Art. 127, first paragraph of the Tax Code, in order to be deemed taxable person;

TRAVEL PACKAGE

Defined by the Government Ordinance no. 107/1999, it is the pre-established combination of at least two of the following three groups of services, provided that their uninterrupted period of time should exceed 24 hours, or to include a stay overnight, i.e.:

(i) transport;
(ii) accommodation;
(iii) **other services**, not related to transportation or accommodation or are not their accessories, which are a significant part of the travel service package, such as: public catering, spa schemes, participation in scientific, cultural, sports events, visits, recreation and the like.

UNIQUE SERVICE provided by the agency for the benefit of the traveler

is the totality of transactions conducted in connection with the travel, agency acting in its own name, in the direct benefit of the
The unique service taxation place is Romania, if the agency is established or has a permanent establishment in Romania and the service is provided through it.

The normal VAT scheme may be applied by the travel agencies when service invoicing is made by the legal persons and the place of taxation is in Romania. This scheme allows the agency to invoice the amount of services and separately, the related VAT, as well as to deduct VAT on the purchase of goods / services that are parts of the travel package.

The special fee scheme provided for in Art. 152 point 1 of Chapter XII "Special schemes", of Title VI "Value Added Tax" of the Tax Code, representing the transposition of special scheme applied to travel agencies in the European Union, as it is regulated in Chapter 3, Title XII of Directive 112/2006.

**Which are the features of the special scheme?**

a) Is the special scheme mandatory?

Special VAT scheme may apply either optionally, or mandatory. For example, special scheme should be applied when the traveler:

- is a natural person, no matter where it travels, either in Romania or outside its borders;
- is a taxable person, if travel services also include components for which place of taxation is deemed to be outside Romania.

b) How to assess the tax base?

The tax base is represented by the profit margin. This is calculated as the difference between the total amount paid by the
traveler, without tax and costs of tourism services, including the tax, corresponding to the supply of goods and provision of services for the direct benefit of the traveler, but achieved by taxable third parties.

**c) How to calculate the fee collected?**

As the profit margin so established, also includes the VAT, tax will be calculated using the following formula: Collected VAT = Profit margin including VAT * 24/124.

**d) Will the collected tax be included in the invoice?**

In case the travel agency applies the special scheme, in all the invoices issued, it will not enter VAT separately and will make the mention “special scheme”, under Article 152, point 1 of the Tax Code. Note that VAT chargeability occurs in the tax period in which all the elements necessary to assess the tax base are certain;

**e) How does the travel agency treat VAT included in the invoices received from the suppliers?**

The agency is not entitled to deduct the VAT invoiced by taxpayers for goods or services making up the product / travel program.

**f) How to calculate VAT to be settled to the state budget?**

From VAT collected tax, it is deducted only the tax related to administrative and household goods or services, as it is forbidden to deduct VAT related to the services purchased. If VAT collected is higher than the VAT deducted, then the agency will declare payable VAT and, in the reverse situation, VAT receivable.

**g) Is the travel agency obliged to keep separate accounts?**
When the travel agency performs both transactions subject to normal VAT scheme, as well as transactions subject to special scheme, in order to determine the collected tax, it must keep separate accounts for each type of transactions (sales logs / detailed statement of receipts, separate for transactions to which the normal scheme applies and for those under special scheme, Art. 152, point 1 tenth paragraph of the Tax Code and section 63 (4) of the Rules.

h) How to determine the income of the travel agency?

Agency incomes are represented by the fee charged, equal to the profit margin, inclusive of VAT, from which the special tax collected will be deducted.

i) How will the result of the travel agency be assessed?

From the fee, exclusive of VAT, the administrative and household expenses will be deducted and the result prior to taxation will be established.

**Case study no. 1: Services purchased by the agency are mixed**

Suppose that the travel agency, who conducted the study, sells a travel package containing, on the one hand, taxable components and, on the other hand, VAT exempted components. It is obliged to treat invoices received from service suppliers as a whole.

The invoice issued by the traveler does not include VAT collected, but the entity calculates it. Therefore, at the time of invoicing, costs of services making up the travel package are known (contracts with suppliers have been already concluded).
In our case, the agency will invoice an intra-community travel package with two components:

- hotel accommodation, whose charge negotiated with the supplier is EUR 2,500, inclusive of VAT;
- external transport at a cost of EUR 1,200, exempted from VAT.

If we calculate separately, on components, the sale price would be: EUR 3,000 and for accommodation and EUR 1,500 for transport, resulting in a total sale price of EUR 4,500. We shall calculate the tax impact, according to the legal regulations in force.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales price per package</td>
<td>4,500</td>
</tr>
<tr>
<td>Total service cost for the travel package</td>
<td>3,700</td>
</tr>
<tr>
<td>Profit margin (inclusive of VAT)</td>
<td>800</td>
</tr>
<tr>
<td>VAT (800 *24/124)</td>
<td>155</td>
</tr>
<tr>
<td>Agency fee (income; tax base)</td>
<td>645</td>
</tr>
<tr>
<td>Corporate tax (645,16*16%)</td>
<td>103</td>
</tr>
<tr>
<td><strong>Result after taxation</strong></td>
<td><strong>542</strong></td>
</tr>
</tbody>
</table>

Note that the total of tax payable amounts to EUR 258 (EUR 155 + EUR 103). We mention that, in order to ensure understanding, we used currency without converting it into RON and we have not taken into account the administrative and household expenses.

From the practice of travel agencies, we found that, for such cases, they will issue separate invoices for accommodation, for which they will due VAT on fee and separate invoices for the other VAT non-taxable components. This situation is misinterpreted by the travel agency management, pursuant to the provisions of the Tax Code, which leads to the following risks:

- erroneous reducing of VAT payable to the budget (by reducing the tax collected from the traveler);
- wrong increase in the corporate tax (by increasing fees acknowledged on account of income);
- operation can be considered a criminal offense, under Art. 9 of Law 241/2005 on preventing and fighting against tax evasion.

Resuming the previous example, it results as follows:
Study on the Vat Special Scheme for Travel Agencies and it’s Implications on Profitability

<table>
<thead>
<tr>
<th></th>
<th>Accomodation eur</th>
<th>Transport eur</th>
<th>Total eur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service sales price</td>
<td>3.000</td>
<td>1.500</td>
<td>4.500</td>
</tr>
<tr>
<td>Cost of service provided</td>
<td>2.500</td>
<td>1.200</td>
<td>3.700</td>
</tr>
<tr>
<td><strong>Profit margin (inclusive of VAT)</strong></td>
<td>500</td>
<td>300</td>
<td>800</td>
</tr>
<tr>
<td>VAT (margin *24/124)</td>
<td>97</td>
<td>exempted</td>
<td>97</td>
</tr>
<tr>
<td><strong>Agency fee (gross income)</strong></td>
<td>403</td>
<td>300</td>
<td>703</td>
</tr>
<tr>
<td>Corporate tax (703*16%)</td>
<td>-</td>
<td>-</td>
<td>113</td>
</tr>
<tr>
<td><strong>Result after taxation</strong></td>
<td>542</td>
<td>590</td>
<td></td>
</tr>
</tbody>
</table>

Note that, should the travel agency fails to comply with the tax law on VAT, by separate invoicing of components contained by a travel package, some of which are taxable and others are exempted, the total of tax payable is only EUR 210, resulting a difference of EUR 48 (generated by the wrong VAT underestimate of payable VAT by EUR 58 and overestimation of corporate tax by EUR 10).

Case study no. 2: Services purchased by the agency are fully taxable

We further intend to review a travel package prepared on the territory of Romania, in which all components are taxable.

1. Option 1: Travel agency applies the special scheme according to legal regulations

Suppose that the travel agency who conducted the study, sells a travel package in Romania, the invoiced and collected sales price being RON 3.720:
Name of services invoiced to the traveller | Value | VAT
---|---|---
Travel package subject to the special tax scheme provided in Art. 152 point 1 of the Tax Code. | 3.720 | exempted

Total invoice | 3.720

Note that on the invoice, it is not entered VAT and mention “special scheme” is made. During the same month, it receives invoices as follows:

<table>
<thead>
<tr>
<th>Value in RON</th>
<th>VAT rate</th>
<th>VAT in RON</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport services</td>
<td>650</td>
<td>24%</td>
</tr>
<tr>
<td>hotel accommodation services</td>
<td>1.000</td>
<td>9%</td>
</tr>
<tr>
<td>public catering services</td>
<td>500</td>
<td>24%</td>
</tr>
<tr>
<td>Total services</td>
<td>2.150</td>
<td>366</td>
</tr>
</tbody>
</table>

**Total package costs, inclusive of VAT** | 2.516

Below is a list of administrative expenses, representing various expenses incurred by the travel agency, for which VAT has been deducted:

<table>
<thead>
<tr>
<th>Name of services</th>
<th>Value in RON</th>
<th>VAT in RON</th>
</tr>
</thead>
<tbody>
<tr>
<td>electricity consumption</td>
<td>150</td>
<td>36</td>
</tr>
<tr>
<td>water consumption</td>
<td>50</td>
<td>12</td>
</tr>
<tr>
<td>office supplies</td>
<td>100</td>
<td>24</td>
</tr>
<tr>
<td>space rental (exempted from VAT)</td>
<td>400</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total administrative expenses</strong></td>
<td>700</td>
<td>72</td>
</tr>
</tbody>
</table>

**Total costs, inclusive of VAT** | 772

➤ which is the size of the profit margin, inclusive of VAT in the case of a single package?

- Sales price for the invoiced and delivered package | 3.720
- Total services cost for travel package | 2.516
= **Profit margin (inclusive of VAT)** | 1.204
- VAT (1.204 *24/124) | 233
= **Agency fee (gross income)** | 971
which is the size of the tax payable?

The size of the tax payable is RON 204, as shown in the following calculation:

- VAT collected under special scheme
  (-) deductible VAT for administrative expenses
  = VAT payable
  (+) Corporate tax
  = Total of tax payable

2. Option 2: Travel agency is applying the incorrect scheme, normal scheme

If the travel agency would apply the normal VAT scheme, through separate invoicing of services (one invoice for each service, although, in fact, a single special invoice was needed to be issued, due to the fact that the requirements for recognition of a travel package are met), the sales price for the components of the package is RON 3,000, as follows:

<table>
<thead>
<tr>
<th>Name of services</th>
<th>Value in RON</th>
<th>VAT in RON</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport services</td>
<td>850</td>
<td>204</td>
</tr>
<tr>
<td>(+) hotel accommodation services</td>
<td>1,400</td>
<td>336</td>
</tr>
<tr>
<td>(+) public catering services</td>
<td>750</td>
<td>180</td>
</tr>
<tr>
<td>Total</td>
<td>3,000</td>
<td>720</td>
</tr>
<tr>
<td>Total invoice</td>
<td>3,720</td>
<td></td>
</tr>
</tbody>
</table>

which is the size of financial indicators?
In this case, the size of the fee for each invoiced service, as well as the overall fee is calculated as below:

<table>
<thead>
<tr>
<th>Items</th>
<th>Transport</th>
<th>Hotel accommodation</th>
<th>Public catering</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales price</td>
<td>850</td>
<td>1.400</td>
<td>750</td>
<td>3.000</td>
</tr>
<tr>
<td>Direct costs of services</td>
<td>650</td>
<td>1.000</td>
<td>500</td>
<td>2.150</td>
</tr>
<tr>
<td>Agency fee</td>
<td>200</td>
<td>400</td>
<td>250</td>
<td>850</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td></td>
<td></td>
<td>700</td>
</tr>
<tr>
<td>Accounting profit prior to taxation</td>
<td>150</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate tax (150 lei*16%)</td>
<td></td>
<td></td>
<td></td>
<td>24</td>
</tr>
<tr>
<td><strong>Result after taxation</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>126</strong></td>
</tr>
</tbody>
</table>

➢ which is the size of the tax payable?

The size of the tax payable is RON 306, because, if normal VAT scheme had been applied, the travel agency would have deducted VAT related to the services acquired, as shown in the following calculation:

- VAT collected under normal scheme 720
- Deductible VAT (RON 366 + 72) 438
- \( VAT \) payable 282
- Corporate tax 24
- \( Total \) of tax payable under normal scheme 306

3. Conclusions of the study case no. 2

In the table below are found the accounting results after taxation, as well as tax liabilities incurred by the travel agency when using the two taxation schemes, as follows:
### Study on the Vat Special Scheme for Travel Agencies and it’s Implications on Profitability

**Conclusions**

Following the studies conducted, it results a difference in the total amount of tax arrears, which means that change in the VAT tax scheme leads to the distortion of the size of income, corporate tax and VAT size, with corresponding consequences at the accounting and tax level.

Due to features existing in the typology of services from a travel agency, as well as from the need for a correct organization of obtaining tax and accounting information, accounting and tax scheme requires a high degree of complexity involving greater powers from the accounting department and entity managers.

Separate invoicing of taxable components, as well as those exempted from VAT leads to a decrease in the tax liabilities, as well as budget revenues.

Instead, separate invoicing of taxable components, with the agency fee included in each component, leads to an increase in the tax liabilities, as well as budget revenues.

If the travel agency would not be tempted to conceal its fee, including it in the package cost, or its components, a correct tax scheme consists in re-invoicing of services making up the travel package, with related VAT (as known, the standard VAT rate as from July 1, 2010 is 24%, while the reduced rate of 9% applies to certain goods and services, such as accommodation to tourist accommodation establishments and

---

### Special Issue

December 2013

---

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Indicators reviewed</th>
<th>Special scheme</th>
<th>Normal scheme</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>VAT payable</td>
<td>161</td>
<td>282</td>
<td>(121)</td>
</tr>
<tr>
<td>2.</td>
<td>Corporate tax</td>
<td>43</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>3.</td>
<td>Total of tax payable (3 = 1+2)</td>
<td>204</td>
<td>306</td>
<td>(102)</td>
</tr>
<tr>
<td>4.</td>
<td>Accounting income</td>
<td>971</td>
<td>850</td>
<td>121</td>
</tr>
<tr>
<td>5.</td>
<td>Expenses, inclusively corporate tax</td>
<td>743</td>
<td>724</td>
<td>19</td>
</tr>
<tr>
<td>6.</td>
<td>Accounting net income (6 = 4 – 5)</td>
<td>228</td>
<td>126</td>
<td>102</td>
</tr>
</tbody>
</table>
breakfast served by the tourists in the hotel accommodation unit) and separately, the agency fee at the standard VAT rate.

References

The Investments in Education and Quality of Life

Authors: Dan Dumitru Ionescu, Alexandru Ioan Cuza University of Iasi; Alina Măriuca Ionescu, Alexandru Ioan Cuza University of Iasi; Elisabeta Jaba, Alexandru Ioan Cuza University of Iasi

A considerable amount of literature has investigated positive economic and social outcomes that learning may have both for individuals and for societies. Better-educated people typically have better health status, lower unemployment, more social connections, and greater engagement in civic and political life. This paper aims to explore the relationship between investments in education and research and the level of quality of life in a country. The investments in education and research are expressed in terms of expenditure on education and research, financial aid to pupils and students and public subsidies to private sector. For the assessment of quality of life there were considered three well-known composite indicators: Human Development Index, Economist Intelligence Unit Quality of Life Index, and Satisfaction with Life Scale. The analysis is done using data on European Union 27 member states, which come from Eurostat database and from specialized institutions’ sites. The study shows a positive relation between investments in education and quality of life. It identifies the annual expenditure on public and private educational institutions per pupil/student and the gross domestic expenditure on research and development as being the indicators of investments in education that best predict the level of quality of life in a country.
**Introduction**

Education is a key issue in the research studies and in public debates on quality of life (QOL). In the beginning of 2000s, education has been on the list of priorities of the Lisbon strategy in order to sustain the efforts to improve the economic competitiveness and increase the quantity and quality of jobs (Ashiagbor, 2005; Vesan and Bizzotto, 2011, p. 2). More recently, within the Report by the Commission on the Measurement of Economic Performance and Social Progress, education was again among the focused eight key domains when defining well-being (Stiglitz et al., 2009, pp. 14-15).

Education or aspects of education such as literacy, knowledge, and mental development are among the domains of human life considered in the construction of most of the international indexes of development and QOL (Hagerthy et al., 2001) and in most of the governmental social monitoring frameworks (Vesan and Bizzotto, 2011, p. 8). Education is also among the categories considered in most of the multidimensional approaches to human well-being and progress proposed by different authors (Alkire, 2010).

Following the broad interest manifested both in the research literature and among policy-makers for the study of positive effects of education on QOL, the present paper aims to identify and characterize certain relationships that might appear between investments in education and QOL. The analysis is focused on 27 European countries.

The research has been organized as follows: it first presents a short literature review about the positive effects of education on QOL and about the relationship between investments in education and QOL; the next section describes the methodological issues (sample, indicators, method); the paper continues with the presentation of the main results.
concerning the way investments in education may predict QOL and ends with concluding remarks.

**Literature review**

**Positive effects of education on quality of life**

There is a consensus that education brings a range of returns (monetary and non-monetary) that benefit both the person investing in the education and the community in which they live (Stiglitz et al., 2009, p. 46). Schuller (2007, p. 8) identifies earnings, income, wealth and productivity as possible monetary outcomes of learning for individuals, while monetary outcomes of learning at public level refer to tax revenues, social transfer costs, and health care costs. Schuller (2007, p.8) also suggests positive non-monetary outcomes of learning on individuals in the form of improved health status and life satisfaction. At community and society level, non-monetary outcomes of learning refer to social cohesion, trust, well-functioning democracy, and political stability.

Among the social outcomes of learning Pfeifer (2007) mentions the following: a well-educated person can achieve social and economic progress by herself; wealthier people and higher standards of life are positively correlated with more and better education; poor kids in good schools do better in life. Education empowers a person and it helps people to become more proactive, gain control over their lives, and to broaden the range of available options (UNESCO, 1997, in Khan and Williams, 2006, p. 2).

Beyond its effects on people’s earnings and productivity, education helps them in achieving a variety of outcomes that matter for QOL. Evidence indicates that individuals who attended school for longer, or who achieved higher educational qualifications, are more likely to report greater subjective well-being (Oreopoulos, 2007; Helliwell, 2008, cited in Stiglitz et al., 2009, p. 166), to enjoy better health and to participate more actively in society. Education may enable people to live
more positively healthy lives (Schuller, 2007, p. 5; Goldberg, J. and Smith, J., 2007, p. 14; Stiglitz et al., 2009, p. 166). Better educated people record lower mortality rates (Mackenbach, 2006), less serious health problems (such as diabetes and high blood pressure) and less common illnesses (such as colds, headaches and aches) (Stone et al., 2008), and increased access to health care (van Doorslaer et al., 2004). Education can foster civic and social engagement (CSE) by shaping what people know; by developing competencies that help people apply, contribute and develop their knowledge in CSE; by cultivating values, attitudes, beliefs and motivations that encourage CSE; by increasing social status (Schuller, 2007, p. 5). Education is also a key to social inclusion as it enables citizens to make use of existing possibilities for full engagement in social and political life as active citizens (Souto Otero and McCoshan, 2005, p. 13).

Investments in education and quality of life

Vast research literature provides evidence of the value of investing in education to develop human capital and of its contribution to economic development and growth (Fasih, 2008, pp. 8-9). In their Final Report for the European Comission entitled Study on Access to Education and Training –Tender No EAC/38/04, Lot 1, Manuel Souto Otero and Andrew McCoshan (2005, p. 8), discussing about the importance of education in the context of Lisabon strategy Europe 2010, underline the crucial role of education and training in achieving economic progress and social inclusion: “Investing in people and developing an active and dynamic welfare state will be crucial both to Europe’s place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty” (Council of the European Union, 2000, in Souto Otero and McCoshan, 2005, p. 11).

Since investments in education as other kinds of investment are evaluated in terms of their rates of return, studying them can highlight
public and private investment priorities in resources allocation, with regard to level of study, curriculum type, sector and gender. Social returns could indicate to governments which are priority investment areas among alternative schooling levels and programs (Tansel, 2004, p. 39).

One direct consequence of investments in education is a broadened access to education, either by allowing a greater number of people to receive education or by facilitating access to more competencies, or by both ways.

Aggarwal et al. (2010, p. 14) notices that an increase in spending on education leads to an increase in the propensity for young people to undertake education. Later in the life cycle, the human capital that they have acquired equips these young people to undertake jobs that are qualitatively different from those in which they would otherwise have become employed. That means that more people get better jobs.

Inspired by Mincer earnings’ model, which derives directly from the assumption that individuals are paid based on their marginal productivity, Kuepie et al. (2006) suggests that investments in education are an explanatory factor in the distribution of earnings. Under this assumption, a strong implication in terms of economic policy is that if inequalities in income distribution are to be reduced in a given country, the starting point is to reduce inequalities in access to schooling, given that income inequality seems to be higher when education is less equally distributed (Kuepie et al., 2006).

The human capital theory, an economic rationalist approach, focuses on returns to investment in education: education and training (human capital) increase worker productivity and hence the value of educated workers. Thus, individuals who invest time, energy, and money into education do so with the expectation of securing a better job and enhanced lifetime earnings. At the individual level, increasing education (human capital) increases worker productivity and thus garners better employment and income for the individual. At the social or aggregate level, general increments in the stock of human capital are supposed to

From a stock based approach to sustainability, investments in education – essentially through expenditure on education and research – are both important and necessary in securing a high quality of life on long-term, since it contributes to the constitution and development of the human capital as a resource that enhances well-being of future generations (Stiglitz et al., 2009, p. 98). Human capital refers to the knowledge, skills and attributes that are embodied in each person and that facilitate the creation of different forms of well-being (Keeley, 2008, cited in Stiglitz et al., 2009, p. 273). The benefits of human capital are both economic and social, and they may accrue both the person making this investment and to the community of which they are part. The economic benefits of human capital investment take the form of higher income and earnings capacity for the individual making this investment. At the aggregate level, investment in human capital is an essential factor for economic growth, as growth is based on technical advances that request workers more skilled and qualified. Investment in human capital also delivers social returns, such as higher life-expectancy for more educated people, lower undesired fertility in less-developed countries, and greater participation in civic and social life. Because of this range of payoffs, the concept of human capital may be approached as a driver of economic growth and innovation; as an investment to secure greater access to jobs, higher income and lower poverty; and as one of the assets that should be preserved and developed to secure sustainable development (Stiglitz et al., 2009, p. 273).

One limit that occurs in the evaluation of impact of investments in education on QOL is the fragility of link between expenditure on education and people’s QOL: expenditures relate to the resources that go into the institutions providing educational services, whereas educational attainments are driven by many other factors (Stiglitz et al., 2009, p. 98). Another weakness is that analysis only of education expenditures – as the monetary cost of producing new human capital – ignores depreciation of
human capital and the fact that the same level of expenditures can produce human capital of very different qualities (Stiglitz et al., 2009, p. 253).

**Material and method**

The analysis of the relationship between investments in education and QOL is done using data on the 27 countries of the European Union for the period 2005-2008.

Within this study, investments in education refer to expenditure on education and research, financial aid to students, and funding of education. Data source used to select the variables that describe investments in education is Eurostat database. To describe investments in education the following variables are considered in the analysis: annual expenditure on public and private educational institutions per pupil/student in EUR PPS, based on full-time equivalents, for all levels of education combined (EXP_PUPIL_all) and for each level of education (EXP_PUPIL_I at ISCED level 1, EXP_PUPIL_II at ISCED level 2-4, EXP_PUPIL_III at ISCED level 5-6); total public expenditure on education as % of GDP, for all levels of education combined (T_PUB_EXP_all) and for each level of education (T_PUB_EXP_I at ISCED level 1, T_PUB_EXP_II at ISCED level 2-4, T_PUB_EXP_III at ISCED level 5-6); public subsidies to the private sector as % of GDP (SUBSIDIES); financial aid to pupils and students as % of total public expenditure on education, for all levels of education combined (F_AID_all) and for each level of education (F_AID_I_II at ISCED levels 1-4, F_AID_III at ISCED level 5-6); and gross domestic expenditure on R&D in euro per inhabitant (GERD) and as % of GDP (GERD_GDP).

Three well-known composite indicators were considered for the assessment of quality of life: Economist Intelligence Unit (EIU) Quality of Life Index (calculated for 2005), Satisfaction With Life Scale (SWLS, available for 2006), and Human Development Index (HDI, with annual data for 2005-2008). Each of the three indicators of quality of life totally
covers the sample. Data on QOL indicators come from specialized institutions.

Economist Intelligence Unit (EIU) Quality of Life Index has been developed, in 2005, based on a methodology that links the results of subjective life-satisfaction surveys to the objective determinants of QOL (healthiness, family life, community life, material well-being, political stability and security, climate and geography, job security, political freedom, gender equality) across 111 countries (EIU, 2006, pp. 1-2).

Satisfaction With Life Scale (SWLS). In 2007, Adrian G. White, an analytic social psychologist at the University of Leicester, publishes a meta-study on subjective well-being, in which he presents a table that gives the SWLS score for 178 countries. He used data on SWLS extracted from Marks et al. (2006). White’s table served as the data source for selecting the SWLS scores used in our paper.

Human Development Index (HDI) was created and developed through the combined work of the economists Mahbub ul Haq and Amartya Sen in 1990 being published by the United Nations Development Programme since then (www.undp.org). Until the UNDP 2011 report, the HDI combined three dimensions: life expectancy at birth, as an index of population health and longevity; knowledge and education, as measured by the adult literacy rate (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (with one-third weighting); and standard of living, as indicated by the natural logarithm of gross domestic product per capita at purchasing power parity (http://en.wikipedia.org/wiki/Human_Development_Index). In the paper we considered values of HDI from 2005 - 2008, which are calculated using the old method.

Different indicators of QOL have been chosen in order to verify if good predictors of QOL are stable regardless of the indicator of QOL. We have also considered in the analysis an indicator of QOL (HDI) with values available for several years so as to find good predictors of QOL which are stable in time.
To identify the investments in education that best predict the QOL, we built for each indicator of QOL and for each considered year several regression models using each indicator of investment at a time as an independent variable. Each time we introduced an indicator of investment in the analysis, we generated 11 different regression models for each indicator of QOL and each year. The 11 models are: Linear, Logarithmic, Inverse, Quadratic, Cubic, Compound, Power, S, Growth, Exponential, Logistic, being available with Curve Estimation procedure in SPSS package. The procedure is appropriate when the relationship between the dependent variable(s) and the independent variable is not necessarily linear. These regression models have been then compared and analyzed with regard to $R^2$ and sig. values. The coefficient of determination, commonly known as $R^2$, is a measure of the strength of association between the observed and model-predicted values of the dependent variable. It may be defined as representing the proportion of variation in the response that is explained by the regression model (Jaba, 2002). Mathematically, the general form of this relationship is (Colton and Bower, p. 1): $R^2 = \frac{SSTO - SSE}{SSTO}$, where SSTO is the total sum of squares in the response about the mean, and SSE is the sum of squares in the response about the regression line. $R^2$ is a proportion (or percentage) and varies between 0 and 1 (i.e. 0% to 100%). 0% indicates that the model explains none of the variability of the response data around its mean, while 100% indicates that the model explains all the variability of the response data around its mean (Frost, 2013). In general, the higher the R-squared, the better the model fits the data. The $R^2$ statistic can be small, but statistically significant, describing a relationship between predictors and response that may be very important, even though it doesn’t explain a large amount of variation in the response (Colton and Bower, p. 5). Sig represents the significance value of the F test of model fit. A significance value of the F statistic smaller than 0.05 means that the variation explained by the model is not due to chance.

Results
The analysis of $R^2$ and sig. values for the obtained regression models helps to identify those indicators of investments in education that best predict QOL, while ensuring statistically significant relationships.

Results of QOL modeling show that 52.9% up to 74.6% of the variability in EIU-QOL index and 58% up to 72% of the variability in HDI 2005 index may be explained by annual expenditure on public and private educational institutions per pupil/student in EUR PPS, based on full-time equivalents. The same indicator explains between 64.8% and 89.3% of the variance in SWLS and between 50.6% and 65.6% of the variance in HDI 2006. The proportion of explained variation in HDI ranges between 46.7% and 64.9% in 2007 and between 31.2% and 66.7% in 2008. In the case of annual expenditure on public and private educational institutions per pupil/student the models that maximize $R^2$ values are: Cubic, Power, Logarithmic, Quadratic, S, and Inverse.

**Table 1:** $R^2$ and sig. values obtained for the models built with data from 2005

<table>
<thead>
<tr>
<th></th>
<th>EIU-QOL (2005)</th>
<th>HDI 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$R^2$</td>
<td>Sig.</td>
</tr>
<tr>
<td>EXP_PUPIL_all</td>
<td>0.570 – 0.679</td>
<td>= 0</td>
</tr>
<tr>
<td>EXP_PUPIL_I</td>
<td>0.529 – 0.677</td>
<td>= 0</td>
</tr>
<tr>
<td>EXP_PUPIL_II</td>
<td>0.543 – 0.746</td>
<td>= 0</td>
</tr>
<tr>
<td>EXP_PUPIL_III</td>
<td>0.542 – 0.652</td>
<td>= 0</td>
</tr>
<tr>
<td>T_PUB_EXP_all</td>
<td>0.219 – 0.281</td>
<td>≤ 0.05</td>
</tr>
<tr>
<td>T_PUB_EXP_I</td>
<td>0.008 – 0.132</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>T_PUB_EXP_II</td>
<td>0.273 – 0.300</td>
<td>&lt; 0.05</td>
</tr>
<tr>
<td>T_PUB_EXP_III</td>
<td>0.001 – 0.106</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>SUBSIDIES</td>
<td>0.001 – 0.106</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>F_AID_all</td>
<td>0.000 – 0.056</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>F_AID_I_II</td>
<td>0.000 – 0.171</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>F_AID_III</td>
<td>0.044 – 0.201</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>GERD</td>
<td>0.450 – 0.675</td>
<td>= 0</td>
</tr>
<tr>
<td>GERD_GDP</td>
<td>0.308 – 0.385</td>
<td>≤ 0.01</td>
</tr>
</tbody>
</table>
### Table 2: R2 and sig. values obtained for the models built with data from 2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R²</td>
<td>Sig.</td>
</tr>
<tr>
<td>EXP_PUPIL_all</td>
<td>0.856 – 0.893</td>
<td>= 0</td>
</tr>
<tr>
<td>EXP_PUPIL_I</td>
<td>0.648 – 0.712</td>
<td>= 0</td>
</tr>
<tr>
<td>EXP_PUPIL_II</td>
<td>0.781 – 0.838</td>
<td>= 0</td>
</tr>
<tr>
<td>EXP_PUPIL_III</td>
<td>0.782 – 0.854</td>
<td>= 0</td>
</tr>
<tr>
<td>T_PUB_EXP_all</td>
<td>0.175 – 0.241</td>
<td>≤ 0.05, except for Inverse (R² = 0.149) and S (R² = 0.145) with sig. &gt; 0.05 and &lt; 0.1</td>
</tr>
<tr>
<td>T_PUB_EXP_I</td>
<td>0.171 – 0.193</td>
<td>≤ 0.05, except for Quadratic R² = 0.218 and Cubic (R² = 0.254) with sig. &gt; 0.05 and &lt; 0.1</td>
</tr>
<tr>
<td>T_PUB_EXP_II</td>
<td>0.047 – 0.157</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>T_PUB_EXP_III</td>
<td>0.432 – 0.535</td>
<td>&lt; 0.05</td>
</tr>
<tr>
<td>SUBSIDIES</td>
<td>0.086 – 0.199</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>F_AID_all</td>
<td>0.006 –</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>Measure</td>
<td>Lower Bound</td>
<td>Upper Bound</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>F_AID_I_II</td>
<td>0.060</td>
<td>0.089</td>
</tr>
<tr>
<td>F_AID_III</td>
<td>0.010</td>
<td>0.155</td>
</tr>
<tr>
<td>GERD</td>
<td>0.529</td>
<td>0.735</td>
</tr>
<tr>
<td>GERD_GDP</td>
<td>0.399</td>
<td>0.502</td>
</tr>
</tbody>
</table>

Both measures of gross domestic expenditure on research and development present a significant relationship with QOL, with GERD in euro per inhabitant having a stronger relation both with EIU-QOL and HDI 2005 than GERD as % of GDP (R2 of 0.555-0.852 comparing to R2 of 0.308-0.675). GERD expressed in euro per inhabitant explains a greater amount of the variability in QOL than GERD as % of GDP regardless of the indicator of QOL or the year considered. When using this indicator, the proportion of explained variation in QOL ranges between 52.8% and 82.2% with values of R2 quite similar for all QOL indicators and years. The models that best fit the data in the case of gross domestic expenditure on research and development are: Power, Logarithmic, Cubic, and Quadratic. Significant relationships may occur both between total public expenditure on education as % of GDP, for different levels of education.
and QOL indicators, but the percentages of QOL variability explained by these variables of investments in education are quite small in most of the cases. A stronger significant relationship occurs between total public expenditure on education as % of GDP at tertiary level when analyzed in relation to HDI. Results show that this indicator could explain 25-42% of the variability in HDI for all the years considered, with higher values of R2 for Cubic, S, Inverse, and Quadratic models.

When modeling QOL using public subsidies to the private sector as % of GDP, results show low values of R2 regardless of the chosen statistical model, with sig. values greater than 0.05 which express a non-significant relationship between the indicators of QOL and their model-predicted values using investments in education in the form of this type of subsidies.

In most of the cases, R2 and sig. values don’t identify financial aid to pupils and students (as % of total public expenditure on education) as a good predictor of QOL. However, when modeling QOL using Cubic or Quadratic functions significant relationships (sig. < 0.05) might occur, with financial aid to pupils explaining 31% - 47.9% and financial aid to students explaining 25.4% - 34.5% of the variability in QOL.

Table 3: R2 and sig. values obtained for the models built with data from 2007 and 2008

<table>
<thead>
<tr>
<th></th>
<th>HDI 2007</th>
<th></th>
<th>HDI 2008</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R²</td>
<td>Sig.</td>
<td>R²</td>
<td>Sig.</td>
</tr>
<tr>
<td>EXP_PUPIL_all</td>
<td>0.588 - 0.645</td>
<td>= 0</td>
<td>0.602 - 0.667</td>
<td>= 0</td>
</tr>
<tr>
<td>EXP_PUPIL_I</td>
<td>0.467 - 0.561</td>
<td>&lt; 0.05</td>
<td>0.338 - 0.512</td>
<td>&lt; 0.05</td>
</tr>
<tr>
<td>EXP_PUPIL_II</td>
<td>0.495 - 0.649</td>
<td>= 0</td>
<td>0.312 - 0.612</td>
<td>&lt; 0.05</td>
</tr>
<tr>
<td>EXP_PUPIL_III</td>
<td>0.595 -</td>
<td>= 0</td>
<td>0.607</td>
<td>= 0</td>
</tr>
<tr>
<td>Term</td>
<td>Value Range</td>
<td>Coefficients</td>
<td>p-value</td>
<td>Significance</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------------</td>
<td>--------------</td>
<td>---------</td>
<td>--------------</td>
</tr>
<tr>
<td>T_PUB_EXP_all</td>
<td>0.050 - 0.090</td>
<td>0.061 - 0.067</td>
<td>&gt; 0.05</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>T_PUB_EXP_I</td>
<td>0.052 - 0.104</td>
<td>0.021 - 0.54</td>
<td>&gt; 0.05</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>T_PUB_EXP_II</td>
<td>0.026 - 0.179</td>
<td>0.001 - 0.138</td>
<td>&gt; 0.05</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>T_PUB_EXP_III</td>
<td>0.250 - 0.290</td>
<td>0.261 - 0.327</td>
<td>≤ 0.05, except for Cubic ($R^2 = 0.289$ with sig. &gt; 0.05 and &lt; 0.1)</td>
<td>&lt; 0.05</td>
</tr>
<tr>
<td>SUBSIDIES</td>
<td>0.076 - 0.157</td>
<td>0.068 - 0.134</td>
<td>&gt; 0.05</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>F_AID_all</td>
<td>0.052 - 0.228</td>
<td>0.051 - 0.151</td>
<td>&gt; 0.05</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td>F_AID_I_II</td>
<td>0 - 0.014</td>
<td>0.002 - 0.005</td>
<td>&gt; 0.05, except for Quadratic ($R^2 = 0.310$) and Cubic ($R^2 = 0.440$) with sig. &lt; 0.05</td>
<td>&gt; 0.05, except for Quadratic ($R^2 = 0.315$) and Cubic ($R^2 = 0.479$) with sig. &lt; 0.05</td>
</tr>
<tr>
<td>F_AID_III</td>
<td>0.074 - 0.076</td>
<td>0.077 - 0.293</td>
<td>&gt; 0.05</td>
<td>&gt; 0.05</td>
</tr>
<tr>
<td></td>
<td>0.163 - 0.345</td>
<td>0.293</td>
<td>≤ 0.05 for Logarithmic, Inverse, Quadratic, Cubic, Power, S</td>
<td></td>
</tr>
<tr>
<td>GERD</td>
<td>0.530 - 0.805</td>
<td>0.543 - 0.822</td>
<td>= 0</td>
<td>= 0</td>
</tr>
<tr>
<td>GERD_GDP</td>
<td>0.529 - 0.649</td>
<td>0.538 - 0.664</td>
<td>= 0</td>
<td>= 0</td>
</tr>
</tbody>
</table>
Conclusions

Positive effects of education both on individuals lives and on communities and societies are many and diverse. Better-educated people typically have better health status, lower unemployment, more social connections, and greater engagement in civic and political life. There is a consensus that education brings a range of returns (monetary and non-monetary) that benefit both the person investing in the education and the community in which they live. At the individual level, investing time, energy, and money into education contributes to securing better employment and income for the individual. At the social or aggregate level, investments in education contribute to the constitution and development of the human capital as a resource that enhances well-being of future generations as general increments in the stock of human capital are supposed to increase overall productivity, prosperity, and social cohesion.

Relying on the idea that education represents an important dimension of individuals’ life, the paper tried to explore the extent to which one can identify good predictors of quality of life among the indicators of investments in education. Results of a series of regressions, using different statistical models, with indicators of QOL as dependent variables and various indicators of investments in education as explicative variables identify the annual expenditure on public and private educational institutions per pupil/student and the gross domestic expenditure on research and development as being the indicators of investments in education that best predict the level of QOL in EU countries. The findings tend to support the hypothesis that investment in education would generate positive economic and social outcomes which would in turn improve quality of life. However, the link between expenditure on education and people’s quality of life is tenuous as expenditures relate only to resources that go into educational institutions and not necessarily to educational attainments, too.
References


The Evolution and Sustainability of Pension Systems the Role of the Private Pensions in Regard to Adequate and Sustainable Pensions

Author: Oana Claudia Ionescu, Titu Maiorescu University

The accentuation of the trend of demographic aging and the alarming deterioration of the economic dependency rate significantly affected the financial sustainability of the public pension system and stressed the need for a mixed system, public and private. Frank Fandenbrouke\(^1\) declared, with justifiable concern, that we are not sufficiently aware of the unprecedented scale of these social changes that will press very hard in the balance our future in the next 20-30 years.

In this context, reforming pension systems should consider two major objectives, namely: long-term financial viability of the systems and ensuring adequate pensions towards maintaining a reasonable retirement income to prevent poverty and social exclusion of older people.

This explains the fact that over the last decade, a growing number of states, as part of reforms to improve the sustainability of pension systems, attempted to directly involve social partners and individual citizens in ensuring the pensions, by expanding the future role of the prefunded systems, privately managed.

The impact of the financial crisis on private pensions and financial constraints of the state have highlighted some shortcomings of pre-

\(^1\) Frank Vandenbrouke (the Minister of Social Affairs and pensions in Belgium, Bruxelles, 2001"La qualite de nos regimes de pension: unengagement europen"
financing, have seriously diminished public confidence in private pension systems and reinforced the need to develop appropriate and sustainable pension systems, from a social and political point of view. Future adequate pensions require pension systems to be funded in a sustainable manner in relation to companies subject to rapid aging. Pension adequacy and sustainability issues are thus inextricably linked. A recent World Bank report on pension reforms worldwide defined as proper a pension system "which provides benefits to the entire spectrum of the population and these benefits are sufficient to prevent poverty of older people, in addition to providing reliable means to ensure constant consumption over the lifetime for most of the population " (Holzmann and Hinz, 2005 and Draxler and Mortensen, 2011).

**Keywords:** quality of life; sustainable development; public pension system; pre-funded pension system; sustainability; active aging; social inclusion; adequacy; recognition

---

**Introduction**

International studies show that the largest part of the world is facing very serious demographic problems regarding birthrate and aging population level. The most recent demographic, published by Eurostat (Statistical Office of the European Union, 2011), shows that at the horizon of 2060, the countries from Eastern Europe will face the most unfavorable situation. Among these, Romania occupies a special place, with an accelerated aging of the population which means that in the next 20, 30 years this indicator will reach a critical level, with a share of the population over 65 years of 25% and a dependency rate of about 41%. All of this, due to the irreversible trend of decreased birth rates and increased life expectancy, which means very high pressure on the shoulders of the public pension budget.
In this context, arises the concept of "private pension" as an imperative measure of financial planning, with the aim of contributing to maintaining a decent life beyond retirement age. The first decade of the XXI century is a period of rapid expansion of the private pension system and reform of the public one. In this context, the European Commission and the Social Protection Committee (SPC), cooperate with the Member States for proper support, monitoring and evaluation of the impact of pension reforms on the double objective to cumulate adequate pensions and ensure long-term sustainability of pension systems.

Currently, CEE countries have managed to make the transition from the old systems, bankrupt from an actuarial point of view, to a more robust pension scheme, diversified and somewhat immune to political shocks. The system adopted by these countries, including Romania, is a multi-pillar one, tested and recommended by the World Bank.

Regarding adequacy, respectively the replacement rate that these countries want to reach, it remains at relatively high value that could reach a market share of 60-70%, under the existence of the three pillars of retirement, the first being the public pension system and the other two the private pension system, mandatory private pension or optional private pension.

With all this expansion, now in our country, too, the basis of the income earned after retirement age is already covered by Pillar I (compulsory state pension), making more evident the unsatisfactory standard of living at this age. In consequence, the public pension system must exist, it will surely exist from now on, but it has reached its limits.

The solution to compensate for the deficits in the public pension system is the establishment of private funds, financed from the savings of each individual in a personal account through professional management. Unfortunately, things are not quite so, the predominant tendency of the individual, especially if he does not have financial resources, being to cover his immediate needs, ignoring and delaying "pension issues" for other times, perhaps more prosperous. This ignorance can also derive from not knowing the real situation of the public pension system, which
creates unrealistic expectations and personal ignorance in the spirit of saving for old age.

Romanian citizens do not have a singular attitude towards pensions, the saving instruments proving to be totally insufficient even in countries with a long tradition of financial services. But what differentiates us is the financial situation, which makes all the more necessary the concern for financial planning for retirement.

Long-term demographic evolution and its impact on the pension system. The need for pension reform

Demographic changes and the difficulties the pension systems are facing, make the social protection of older people a major challenge to many countries worldwide. Much of the international debate focused on pension reform, reflecting the fact that the increasing number of elderly and increased longevity leads to increased pension expenditure, highlighting the need to ensure financial sustainability of the systems. It is relevant in this respect the statement of Professor Joseph Stiglitz, former World Bank chief economist and Nobel Prize winner for economics: "There is no subject of greater importance than population aging and providing social protection for older people."

According to some authors, the financial difficulties faced by the public pension systems, present in most EU member states, are due to a single exogenous factor: demographic trends, the rapid increase in the share of elderly within the population. Other factors that contribute to this situation, namely the rapid decrease of participation of men in the labor market, the slow growth of women's participation, persistent high unemployment rate, the policy of increasing the value of pensions and early retirement stimulation are trends that "reflect political choices".

Demographic projections for Communitarian Europe highlight strong trends of aging. According to a study conducted for the European Commission by Calot and Sardon, the aging process will speed up until 2015 and the ratio of people over 60 years will increase between 1995 and
2050 from 20.6% to 33.9%; the proportion of those over 70 years will change in the same period from 10.6% to 21.7% and octogenarians will jump from 3.4% to 10.1% (Rotariu, 2000, p.199; Bălașa, 2005, pp.276-277).

Another major tendency characterizing Europe’s demographic evolutions is the decline of active population (Boulanger and colab., 2007, pp.8,16) and the aging workforce. According to recent estimates, in the European Union, 0-14 age group will continue to decline in the coming years, from about 100 million in 1975 to about 66 million in 2050, while the population of working age will be the more numerous around the year 2010 (331 million individuals) and then will drop to about 268 million by 2050. Female employment rates are expected to rise from 55% in 2004 to almost 65% in 2025 and employment rates of older workers will increase massively from 40% in 2004 to 59% in 2025 (European Commission, 2007, pp.47, 57).

Our country is included in this general overview, after 1990 Romania registering a continuous and slow demographic decline, the population dropping from 21.5 today to 20.8 million in 2020 and 18.1 million in 2025. Worrying is that population decline is associated with the continuous decline by age (Romanian Government, 2005, p.12; National Committee for Population and Development, 2006, pp.1-8). According to a study (Ghețău, 2007, pag.32-34), Romania’s population aged 60 years and over, in the coming decades, will see a rapid and massive expansion, the author’s projections for 2050 indicating an increase of this population to 6.5 million from 4.16 million in 2005.

The employment rate of the population in Romania, aged between 16 and 64 years, was 59.1% in 2008 (Government of Romania, 2009, p.23) opposed the EU average of 63.8%, for 2010 the target (established by revised Lisbon Strategy) being 70%.

Regarding emigration from Romania, the large share is held by young emigrants - people aged 20-39 years (Ghețău, 2007, p.12) and among the negative effects of massive migration of Romanians is the decline of social security earnings.
For all these reasons, the issue about the future of pension systems has been put on the agenda of EU debates since the 90s and imposes a number of measures regarding its reform.

The European context of pension system reform

Globally, more and more states turn to the private solution to reform the public pension system.

In Western Europe, The basic model is the occupational pension funds offered and managed by the employing companies. In 1994 the World Bank, in its research report "Old age crisis prevention - policies for old age protection and promotion of economic growth", suggested the development of three security systems, together to achieve a co-insurance against the risks the elderly are facing. The three components to covered by the report are: a compulsory public system financed by taxes, a mandatory private one (personal savings plans or occupational pensions) and a system based on voluntary submissions (World Bank, 1994, pp.15-16). The above mentioned study identified three functions of the financial security of elderly people, to be taken into account in determining the national security programs of the elderly and referred to in supporting the multi-pillar system. These are: saving, redistribution (redistributive function) and insurance. According to the World Bank, pension systems must provide adequate benefits, be affordable, sustainable and robust.

The system based on three pillars concept has been extended so the pension system supported by the World Bank consists of the combination of five basic elements: pillar "zero" non-contributory, in the form of "social pension"; which provides a minimum protection; the first pillar - contributory system linked to wages; the second pillar, mandatory, essentially a savings account; the third pillar, voluntary – arrangements that may take various forms-individual, paid by the employer, defined benefits or defined contributions and a fifth element - support for the elderly, financial or non-financial, informal, within the
family and intergenerational, including access to health care and housing (World Bank, 1994, pp.2-3).

The International Labor Organization supports a pension system based on four pillars, which has in its composition a pillar "anti-poverty fund" based on means testing and financed from general government revenues.

In Central and Eastern Europe models of multi-pillar type private pension were adopted, reform in this region beginning in 1994, first with voluntary private pension (pillar III) and then with the mandatory private (pillar II). In many respects, New Europe countries have made much more significant progress than the Western economies in implementing pension system reform.

"The potential benefits of reform are higher while its costs are lower," said Michael Rutkowski, the World Bank expert, in November 2000. Therefore, it is not surprisingly that, by comparison with the EU15, Central and Eastern - European countries have taken a more drastic reform of the first pillar of pensions (PAYG) and moved with more enthusiasm to implementing a multi-pillar pension systems, concluded Rutkowski. Thus, five years later, in 2005, World Bank experts in pensions, concluded: reforms in Central and Eastern Europe have already led to the structuring of more adequate, affordable, sustainable and robust pension systems than those existing previously.

Thus, the CEE countries have managed to make the transition from old systems, bankrupt from an actuarial point of view, requiring annual budgetary subsidies, to financially healthy systems both short and long term. The new pension systems are more robust, being diversified

---


(by the coexistence of different formulas contained in the three pillars) and somewhat immune to political shocks.

Currently, over 30 countries around the world have adopted the multi-pillar private pension systems, 11 of which are from Central and Eastern Europe, including Romania. All have felt the full impact of the "demographic bomb" in their public pension system, which is why they launched in full global financial and economic storm, perhaps the most severe of the past 75 years, the private pension system, following the model tested and recommended by the World Bank.

Under these circumstances the new pension scheme, structured on the three pillars, presents common characteristics in Central and Eastern Europe countries:

Pillar I - the public pension system works by the PAYG principle, in which the state collects social pension contributions from employees and immediately pays them, system that proved fiscally unsustainable and required certain amendments regarding the tendency of increasing the retirement age and of less generous indexing algorithms.

Pillar II – the mandatory private pension system is the defined contribution type (in which each participant can save for their own future).

Pillar III – the voluntary pension system is a private pension scheme, fined contributions, with voluntary participation.

Regarding adequacy, meaning the replacement rate that these countries are aiming to achieve, it remains at high enough values, generally above 50% (or even more for categories of people with low incomes), whereas, by extending the voluntary participation schemes in Pillar III, it could easily reach a share of 60-70%.

The private pension system has several key advantages over the public one, namely:

➢ the participants’ money are invested in the long term instead being spent immediately;
the participants have ownership rights over their personal account, where they accumulate the related contributions and the increases obtained from reinvesting them;

- it gives participants the chance of a decent pension at the age of retirement from active life;

- competition between private pension administrators ensure system efficiency, respectively increasing yields at the investments made with the participant’s cash.

Also, changes in the retirement age and reduction of privileges for specific categories of pensioners, have improved the situation in terms of affordability and sustainability. However, the income after retirement is still provided by Pillar I, but it becomes increasingly obvious that we cannot talk about a satisfactory standard of living at retirement age in the absence of completing these incomes with a complementary source represented by participation to the private pension system.

Pension reforms generally consider two main objectives, namely: ensuring long-term financial viability of the systems and ensuring an adequate level of pensions towards maintaining a reasonable retirement income to prevent poverty and social exclusion of elderly people. In terms of pension policies, most of the Member States have worked hard for a better transparency of policies, on the whole and in the direction of the insured knowing their rights.

In the early years of transition, "pension system has been used as an important instrument for cushioning the social impact of economy restructuring" (Zamfir C., 1999, p.81). Ever since 1990, early retirement has been "triggered", a factor that had a major contribution to the high rate of retirements during this period, the transition representing "a genuine pensioners factory" (Bell, 2001, p.201).

Smaranda Dobrescu and Mihai Seitan estimate that while "PAYG schemes raise the question of balance between the active period and the retirement one, capitalization schemes raise the question of balance
between maintaining the purchasing power of present and future pensions" (Dobrescu and Seitan 2005, p.27).

Ioan Marginean believes that "between private and social insurances there are no exclusion relationships, no competition but they can influence and support each other, without the need to speak about complementarity or full substitution of one by the other" (Mărginean, 1995, p.49).

System operation and success of the reform depends on many factors, including: the level and dispersion of coverage level of the system, contribution and yield levels, a stable macroeconomic framework, proper regulation and supervision of the financial sector, a healthy banking system, public information and restoring confidence in the stability of the pension system by increasing transparency, the introduction of fiscal facilities to encourage saving (Visco, coord., 2005, pp.37-41), the operationalization of the IT infrastructure, private pension fund management by specialists in order to make successful investments, minimize administrative costs of pension funds, responsible choice of depositaries, efficient supervision of the system, ensuring the financial security of pension funds, appropriate treatment of taxation, administrator - participant partnership based on trust and honesty (Dobrescu, 2006, p.17).

The financial sustainability of the public pension systems is currently in danger because the conditions that led to the creation of the current systems in the Member States have experienced, over time, a number of major changes that have greatly affected the social security, throwing them into a major crisis. The growing trend of population aging, worrying deterioration in the rate of economic dependence, increasing deficits in pension systems are currently a serious concern for the EU countries. The issue of pensions is subject to extensive debate at EU level.

Pension adequacy refers to their ability to prevent poverty and social exclusion in old age and to ensure a decent standard of living for pensioners, enabling them to benefit from the economic welfare of their
country and to participate in the public, social and cultural life. For pensions to be sustainable socially and politically, they must be adequate, and for pensions to maintain adequate, they must be financially sustainable, that can be financed without undermining the funding of other key aspects of sustainable societies. Future adequate pensions require pension systems to be funded in a sustainable manner in relation to companies subject to rapid aging. Pension adequacy and sustainability issues are, thus, inextricably linked.

To address the challenge of an aging population, the European Commission and the Social Protection Committee (SPC) are collaborating with the Member States to support, monitor and evaluate the impact of pension reforms on the double objective of accumulating adequate pensions and ensuring long-term sustainability of pension systems.

What is relevant for CPS is the first place, is to examine more closely the contribution of pension schemes funded and privately managed at the adequacy and sustainability of pensions and, in particular, to clarify some key aspects of pension systems funded and privately managed, which must be well known, for a good functioning as instruments of social protection.

Concerns for social issues, the degree of priorities achievement of the Social Policy Agenda at EU level and the identification of joint actions in the context of demographic pressure on social security systems, particularly on pension systems, led the EU Council to approve three general principles: protection of systems’ capacity to fulfill their social purpose; maintaining financial sustainability; adaptation to changing societal needs. Therefore, at the Gothenburg Summit, the EU Council has mandated the Social Protection Committee and the Economic Policy Committee to apply the open method of coordination in the pension field, in the joint effort to develop some comprehensive

---

4 Private pension schemes. Their role regarding adequate and sustainable pensions, European Commission, General Directorate for Employment, Social Affairs and Equal Opportunities, Unit E.4, December 2009
global strategies to seek solutions the economic and budgetary challenges and to the aging of population. The open Method of Coordination actually involves three elements: establishing, by consensus, common global objectives, translating them into local strategies, regular monitoring of the progress achieved, based on a set of indicators defined by mutual agreement.

**Private pension schemes. Their role regarding adequate and sustainable pensions**

By the early '90s, private systems only played a significant role within the pension system in Denmark, Ireland, the Netherlands, Sweden and the United Kingdom, where the initial limitation of the public insurance of the PAYG pensions to basic ones, lump sum for everyone, stimulated the growth of the private pension system, in the form of collective occupational pensions, or as individual pension insurance contracts.

In the last decade of pension reforms, in response to the aging population, more countries have expanded the role of existing private pensions systems and introduced new elements of the pre-funded, privately managed pension systems in their pension schemes.

This happened specifically to either improve the overall adequacy of pension provision by adding some private components on the scope of the public system, or to compensate for reductions in future replacement rates of the public systems resulting from the reforms, or from a desire to diversify insurance, increase choice, enhance transparency and encourage greater individual responsibility.

When a number of Member States, such as Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Sweden and Hungary, have reorganized their guaranteed systems by introducing a mandatory component of the privately managed pension systems to complement the TSG, they have created an entirely new blend of public regulation and private management within the European pensions, although, in most of
these cases, the transition is not yet complete and some important political decisions are still to be taken.

Also, there is a category of countries that use in a lesser extent private funding and do not intend to change this (Spain, France, Luxembourg, Malta) and countries that have appropriate public pension systems, but now transfer some of their expectations in terms of suitability in order to increase the private pension systems (Belgium, Germany, Italy, Aust).

Thus, we can say that in most Member States, the income of most retirees is still provided by the PAYG system, the private ones offering only supplementing income to pensioners. On the other hand, as private schemes were introduced only in the last decade, it means that they still need 30-40 years to reach maturity, their contribution to current pensioner's income remaining quite limited.

When governments are assigned a significant role in ensuring the privately managed, pre-funded pension systems, they must take into account the key deficiencies related to the social protection structure of the system’s structure, such as: issues like the level of coverage and contribution, managing multiple risks associated with the phases of accumulation and redemption, the impact of taxation and the need for information, financial education and monitoring the performances of the system. All these issues must be addressed, in order to make the private systems completely trustworthy actors who contribute to the adequacy of the overall pension system.

Along with the sudden emergence, in the early autumn of 2008, of an unprecedented financial crisis and taking into regard the following powerful economic recession, the imbalances of the public funds have increased and the confidence in the safety "promised" by public systems upon retirement was affected.

The risk of a low and uncertain income on retirement is higher in less developed countries with public systems based excessively on solidarity and minimal social protection.
Private pension systems have undergone a major decline in the book value of their assets, from which they have not yet recovered. The steep recession and subsequent rapid growth of unemployment, made it difficult to maintain positive anticipation according to which a rapid increase will allow active people with incomes to create their own additional pension funds, at the same time financing the pensions of their parents and grandparents.

Another consequence of the fiscal constraints caused by the crisis is the partial reversal, on a limited term, of the flow of contributions transferred to Pillar II. In Romania, such an interruption took place in 2009, which delayed by 0.5% the increase schedule of the contribution corresponding to Pillar II.

"Unfortunately, the crisis came at the time when the DC-type funds are less important than they will be in the future. Those participating in DC systems and are far from retirement will have time to recover their losses from the crisis, at least partially. For those who are closer to retirement, the impact can be real, with lower pension incomes or can result in delayed retirement"\(^5\).

**Conclusions**

Expanding private pensions, as a supplement to the guaranteed PAYG pension schemes, has innovated and possibly strengthened the ability of the Member States to provide adequate and sustainable pensions. As system structures in many Member States are often not complete, nor fully optimal, there is a wide scope for improving the overall performance of pension funds as instruments of social protection.

Moreover, the crisis has shown the vulnerability of private schemes to the volatility of the financial markets and highlighted the

---

need for a more cautious promotion by policy makers, regulators and supervisors managing people's retirement savings.

With a large number of losses and an even greater capacity to absorb the shock, the differences between the structures of pension funds and investment strategies have an obvious importance. From the differences of impact in the EU, important lessons can be learned on how to ameliorate the private pension systems and how to obtain a better balance between risk, safety and accessibility.

Therefore, in many Member States, a new agenda for the necessary changes of the financed models and a rapid analysis of the unfinished parts of the new mandatory systems is required - for example, in terms of safer standard options, changes in the portfolio’s structure when close to retirement age ("life-styling"), capping of taxes, regulations for conversion into annuity, the payout phase and shock absorption capacity.

Achieving these objectives will largely contribute to regaining and maintaining public confidence in funded pensions, privately managed. Moreover, the crisis has highlighted how pension funds should be included among the measures to stabilize the financial markets. The need for better regulations will also have a European dimension.

Like other former socialist countries, Romania entered the transition with a PAYG pension system. Social insurance contributions puts us in a leading position compared to other European countries, in terms of magnitude of the contribution and the cost to the employer, which is generally perceived as a "fine" applied to labor, the contribution not being found in the social counter performance.

However, the contributions paid by the participants (and / or their employers) to the voluntary private pension funds (Pillar III), are deductible up to 400 euros a year for both the employee and the employer. With this level, Romania ranks last in Europe and in the region in terms of stimulating voluntary individual savings for retirement. Another problem is that the deduction is granted only to the income tax and not the employee’s social contributions (employer, if applicable).
Pension reform requires the following immediate steps:

- Gradual transition from the intergenerational solidarity system to the principle of contributiveness, which involves the accumulation of social security contributions in personal accounts, managed partly by the state and partly by the private system (e.g., Pillar II pension);
- Systematic decrease in social security contribution rates, up to their halving within a few years. In the long term, depending on the performance of the private pension system, it can be considered a continuous reduction of contributions to the public pension system and the ability of individuals to choose how to participate. All those who have contributed to the public system can remain in the system and will receive the pension established by the Social Insurance system. Pillar I will work until the last pension will be paid to those who have contributed to the old system;
- Supporting voluntary pension schemes, by increasing the threshold for deductibility to the amounts with which the employers contribute to such a system for their employees. Increasing tax deductibility for Pillar III - doubling it from 400 to 800 euros a year for both the employee and the employer;
- Removing the maximum limit of contribution currently imposed (15% of salary) to the participant for the optional pension scheme to which he adhered;
- The sustained development of Pillar II, on the economic principles of contributiveness and private administration of individual savings accounts for retirement. Only gradually, mandatory private pensions will be topped by a voluntary private pension system, in which the state's role will no longer be to collect contributions and to redirect them to pension funds. Each employee will be able to determine the percentage of contribution and the employer will retain and transfer it to the employee's individual account, opened to the pension fund
to which he has subscribed. The contribution to the pension fund should not, however, be less than the minimum established by law;

- Implementing a development strategy of the insurance schemes for old age, centered on active aging and adequate and sustainable pensions from public and private sources.

The financial crisis showed the volatility of the financial market and hence the vulnerability of pension schemes. Increasing life expectancy and the need to manage financial market risks increase system costs by reducing the anticipated revenues. As a protective measure, regarding the funds, the length of contribution and thus the retirement age increase, the transfer rate reduces and, in terms of the individuals, they extend their working life.

Generous public systems based on social solidarity, increasingly erode income security, potentially proving more durable the active security systems through employment - active aging and customization of old age savings schemes based on different contribution potential and different consumption needs. To bring to the attention of Europeans the pensions issue, 2012 was declared "the European Year for Active Ageing and Solidarity between Generations".

Simulating regulation of social insurances market and of pension funds. The appearance on the social securities market of new funds should be free, but regulated in a transparent and simulative manner: the requirement of minimum capital being correlated with the number of contributing members. Also, each employee can change the pension fund up to two times per year. The elimination of the current restrictions on the structure of the investment portfolio, each pension fund being able to freely manage its capital in order to maximize operational efficiency.

Given the recent developments in financial markets, the stage and the performance of the pension system in Romania, the experience and problems of the pension systems and the guidelines concerning their long-term sustainability, in the demographic and post-crisis business
environment context, the European Institute of Romania\(^6\) proposes as feasible two ways of improving the pension system in Romania:

- The "soft" or "continuation" way, which starts at the current stage of the reform and development of the system and propose a set of adjustments to modernize and streamline the system, making it more attractive for potential contributors;
- The "radical" or "innovative changes" way, consistent and immediate, which is based on building a healthy culture of saving for old age, as an "active" source of insuring the necessary income for the third age.

Referring to the approaches of the European Union, the World Bank and the International Labor Organization regarding configuration the pension systems. In the European social model, the public pension system remains the mainstay in protecting the elderly, this allowing the Member States to maintain a certain degree of redistribution and the solidarity needed to provide adequate incomes for the elderly and to mitigate the risks associated with private pensions. Traditional classification of pension systems includes: Pillar I, represented by the regulated pension systems, mandatory, public or private; Pillar II, occupational schemes, mandatory or voluntary and Pillar III, represented by the individual pension plans (European Commission - The Social Protection Committee, 2005, p.4).

EU objectives related to pensions are: adequate, sustainable and modernized pensions (European Commission, 2006, pp.84-148; Council of the European Union, 2001a, pp.5-7). An essential element of the European pension reform is flexibility in the transition from working life to retirement. This can be achieved through flexibility regarding the retirement age, appropriate incentives for working longer and the possibility to cumulate the pension with the salary (European

\(^6\) Prof. Univ Valentina Vasile(coord) and others „Analiza politicilor sociale in UE in ultimii trei ani-pensii suplimentare private si impactul imbatranirii populatiei” Strategy and Policy Studies -SPOS 2011(nr.4), Bucharest, 2012
Commission, The Social Protection Committee, 2007, p.33). Increasing the real retirement age and achieving higher rates of employment requires actions such as: discouraging early retirement (United Nations, 2008, pp.28-29) and improving labor market opportunities for older workers (removing the "barriers" on the labor market, equal access to lifelong learning and skills upgrading, attractive working conditions).

To improve the dependency rate, in many Member States is necessary to increase participation of women on the labor market (in accordance with the Lisbon objective) and for this purpose providing childcare facilities (Council of the European Union, 2011B, p.36). Because of the low real value of pensions in Romania, the retiree status, despite a regular income earned through employment in the formal sector of the economy, is not a guarantee of overcoming the poverty (Institute for Quality of Life, 2004, p.14).

It can be concluded that private pensions are, therefore, not only the way to ensure your best living standards on retirement, but also an advantageous form of saving.

However the low level of "financial literacy" limits the support from the public for the private pension systems and the competition between pension funds. Therefore, financial education is the condition for individuals to be able to correctly appreciate the needs, risks and opportunities and to understand the concepts and private pension products. Unfortunately, studies and surveys conducted by reputed institutions of the world emphasize, repeatedly, a worrying level of financial "illiteracy", a critical deficiency given that the modern world is increasingly forced to rely on the individual's responsibility the care for their financial future in retirement. Future retirees can no longer afford financial "illiteracy", a direct result of this being that most of the citizens are at high risk of being caught completely unprepared on financing the latter part of their lives.

In these circumstances, the first and most important step to ensure the financial security of future generations of retirees is to financially educate people. Otherwise, no matter how well settled would
be, legally and operational speaking, all the components of the pension system, their social efficiency has at least limited.

"Forewarned, is forearmed," says popular wisdom. Regarding pensions, at least it can be said that "a forewarned man has the best chances to become a happy retiree", while ignorance may be paid at the expense of an impoverished old age.

The complementarity of the public pension with other categories of income from private pensions and active aging remains a fundamental constant in the construction of an efficient sustainable old-age insurance system, attractive regarding benefits and financially sustainable7.

References


7 Prof. Univ Valentina Vasile(coord) and others „Analiza politicilor sociale in UE in ultimii trei ani-pensiile suplimentare private si impactul îmbatranirii populatiei" Strategy and Policy Studies -SPOS 2011(nr.4), Bucharest, 2012
[12] Coman, Cornelia, Președinte APAPR, Sistemul privat de pensii în România Forumul European de Pensii Private, 25 octombrie 2011;

[34] Văcărel, Iulian; Bercea, Florian, Asigurări și reasigurări, Editura , Editura Expert, București, 2007;


[37] Zaman, Gheorghe, Stiința sustenabilității în contextul cerințelor de inter și intrasdisciplinaritate ale CDI

[38] Zaman, Gheorghe, Reziliența la criză, capacitatea de refacere și relansare a economiei românești


[40] Zăvoianu Dan, Ce putem învăța de la sistemele de pensii private ale vecinilor, Capital, nr. 31, 2007.

Economic Intelligence

Author: Valeriu Ivan, Romanian Academy

The economic war is a silent war, but not entirely. Resources, technology, productivity, markets, profit – an arsenal used by actors of a generalized conflict. As any wars it makes victims. Not necessarily dead or wounded, but, usually, unemployed and poor, orphans of an economy which refuses to satisfy everybody’s needs. Unethical and merciless in fulfilling a single objective: the permanent extension of its scope of influence. Companies are the main actors of this war in which they fight with or without the government’s aid.

Information is the means by which the aims of international economic competitions are reached. To survive, each actor must protect its own information patrimony and, at the same time, strive to know that of its competitors.

Keywords: economic; economic security; economic intelligence; competitive intelligence; competitiveness; economy; economic war; recognition

Introduction

The strategic surprise of the fall of the Iron Curtain – without firing any gunshot after 40 years when both parties of the bipolar system had accumulated arsenals unprecedented in the history of humanity – also
determined the rapid occurrence of subsequent events. The Cold War era ended in 1989. From the time of formation of the North Atlantic Treaty, in 1949, the form and nature of international alliances have not experienced such a stage of fluctuation. The end of the Cold War set in motion a whole geostrategic architecture and it seems that the after-effects generated did not reach a state of equilibrium yet. On November 9, 1989, the old world died. On November 10, 1989, a new world was born.

Although opinions according to which with the events following the unforeseen and even less probable 09/11\(^1\), history would end and a new era of peace and understanding would begin\(^2\), the day of 11/09 (2001) inexorably arrived, a day that replaced in the Democratic world the image of the “red evil” – Communism with the “green evil” – islamofascism\(^3\).

The end of the ideological war marked the undisputed victory of capitalism and its adoption by the majority of states from what the former Soviet bloc and its sphere of influence have meant. The entire planet accepts this equilibrium – probably unstable – and the geo-economic context governing economic relations: Liberalism. Even China, which apparently maintains the Communist political system, has rapidly adapted its needs to the market economy, becoming one of the most important competitors on the global market.

But what happened with the enormous potential for conflict? Referring to a principle of physics, it can be asserted that nothing is lost, everything is transformed. What changed is the nature of conflicts and,

---

\(^1\) The date on which the Wall that physically separated Berlin in two sides fell, was considered to have been November 9th 1989. This date was subsequently considered to be the start of the collapse of the Eastern European Communist Regime.

\(^2\) See, Francis Fukuiama, Sfârșitul istoriei și ultimul om (The end of history and the last man), Publishing house Paideia, Bucharest, 1992. In the author’s opinion, liberalism wins clearly in the confrontation with the other ideologies of the 20th century, such as Nazism and Bolshevism, and thus history reaches its end, being considered at that point a major philosophical thesis. Mankind has fulfilled its destiny by using liberal democracy, the perfect form of governing.

\(^3\) Controversial term, used by some authors to designate Extreme Islamism as the source of terrorism.
in a way, of the belligerents. The battles are no longer fought to conquer territories or to obtain autonomy or independence; conflict have become mainly economic, focusing on resources and markets. The main battles among villages, through companies and non-government organizations, are, first and foremost, economic in nature.

It remains to be seen which international actor will impose its supremacy. A hegemony that starts with knowing and adapting to the system of values characteristic of this new context – new only by its global characteristic – of the free market, almost unanimously accepted after 1989. The demand of information for economic expansion refers to what is specific to a society model, in terms of its social system, its lifestyle, its ethics, law, customs, traditions, cultural identity etc. The market does not bear any standard characteristics anywhere on the planet, whereas from one nation to another we are confronted with different visions of society and of the individual's relation with these, sometimes with conflicting components. The systems and society models differ in some cases critically within the same state of state organization (e.g. the Former Yugoslavia). The globalization of the market has occurred at an accelerated pace, however, not the same can be said about the values assumed by each individual/community/nation or culture.

The challenge of the moment seems to be the downturn of dominant values of the globalized future and of states and supranational entities which function as vectors of influence. Or, at least for the time being, there is no vector more adequate than economy to shape people's behavior from different societies. Globalization does not point towards ethical values, does not have its own path but will be the result of human actions. At the present moment we can say, by paraphrasing Heidegger, that it is the instinctive will to power, hidden under the mask of the desire for exchange. 

---

4 Willpower is a fundamental principle of existence: „all being is nothing more than willpower“ – According to Martin Heidegger, Nietzsche’s metaphysics, translation from German by Ionel Zamfir and Cătălin Cioabă, Bucharest, Humanitas Publishing House, 2005, p.56.
Defeated by abandon, the planned Socialist economy has ended up in the chest of useless things of history. As a winner, market economy does not face any more obstacles ahead. Nevertheless, recent history shows us that, as its defeated adversary, it is not infallible. The dictum “let the market run and economic success will be guaranteed”, proved that companies, banks and event states can be brought to bankruptcy.

For the “invisible hand” of the market to operate correctly it is necessary that the rules of free competition are the same for all, and the relatively similar contextual conditions, the conditions met only by a market with perfect competition. But, the perfect competition does not exist altogether and completely isolated.

In the opinion of the economist Jean Gabszewicz\(^5\), four conditions must be present for a perfectly competitive market:

- **a)** large number of firms – a high number of sellers and buyers, so that isolated exchanges are not significant in the volume of total exchanges;
- **b)** free entry – allow the apparition of new manufacturers, which are able to enter and exit the market easily;
- **c)** homogenous of products from the same branch – so that consumers are not interested from which seller they buy;
- **d)** perfect knowledge – companies and buyers are completely aware of the products and market prices.

The problem appears at the fourth criterion which presupposes that all economic agents (buyers and sellers) are completely aware of the price and quality of the product. Ideally, if this condition is fulfilled, there would be a unique price on the market, seller instantaneously aligning to this price. This condition is the most difficult to meet because not all market actor have the same information. Consequently, those who are properly informed have a competitive advantage and, theoretically, succeed in defeating the ones that are not informed or misinformed. The problem of information asymmetry, as it was called, has piqued the

---

interest of researchers, and for unveiling its effects, George Akerlof, Michael Spence and Joseph Stiglitz have received the Nobel Prize for economy in 2001.

The stake for each actor is to anticipate/know the actions of the competition, so that it is permanently one step ahead of them. Therefore, an actor needs to know as early as possible what the strategy of other actors is, in terms of research, production and sales. If an economic agent wants to produce more and cheaper, then the competition must be prepared to rapidly counteract this move. The competitive advantage is obtained by information, and information is obtained by means and methods that are reminiscent of the ones used in warfare.

The economic war is a relatively new concept controversial and hard to define. For the majority of specialists in international relations, a war can only be military. In fact, this is the classical definition of the term: armed conflict.

In a similar approach, the Larousse Dictionary, 2004 edition, provides the following definition: „war means the resorting to armed force to solve a conflicting situation between two or several organized groups: clans, factions, states. It consists in that each adversary tries to determine the other one to subject to its will”. In this definition there is a part that can be applied to the issue at hand. If a war means imposing your own will to another entity, then the economic variant of the term retains this objective. The issue at stage is to subject competition to your own will that is to reduce the enemy’s potential or to neutralize it.

The economic war is a silent war, but not entirely. Resources, technology, productivity, markets, profit – an arsenal used by actors of a generalized conflict. As any wars it makes victims. Not necessarily dead

6 For further information please visit: http://emilyskarbek.com/uploads/Asymmetic_Information_Contributions_of_Akerlof_Spence_and_Stiglitz.pdf
7 Not completely new. At the beginning of the 20th century there were a number of works that approached the economic expansion aspect, such as the work of Hausser, Les méthodes allemandes d’expansion économique (German methods of economic expansion), Paris, Armand Colin, 1915, that of Anton Zischka, Japan in der Welt (Japan in the world), 1936.
or wounded, but, usually, unemployed and poor, orphans of an economy which refuses to satisfy everybody’s needs. Unethical and merciless in fulfilling a single objective: the permanent extension of its scope of influence. Companies are the main actors of this war in which they fight with or without the government’s aid.

Information is the means by which the aims of international economic competitions are reached. To survive, each actor must protect its own information patrimony and, at the same time, strive to know that of its competitors.

With the new technologies in the field of information and communication, the blind spot of a company moves from the product or services towards information that allow the preservation of competitiveness of that product/services. What counts is less the product or the services, but the means for selling it „International competitiveness is no longer or to a lesser extent gained by technological performance (…) The simple quality-price relation no longer justifies the difference (…) Often, competition can be gained by knowing and preparing the field in terms of the human factor before receiving the actual commercial proposal, the capacity of determining and placing strategic targets, of stimulating the evolution, and then of using all the possible means to determine a decision in the wanted direction". There is no more such thing as uninfluenced economic competition. The influence of private as well as public factors. States need information to maintain their position on the international check board and to help companies.

In an age when the supply of information has significantly increased, the power belongs to the one who, at the adequate time, succeeds to collect, analyze and synthesize the fastest the data and information available in the competitive environment. Almost 90% of this stock is available because of data banks, the press, specialized publications, seminars and the internet. There are10% considered highly

---

8 Jean Gabszewicz, La concurrence imparfaite, La Decouverte, Paris, 1994, pag.78.
important and sensitive that are generally obtained from closed sources and unfairly (grey information) or illegally (black information). The fiercest battles between international actors are fought for these 10%.

The ones that had the curiosity to ask questions learned that there are no rules in this game, and the lack of protection for economic interests/information does not spare and costs highly. An eloquent example is the document presented in France’s National Assembly by the deputy Bernard Carayon in 2004, which clearly shows that irrespective of partnerships or international treaties, economic competition often remains outside regions. Some states are aware of this confrontation and in order to overcome new challenges, they have conceived, apply and reap the benefit of genuine doctrines of economic war.

Therefore, as early as 1975, the Washington administration set up a committee of foreign investments managed by the Treasury secretary, Committee on Foreign Investments in the United States, a committee that refused, for instance, the merger between Alcatel and Lucent, as well as the one scheduled between Outlast and the main American operator in the field of satellites. The Clinton administration showed particular interest in strengthening the intelligence economic means: in 1993, it has created National Economic Council, a forum entrusted with the supply of economic information to the US President, and in 1996, the Economic Espionage Act was voted, a document that strengthened the protection of business secrecy.

A report partly drawn up by American undergraduates at the request of C.I.A., „Japan 2000”, is the document that in 1991 proved that a major part of the “Japanese miracle” is based on an extremely efficient strategy for obtaining economic information. This document shows how, in only a few years, Japan became one of the first economic powers, in spite of the infrastructure destroyed in the Second World War. „Japan 2000” reveals the magic Japanese recipe based on the aggressive doctrine

10 See the document at: http://www.economicespionage.com/EEA.html
of collecting global economic information. Based on its conclusions, the report proposes the force strategy of the United Nations for future years: „The power acquired becomes the basic element for future instruments of coercion and control, whose efficiency depends on the rational use of force, of wealth and of knowledge, all these elements making up the structure of power. He countries which will be able to strategically use these three elements will obtain the greatest benefits if they alternate, in parallel, the promise of advantages and the threat of some constraints, exploiting technology of information to maximum effect”.

Since 1995, the US security strategy was based on three pillars: military, economic and cultural component. Joseph S. Nye, the dean of JFK School of Government from Harvard University reckoned in an article published in the Foreign Affairs magazine („America’s information edge” – no. 75 of 1996), that „the one country that can best lead the information revolution will be more powerful than any other”. The US invests a great deal in the development of its own information capacities for the government and enterprises with economic information.

Immediately after the Second World War, the Japanese set up a unique economic data collection and processing system. A complex and highly effective measure whose central pillar was the Ministry of Foreign Industry and Commerce. With this ministry and with the help of efficient information techniques, the Japanese succeeded in filling the gap in other fields: ship and car building, computers, automation etc.

France started to lay a high weight on economic information since 1994, from the publishing of the report entitled “Intelligence économique et stratégie des entreprises”. Specialists who drafted the report were asked to make a comparative analysis of the main national economic intelligence systems, taking into account the systems from Japan, USA, Germany, Italy, China, Russia etc. Furthermore, the report

---


189
detects problems in the French information system and makes proposals in terms of the management of economic information in private companies.

Great Britain posits the information issue in the center of its economic strategy starting with 1998. This strategy is presented in a report entitled „Our competitive future: the knowledge economy“. The same finding, the same approach: changing the administration policies to help British companies.

Germany succeeded in the ’90s to make the junction between the interests of SME, of great companies and of lands/the state by repeated consultation sessions on information competitiveness topics. The German system, highly connected with the ORDO-liberal economic doctrine, is simple and efficient, being the result of private and state interests, rationalized by the doctrine mentioned.

China does not have an economic strategy as we understand it or as it is understood in the West. Nevertheless, Beijing represents the existence between worlds dominated by confrontations between the great powers, in particular in the economic field. In a paper drafted by two officers of the Chinese Army and published in France, the authors speak about new wars, regrouped under the acronym MOOTW (Military Operations Other Than War), subsuming commercial wars, financial ways, ecological wars etc. As early as the ‘90s, the Chinese government has been leading a policy based on information which mainly aims at controlling the technologies of the future. Even if they enjoy major strategic advantages – its culture with respect to patience, demography, etc., China struggles to recover from its dropping behind in the field of technology and science by relying on information obtained from all types of sources. It is well-known that only 48 hours elapse between the time of appearance of a new product that is announced to be successful, anywhere on the plant, and the moment when its cheap „made in China“ copy is released.

There are few countries that have chosen a powerful genuine strategy to overcome the challenge in terms of economic security. However, there are many countries that did not harmonize the positions of companies with the official ones at the level of state policy. Spain, Italy, Portugal do not have economic intelligence strategies, but strong companies from these states have complex competitive intelligence programs.

Eastern European countries, including Romania, do not have national programs and there are no major initiatives for aligning to the field practices of other economically developed countries. Internal political struggles in these countries do not allow the coagulation of a critical mass that channels resources for creating a real system for the growth of economic competitiveness. Moreover, economic errors made them easy targets to the economic intelligence of countries which realized what is the arsenal needed for conquering territories and people’s minds nowadays.

The economic competitiveness from information point of view starts from the statement that the companies may develop valid competitive strategies based on the support represented by knowledge/information obtained by internal developing some specific capabilities (analyses, multiple estimations and assessments on alternative scenarios).

From this perspective, the platform supported by the competitive intelligence may develop a type of conception and approach of the competitiveness challenge, assertion supported by the fact that 80% of the big European companies carry out such programmes, and over 55% are assisted by some software applications in competitive intelligence, integrated in business intelligence systems and knowledge management.

What should be the role of the State and of the governmental environment in business environment?

The example of other European countries and not only, shows a few action lines, requiring debates and decision taken at a strategic level:
opinion formation and awareness on the role of information in the economic processes;

- assisting during the creation of specific capabilities and education / training of specialists;
- development of cooperation platforms for economic fields;
- creation of a public-private strategic partnership in the information / knowledge management field;
- consultancy and assistance.

For example, by creating a hub, as a structure for coordination and as interface with the intelligence services and the economic environment, integrating the five potential responsibilities, the government can support the use of human resources having the expertise of information processing and evaluation. Running with the government assistance of such programs is based on an undisputed fact: almost all the Romanian companies lack the skills, abilities and resources necessary for the development of competitive intelligence activities and operations.

This reality must be understood as a vulnerability affecting the economic security, which is why the development of information capabilities in the business environment - focusing on the competitive intelligence area - must be turned into a priority for the national security strategy, so that Romania could meet its economic security policy objectives, and thus those of the national security policy.

With the perspective of an international trade almost duty-free in the future, starting from 2015-2020, the economic battle moves on the court of rules on the environmental protection, carbon emissions, nuclear risks, minimum guarantees for those who work, child labour, fisheries resources control, food security (genetically modified organisms, use of hormones, mad cow syndrome, avian flu, farmed salmon, etc.). All these problems are as many milestones through which current and future diplomacies must negotiate in order not to affect their own economies or to be affected as less as possible.

As we mentioned before, information is the means by which are achieved objectives in the economic competition. To be the best is not
enough to produce the best products at the best price, you must know very well the market and the competition, protecting at the same time, your strategic information. Global competition is ruthless and is becoming increasingly clear that in the current geo-economic system only the Orwellian type companies have a chance to win. Winners are always chosen from the most capable, those who manage to obtain information before the others.

Most sensitive areas in this battle - insurances, banks, audit, consulting - are the biggest consumers of strategic information. In a report prepared by the Institute of Advanced Studies of Homeland Security from France, it is shown that since 1995 the state government and companies have to monitor the agglutination process of the companies in the areas mentioned above. In a 2010 document from the European Commission17 - Audit Policy: lessons from the crisis - it is estimated that 90% of the audit market is divided between four big companies, the most important of which are in the U.S., followed by two British and one Dutch. The way these companies managed to grow is unusual in that each is in fact a conglomeration of smaller companies with common procedures and databases...

Economies of the Eastern Europe countries have gone through extensive restructuring processes all based largely on the feasibility studies, audits and analysis made by these prestigious companies. Mostly, these studies were paid from grants made available by countries from the Western Europe or by international financial bodies. Looking back on the economies of those countries, one can easily see who has used the economic information collected and processed on that occasion.

Lack of interest of several states for the economic security or the misunderstanding of the phrase contents may mean their location in the losers' camp, because, as in any war, there will be winners and losers of the economic war.

National security refers to the states’ protection against external and internal threats at their national interests. Interests and threats are emphasized and defined differently by each state and there is no consensus on the nature or size of the threats that may cause (justify) security reactions\textsuperscript{18}.

Watson Institute for International Studies offers a matrix of security\textsuperscript{19} ranking the risks for various potential secured entities, which are in order: individual, state, group of states (similar as values, common history, etc.), network (referring, essentially, to a group of countries that use common parts of the critical infrastructure) and the entire planet. It is interesting to note that the maximum level of danger for a state is not represented by war, terrorism, pandemic, conflict over resources or weapons of mass destruction, but the possibility of becoming a failed state. To be classified in this manner, the authors of the proposal are listing a number of conditions such as the population poverty, lack of economic stability, the inability to provide social or individual security, the proliferation of the organized crime, state delegitimizing (weakening the state capacity to implement the regulations, to collect taxes and to have the monopoly control over the violence), political and religious extremism, etc.

A state whose economy cannot support the prosperity of the population and the institutions meant to ensure the harmonization of social interests (defence, health, education, pensions, etc.) loses its reason to exist. After all, the citizens of a democratic state give up some of their income - through taxes - and a part of their freedom - through obedience to the law - to benefit from the state of services as better as possible. This is possible only if there is a strong economy, allowing the collection of taxes to a sufficient extent.


\textsuperscript{19} the interactive matrix is available at: http://www.watsoninstitute.org/gs/Security_Matrix/
Conclusions

On state level, economic security entails the maximization of relative economic power of state considering that economic power is necessary and national power, including the military power, depends eventually on economic power. Economic security entails also the reduction of state vulnerability before external economic shocks as well as economic sanctions (...). Therefore, some specialists consider that insuring economic security is an essential component of the policy of national security.

If the key of economic security on state level is the position of state and of pending companies within the international networks of trade, production and finance, then the key on the level of economic system seems to be the stability of the entire system itself of market relations. This network includes a complicated interaction of contracts, credits, communications, transports etc.. When it operates, the average of actors prospers, existing, as well bankruptcies. When it doesn’t operate, all actors in the system are affected, the classical example in this respect being the economic crisis of ’30s. In part, this comparison refers to the levels of prosperity and fear to repeat the Great Crisis; however it reflects the high preoccupation opposite to the famous words of Frédéric Bastiat: „if goods cannot pass the borders, the soldiers will”.

When economic systems appear as objects of reference of security, the answer to the question „what is an essential threat?” may be given only in terms of principles on which are organized such systems. In the current geo-economic system, an entity similar to European Union may be existentially threatened by anything which may deviate from the rules and agreements which form its common market.

Although clear in principle, this criterion for security is not so simple in practice. At least two questions are raised:

- when is a threat so high to become a legitimate problem of security?
how may someone face the systemic crises and their effects on the system units?

In the culture of high performance organizations, it is already implemented the idea that in order to be competitive, they shall anticipate correctly the changes inside a field of activity or the general context in which they operate. It is also known the fact that, in order to obtain such competitive advantage, one needs resources which may allow the transformation of data and information in products of intelligence – analyses, syntheses, assessments – on which may rely the process of taking decisions under conditions of low incertitude.

The project of turning the economy in one based on information and knowledge does not consist only in adopting these new instruments and concepts, but in creating/using an institutional frame enriched for the use of these, activities which may be materialized by structures such as virtual community of experts, decisional informational infrastructures and virtual community of information.

Facilitating the avoidance of surprise by premature warning and management of risks/opportunities generated by dynamics of business environment, practices and instruments indicated, allows the action on market, instead of reacting, as a player aware of game rules, of its own potential and of that of its competitors. Using these practices on governmental level is less probable that economy may be „surprised” by the external waives of crises with economic impact or of other kind. By a better understanding of what is happening on market and by a proper assessment of strategic/tactic impact of the actions supervised, the system supports the continuous calibration of competitive strategies and tactics for companies, economic branches and economy as a whole.

References


The Value and the Evaluation Process in Accounting

Authors: Iulia Jianu, A.S.E. Bucharest; Roxana Ruiu, University Titu Maiorescu Bucharest; Ionel Jianu, A.S.E. Bucharest, Mihaita Ruiu, Ministry of Finance, Romania

It is well known that through the evaluation process is harder to calculate the real value of the balance sheet elements in accounting. Value and the evaluation process in accounting represent the main trigger point for the modern accounting research. The main aims of this article are to provide the value fundamentals for the evaluation field and to enlarge the epistemological field of the accounting evaluation.

Keywords: accounting; process; value; evaluation

Introduction

Today, almost anything is no longer done without having in mind the idea to obtain value, to be valuable. The uses of this word are many, there are many people who use it, but very few are those who thoroughly understand and respect it. The value designates the stable, perennial qualities of things which are empirically certified. It is what leads us to the conclusion that the appreciation of the existence of such „features” involves a quite laborious process, an adequate instrumentally and a rather evolved synthetic-analytical device. Thus we bring into question
the process by whose development we establish, discover, emphasize and shape the value, respectively the evaluation.

**Research methodology**

Accounting, as a scientific field, always developed freely, in close relations with the other fields belonging to other scientific categories. The methods of analysis and the discovery of the scientific "truth" have been and are compatible with the social sciences (accounting, in our case), regardless of the fact that they are related to natural sciences (physics, chemistry, biology, mathematics...). Thus, the revolution in natural sciences and especially in physics (the theory of relativity and the quantum mechanics) calls into question the concept of perfect prediction – as the sole object of science, including accounting, if we consider the current context, a context of great dreams for a "Meta Theory of accounting" and subsequently for its own methodology.

In accounting, regarding the types of research, Colasse (1995) proposes a three-dimensional presentation: basic accounting research, applied accounting research, normative accounting research, which are all paths to knowledge. The scientific knowledge, epistemology, has its origins in the Greek world: episteme = true, deep knowledge and logos = science. Plato separated episteme from doxa, which was nothing more than the superficial knowledge of empirical facts. The means to achieve episteme is reasoning, which is the only one able to access the world of pure ideas, which is of concepts, principles and theories. However, concrete things are observable by anyone; they are ephemeral and relative to the science. The subject of epistemology, the science of knowledge, is not confined only to theory, that is to the principles, laws and assumptions (in terms of their historical development and knowledge), but it also includes the study of methods of knowledge, the methodology of scientific knowledge. And for the idea to consider accounting as science, from an epistemological perspective, we are
dealing with three speeches that define three areas of research: normative, positive and constructive.

This article is circumscribed to the field of research oriented towards the foundations of accounting knowledge, and in terms of epistemological discourse the article is based on a normative type research.

The concept of value and the process of evaluation

For a better understanding of the evaluation we chose as investigation tools: the valuation and measurement. The evaluation means both valuation and measurement or the valuation, where the evaluation should be seen as a process and the measurement as an operation. Advocating for the idea of „theorization” (developing an accounting theory) of the evaluation in accounting, we might have missed the essential – the value. It is precisely what we propose now, by bringing into question and analyzing, the movie script which is named value. And what could be more interesting and more captivating than the presentation of the actors on the accounting stage – price, wealth, truth in the spotlights – utility and market, under the director's baton – evaluation.

The etymology and the history of the word value explain its ambiguity. The term value descends etymologically from the Latin verb valere, whose initial meaning was to be able to, to be powerful, to obtain satisfaction. The value designates the stable, perennial qualities of things which are empirically certified. It is what leads us to the conclusion that the appreciation of the existence of such „features” involves a quite laborious process, an adequate instrumentally and a rather evolved synthetic-analytical device. Thus we bring into question the process by whose development we establish, discover, emphasize and shape the value, respectively the evaluation. The study of encyclopedia and explanatory dictionaries shows us that: „Through „evaluation” it is understood the action of evaluating and its result; valuation, pricing,
calculation. Through the term „to evaluate” it is understood „to determine, to establish the price, the value, the number, the quantity; to calculate, to analyze, to value”. This action is supposed to be performed by a subject upon an object, an asset, a business, a liability” (The Longman dictionary).

Value is a general idea that people have about what is right or wrong, wanted or unwanted (Fjellvang, 2010). Value is a measure that is assigned, a label, a setting on a scale of values in terms of morality (better, worse), aesthetics (beautiful and less beautiful), and truth (more or less certain). Values are nothing but graded states on which we continuously move, in terms of circumstances. „Value is continuous and it must be found in the creative integration that results from the progressive change. On the contrary, the depreciation of value needs to be found in the destructive disintegration which results from the regressive change... There is similarity between truth and value. Truth has value and the value is true. Value is the highest form of truth.” (Hill & Owne, 1984) The thesis on the value of truth and on the truth of value accompanies us in most of our steps and endeavors. We like to think that we guide ourselves on firm principles such as those of righteousness and truth, we do not doubt our own morality, which we see as being right and true. We are rational beings and this gives us the right to be superior in terms of right and truth by intrinsic and also extrinsic knowledge.

"There can be distinguished two modern concepts of value: an economic one that tries to explain value in terms of usage, interest or preference, and another one an ideal that considers value as a purpose in itself" (Sorenson, 2002). The questions about value are carried upon two components: firstly, how and through which processes value is created, and secondly, how and through what processes the value is distributed (Gibbon et al, 2008). And, already, it seems we are approaching our domain of activity, although being in the field of social sciences it can be appreciated that no extravagance is too much to discuss and to try to understand the concepts that prove to be as difficult to assimilate, in terms of semiotics, as they have to be regulated in accounting.
Value is not an objective measure but a judgment, because the buyer does not truly know the measure of the value of what he purchases, for example, the way in which temperature is measured (Lorino, 1995). It has not been invented yet a scientifically demonstrated law to determine the true value of things. Baranger & Mouton (1997) have the same point of view and they consider that value cannot be measured and therefore we have to learn to manage it. However, other authors are on the other side, as Valier (2009), who said that there was no exchange without equality and that there is no equality without measurability. It results that, in the author's opinion, anything can be measured.

The result of an evaluation process is a type of value qualified as normal, reasonable, realistic. Value is the result of a theoretical approach, which can be a simple comparison or the result of a more or less complex calculation, by applying a formula, a method or a mathematical-economic model. Value has to be based on a logical or a rigorous mathematical basis. Value is an estimated measure following a complex process, selected from the set of values obtained from the application of adequate valuation methods.

In the international valuation standards, it is important the distinction between the operating assets that are necessary for the basic activity of the economic entity from the assets that are outside the exploitation owned as assets in surplus in relation to those needed for...

---

1 On the assumption of continuous working, operating assets form a unitary functional totality and thus, the principle which has to be respected by the evaluator is that these operational assets should be evaluated as part of the business seen as a whole. Their value has to be understood in the context of the value of the whole business, as a value of usage and, in this direction, it does not matter only their state of depreciation or the market value for other potential users, but also the degree of usefulness and the productivity of the respective assets for the business, as well as their degree of use

2 Assets outside exploitation, under a functioning state, are evaluated according to the most adequate definition of value. In the case when they have an active secondary market and a totally reduced depreciation and the market conditions lead towards the appreciation that there is solvable demand, the definition of market value is the most suitable. When the context imposes a rapid capitalization, the application of liquidation value (forced sale) is more appropriate. If there is a demand more superior than the supply on the secondary market and the evaluated assets can offer multiple uses, the definition of alternative use value can also be applied, through which from the replacement value, the estimated
the operation in future investments. Another important classification of properties used in evaluation is that which delimits real estate from personal property. However, in the practice of evaluation, the most important classification in establishing the valuation bases is the one that groups properties into four main categories: real estate, movables, financial assets, entities. IVS standards acknowledge that they are focused only on the valuation of the asset. Only the first three categories are subject to the measurement in accounting, the entity’s valuation being specific only to the evaluation field.

Broadly speaking, from the point of view of the evaluation, value represents the relation between a good owned as property and a person or the people who wish to own it. To distinguish between the different types of subjective relations which may appear between people, evaluators have identified as the basis of any valuation - the market value. However, when relevant information on the market is rare or nonexistent, it is accepted as a basis for valuation the net replacement cost. Therefore, the valuation bases used for assets in the IVS standards falls into two broad categories:

- the market value for non-specialized properties;
- the net replacement cost for specialized properties or with limited market.

The market value represents the estimated amount for which a property may be changed at the evaluation date between a determined buyer and a determined seller, in a balanced transaction, in terms of a proper marketing, in which each side acts knowingly, prudently and free of constraints. The net replacement cost represents the cost of a modern depreciation and the expenses related to the modification of the site of machinery and equipment are substracted. For assets outside exploitation, which are no longer in a functional state and their cassation and the recovery of some materials are justified, the recovery or the cassation value may be applied. For the assets for which the existent supply is superior to the demand, a proper definition may be the liquidation value or the forced sale, in which the reduction of value in relation to the market value may facilitate their trading (Manate, 2005).
equivalent asset, an asset that has a similar function and a productive capacity equivalent with the evaluated asset, but for a current project and built with materials and an up-to-date technology. The net replacement cost is considered as a method accepted to reach a surrogate for the market value of specialized properties\(^3\) or with limited markets\(^4\), for which relevant information on the marker is rare or nonexistent.

Along with the market values there are a series of values considered as different values from the market value by the international standards of valuation. These are numerous and they can be summarized as: value in use, investment or subjective value, continuous operation value, insurance value, tax value, recovery value, forced sale or liquidation value, special value, merger value, etc. The types of different values from the market value are grouped into three main categories (IVSC, 2007; IVS 2 types of different values from the market value):

- The first category reflects the benefits that an entity obtains from the ownership of an asset. The value is specific for that entity. Although, in some cases, the specific value could be identical with the amount that could be obtained from the sale of the asset, this value reflects the collectible benefits from ownership of the asset and, therefore, it does not necessarily involve a hypothetical exchange. The investment or subjective value belongs to this category. The differences between the value of an asset for a specific entity and its market value express the motivation of the buyers and sellers’ entry on the market;
- The second category represents price which, reasonably, would be determined by two people who trade the respective asset. Although the parties may be independent and may negotiate in nonpartisan conditions, the asset is not necessarily exposed on the broad market, and the agreed price may rather reflect the advantages (or disadvantages) specific to the property for the

\(^3\)Properties that are rarely or never traded on the market, except when they are sold together with the economic entity.

\(^4\)Attracts a limited number of potential buyers
involved parties than the market on the whole. Fair value, special value and synergy value belong to this category;

- The third category is the value determined according to a definition presented in a law, regulation or statute.

Accounting is a technique, or in its contemporary dynamics, a techno-science which has continuously evolved. The double entry method, a basic method of the accounting technique, originates from the middle Ages. But the first book that presented the double entry appeared in 1340 and it belongs to Massari of Genoa (Riahi-Belkaoui, 2004), preceding Luca Pacioli's book by about 150 years. However, Luca Pacioli is associated with the introduction of the double entry method, in 1494 publishing the book Summa de Arithmetica Geometria, Proportioni et Proportionalita which includes two chapters that present the double entry method.

As the accounting technique was described almost 700 years ago, also have the accounting evaluation problems existed since ancient times. This is because one of the most complicated problems faced by accounting was linked to establishing the measurement basis for the components of financial statements in order to ensure credibility and relevance to the information provided. In the accounting theory and practice, several measurement bases have been proposed: historical cost, current cost, realizable value, present value, fair value. The question is: which of these measurement bases will be chosen, taking into account the advantages and disadvantages of each one. Finally, the accounting regulators concluded that in the measurement and in the disclosure of accounting information, historical cost would be best because of the advantage given by its reliability, by the clarity of definition and by the verifiable character.

Historical cost accounting developed in the nineteenth century, following the Industrial Revolution. However, it has its origins in the fifteenth century when it was first used in textile factories. Gradually, the principle of prudence begins to be introduced in accounting, so that no one can speak of historical cost accounting without mentioning the
principle of prudence. Savary is among the first authors to introduce issues related to the principle of prudence in accounting. Thus, in his book *Le Parfait négociant* which was published in 1675, Savary recommends annual inventory for entities and suggests that inventories should not be evaluated at a value higher than their actual value. The author also recommends that entities should consider all costs involved and all what is indebted (Colasse, 2005). The historical cost is the cost of origin, measured and recorded at the entry of assets and the creation of debts, being the consequence of two fundamental principles: the principle of nominal monetary and the principle of prudence (Feleaga & Feleagă, 2007). The principle of nominal monetary ignores the value fluctuations of the monetary currency and requires the measurement of goods acquired for consideration at acquisition cost, of the goods obtained from the producer at the cost of production, of claims and debts at face value. Once established, the historical cost remains fixed as long as the good remains in the possession of the entity.

The principle of prudence requires counting the potential value minuses and prohibits counting latent value pluses that are afferent to assets. Thus, assets remain recorded at historical cost if they record an increase of value. Otherwise, e.g the inventories are measured at net realizable value if they record a decrease of value. As noted by Gelard (2005), historical cost leads to a negative view of the entity because, by taking into account the principle of prudence, it only allows the recognition of potential losses for assets and not the potential gains. Therefore, the historic cost accounting does not anticipate all the profits of the entity but it anticipates all the losses. It is known that by a historical cost accounting, managers can create hidden reserves with which they could "juggle" in the future (Reis & Stocken, 2005). Thus, in the case where a loss is obtained as a result of the work done, a manager could reconstruct the initial value of the assets in order to increase the result of the entity on the one hand, or to sell assets that are presented at understated values in the balance sheet on the other hand. While the first action is only a "cosmetic" change, the second action is real and
costly and can be contrasted with the interests of shareholders who do not accept the existence of hidden reserves. However, there are users of accounting information such as credit institutions which agree with a historical cost accounting also because of these hidden reserves. For the accountants, the historical cost continues to be the basic convention when choosing among different accounting treatments (Benabdellah - Demaria, 2006).

The historical cost is oriented backwards, but unlike other measurement bases, it has a great advantage: it is clearly defined and verifiable; once established, it remains fixed as long as the asset is owned by the entity. Taking into account these advantages, nothing seemed to happen to the historical cost. Then, what is the great disadvantage that makes the historical cost an obsolete value? The answer: the inflation. If market prices increase, the information provided with respect to the historical cost is not real. In this respect, Ristea (2004) states: "To avoid this reality means that in the financial statements misleading results should be reported because input historical costs recorded previously to sales are denominated in units of account that do not have the same value as the realization value that is based on output retail price. Without a proper restatement of the result, arises the situation when an entity registered a taxable profit, while the actual outcome is a loss". Even IAS 1 states: "Financial statements based on historical cost model are useful only if they are expressed in relation to the current measurement unit at the balance sheet date".

The lack of relevance of the information provided by a historical cost accounting under inflation was highlighted by many authors (Solomons, 1948; Barlev & Haddad, 2003; Khurana & Kim, 2003; Herrman et al, 2006). Thus, following the criticism to the historical costs accounting, the measurement at current values begins to take shape. In 1886, the German writer Simon introduces for the first time in the accounting measurement the notion of value in use (present value) by applying the principle of prudence in valuating fixed assets, arguing that they should be measured at the minimum between cost and present
value (Colasse, 2005). Thus, Simon is more than a century before the IASB that, at the issue of the IAS 36, uses the present value to determine whether or not an asset is impaired. During 1908-1922, the German author Schmild published a series of articles by promoting the use of current values in the accounting measurement, justifying this by the fact that in a market economy, where there are variations in price, it is impossible to obtain a correct result in accounting by a historical cost valuation.

The fair value is a consequence of the true and fair view principle. This principle was first defined in 1947 in the Company Law (Companies Act) in the United Kingdom (Ristea et al., 2006). The true and fair view principle (a true and honest picture) replaced the phrase true and correct view, which was first introduced in the Companies Act in 1900, as the obligation of entities to draw up a balance sheet to provide a "true and fair" image of the situation of the entity. In the United Kingdom, the requirement of the financial statements to present "a true and fair view" takes precedence over obeying any other regulation. Thus, the exemption from a particular rule or standard sheet is allowed if it is necessary for the financial statements to conform to the "true and fair view". The term "fair value" has different meanings in different languages: just (juste) in French, real (reeele) in Dutch, reasonable (razonable) in Spanish, the current value assigned (beizulegender zeitwert) in German, fair value without any translation into Italian (Colasse, 2007).

The United States of America have been champions for many years in using the historical cost accounting (Zeff, 2007). However, the FASB defined for the first time the notion of fair value in 1976, in the FAS 13: "The fair value is the price at which the property may be sold in a transaction between parties among which there is no connection."

It is worth noting that the fair value was initially used to value the non-financial assets. In 1980, FAS 35 governs the use of fair value in the valuation of the shares held in pension funds and recommends that the fair value should be done by independent experts who are skilled in
determining the fair value. Ten years later, FAS 107 allowed the use of fair value for all the financial instruments. From 1990 to 2006 a growing number of standards used the fair value in valuating balance sheet items: FAS 107, FAS 114, FAS 115, FAS 116, FAS 119, FAS 121, FAS 123, FAS 125 and FAS 13 (Barlev & Haddad, 2003). However, in September 2006, FASB issued SFAS 157 "The evaluation of fair value", which defines the fair value, establishes a conceptual framework for the valuation of the fair value and specifies information to be disclosed about the fair value. This regulation has the role of a guide to help the economic entities in the calculation of fair value where the accounting standards allow it. What was the reason for this radical change? FASB argued that change as such: "...as time passes, the historical cost becomes irrelevant to present the current financial position of an entity... the financial statements should provide users with relevant information in order to make investment decisions, credit or other types of decisions". Under SFAS 157, the fair value is defined as: "...the price that would be received from the sale of an asset or from the payment for transferring a debt into an orderly transaction among market participants at the evaluation date".

The IASB introduced the fair value as a basis for valuation for the first time in 1998, with the emergence of the IAS 32 and the IAS 39 standards. But the complexity of fair value measurement of the financial instruments resulted, at least in Europe, in the European companies' failure (Regulation 1606/2002/CE) of applying these standards (IAS 32 and IAS 39). Then came the following standards that use the fair value in the substance over form: IAS 16 (by the replacement of the market value used in determining the value of an asset, as a result of the revaluation with the fair value phrase), IAS 40 and IAS 41 in 2000, IFRS 5 in 2004 and IFRS 6 in 2005. The fair value is defined by IAS 39, as follows: "The amount at which an asset would be exchanged or a liability could be settled, voluntarily, between knowledgeable parties concerned in a transaction where the price is objectively determined".

The definition of fair value given by the international standardization body, the IASB, requires the existence of a perfect
The Value and the Evaluation Process in Accounting

market. However, the old standard IAS 32 states that: "When market activity is low, when the volume of transactions is small compared with the number of financial instruments that should be negotiated, the market rates may not reflect the fair value of the instrument. In these cases, when a market rate is not available, estimation techniques are often used to determine a fair value with a sufficient reliability to satisfy him requirements of this rule". The same rule states that: "When an instrument is not traded on an organized market, it is not appropriate for the entity to determine and to publish a single sum representing the estimated fair value. It would be more useful to publish a range of values in which the fair value of the financial instrument could reasonably be found". This last statement does not appear in the IAS 39, by this it is recognized the lack of reliability of fair value in the absence of an organized market. IASB currently publish the IFRS 13 „Fair value measurement” which is almost identical with the SFAS 157, following the joint discussions between the IASB and the FASB. In this standard, the definition of fair value is the same as that of SFAS 157.

Benson (2008) states that:"In the absence of an active market, the fair value is difficult to determine and to verify (managers must determine the fair value and the auditors have to check it), but easily to handle". It follows that the reliability and the relevance of fair value are related to the active nature of the markets. Problems related to the valuation of fair value appear in the absence of an active market. The fair value includes the market value and tends to cover all values arising from the estimates based on economic calculations. Behind the phrase "the fair value of an instrument" lies a wide range of models, methods and a set of values which give the qualifier "fair" a more random character, the reliability of fair value being rather relative (Dima, 2003). It follows that fair value is an exchangeable value that does not necessarily imply the existence of a market for that item, which makes it a general concept.

Moreover, professionals are dissatisfied with the high costs for the calculation of fair value accounting, with the increased volatility of accounting data and with the difficulties to evaluate and compare non-
negotiable assets. From a practical perspective, the accountants should prepare an accounting document showing the way in which they determine the fair value. Even so, the result in fair values can be manipulated. In this respect, Ionașcu (2003) states: "The valuation of balance sheet assets at fair value presents a risk of result manipulation, by the fact that for some of the company’s assets there is no market price, and therefore, internal models for valuation will be used, creating the temptation for managers to "move" a part of the result from a financial year to another".

Fair value accounting leads to the decrease in the production capacity of the entity (Bignone et al, 2004). The integration of the unrealized gains in profit could result in the distribution of dividends that do not match the results obtained and the available cash of the entity, which would lead to the disruption of its financial equilibrium and to the reduction of the self-financing capacity. In this context, the principle of prudence that is specific to the historical cost accounting seems, above all, a less ridiculous way to treat the uncertainty (Colase, 2007).

Today, the fair value accounting is considered one of the main triggers of the crisis (Escaffre et al, 2009). The arguments reside in its procyclical character and in the insufficient information provided by regulators in the valuation of the financial instruments on inactive markets. FASB and IASB have not stood still and tried to change their standards in order to eliminate these critics. Thus, the U.S. government issued on 3rd October 2008 the Emergency Economic Stabilization Act that allowed SEC to suspend the application of SFAS 157 (Flallo, 2008). However, the SEC did not use this option and preferred to join the FASB by publishing on 10th October 2008 an amendment to SFAS 157, which establishes the way of determining the fair value of a financial asset when the market does not work. As a consequence, on 13th October 2008, the IASB revised IAS 39 to allow the transfer of certain instruments that were previously valuated at fair value, to be measured at historical cost (IASB, 2008). On 16th October 2008 (Regulation EC n°1004/2008), the European
Commission also adopted amendments to IFRS 7 and to IAS 39 which allow the measurement at historical cost of items. Prior to these amendments, the items were measured at fair value through the reclassification of "financial instruments held for trading" towards categories whose accounting treatment may be translated as a lack of volatility in the profit and loss account and in the balance sheet, except of course the sustainable impairment. The purpose of these changes was to enable financial institutions, especially banks, to reduce the impact of the crisis on the financial statements published since the third term of 2008, on the one hand, and to reduce the differences between U.S. GAAP and IFRS in terms of reclassifications (SFAS 115, FASB 1993), on the other hand. The IAS 39 § 50 prohibited, prior to these amendments, any reclassification in the category of "financial assets held for trading" towards other categories of financial instruments. The reclassification is done at the fair value of the financial instrument, on the date of reclassification. Thus, the changes in the value of the new reclassified financial instruments, according to the historical cost principle, affect neither the profit and loss account nor the balance sheet, excluding any adjustments for sustainable impairment. This decision related to the reactivation of historical cost was anticipated by Ionașcu, who said in 2003 that "At least for the near future, we will not witness the abandonment of historical cost, but a mixed evaluation model, characterized by the coexistence of historical cost and current value".

Conclusions

By analyzing, it is easy to understand that like any other scientific category, the science of accounting must have also its own content, a paradigmatic core by which it asserts itself as a science and differs from other sciences. This paradigmatic core requires all scientific achievements that are accepted by the scientific community in the form of rules, statements, concepts and methods of explaining the reality. By acceptance, they have a strong normative character, developed to
regulate the subject of study. We conclude that the paradigmatic sustainable core represents "the basis of foundation theory", the starting and returning point in defining and fulfilling the social functions of accounting.

The paradigmatic heritage of each science is in the process of deepening and extending new methods, techniques and tools of investigation, especially theories proposed and established in the light of new data, information and empirical facts - the positivist character. A key issue, in the social sciences, is linked to the very frequent changes of social paradigm, qualitative leaps in the dynamic development of the society, which requires a permanent search and offering of solutions to raise the efficiency of any science.

But the knowledge is gradually achieved, advancing from the perception of the phenomenon (the normative character) through a more thorough knowledge of the functional connections, of the recurring phenomena (the positivist character) to the perception of the essence (the constructivist character). Knowledge, at every moment, is an almost exact reflection of the reality. The results of knowledge - checked in the economic and social practice - are authentic, true knowledge, always moving from relative truths to absolute truths, without the latter to be achieved, especially in management sciences.

References


[21] Dima M (2003), *Depăşirea pragului costului istoric în evaluarea contabilă: opţiune sau imperative*, Contabilitate, Expertiză şi Auditul Afacerilor, no. 6, 7 and 8;


[47] IASB (2008), Reclassification of financial assets, amendments to IAS 39 „Financial instruments: recognition and measurement” and IFRS 7 „Financial instruments: disclosure”;
[54] Keynes J.M (1970), *Teoria generala a folosirii mânii de lucru, a dobânzii şi a banilor*, Bucharest: Stiinţifică;


[84] Valier J. (2009), *Scurtă istorie a gândirii economice de la Aristotel până azi*, Bucharest: Compania;
A New Economic Model for Italian Farms: the Wine & Food Tourism

Authors: Maurizio Lanfranchi, University of Messina, Italy, mlanfranchi@unime.it; Carlo Giannetto, University of Messina, Italy, giannettoc@unime.it; Irina Dragulanescu, Christian University “D. Cantemir”, Romania, dragulanescu@unime.it

The Italian socio-cultural framework from the 90s to today has undergone a major change. There were changed the consumption habits and have arisen "alternative" lifestyles. Today, modern society and evolved, is oriented towards environmental awareness and wellbeing and spiritual.

In the tourism sector, in particular, we are witnessing the emergence of new market niches. In addition to the traditional forms of tourism, there are also the so-called "new tourism forms" as sustainable tourism and ecotourism, rural tourism and agro-tourism, wine and food tourism, etc.

These new types of tourism are based on culture, nature, adventure, and hedonism and healthiest and then offer the consumer an experience that meets their needs of authenticity, direct contact with nature, culture and identification with particular places.

The rural tourist, in general, is a complex experience that combines elements exclusively of tourist with cultural elements, environmental and anthropological.

Keywords: Rural tourism; thematic tours; wine routes; wine tourists; agriculture
Methodology of research

The purpose of our research is to identify the economic mechanisms that have led to positive results and the reasons for the success of the agricultural and rural tourism of a winemaking farm in the territory of Enna (Sicily), therefore a farm located in a region with an economy marginal and to some extent disadvantaged. The methodology used in this research is carried out through the analysis of the general equation of the agrarian enterprise’s budget (profit equation). This calculation is the application most established and used according to the literature of the agrarian economy.

Through this methodology, emerge two kinds of considerations: firstly, the most successful paths observed in Sicilian experience, that must be analyzed in order to explain entrepreneurial behaviors and the conditionings of the economic context – business concept. The second concerns the benchmarking that is the transferability between companies and between different territories, the recipe for success, ie, the identification of non-agricultural tools that can be considered "transferable" within individual behavioral patterns of business. For the conceptualization of successful strategies we chose dynamic perspective, that would allow us to grasp the changes of rural areas and agricultural and the impact that these changes determine on economic organization of agricultural business.

This approach was adopted in response to the social evolution observed in the Communitarian territory which has radically changed the context in which occurs the agricultural productive activities, introducing entirely, new opportunities and constraints, and generating innovative organizational forms not yet completely explored.
New model of rural tourism: wine & food tourism

Wine & food tourism is one of the new frontiers of the tourist supply, in which the role of the main tourist attraction is represented by food and wine productions. These despite not being the main motivation of travel are a complementary element of the supply that thanks to specific policies of tourism marketing can induce travelers already present on the territory to widen its range of experiences (Lanfranchi M., 2012). It is a form of tourism that provides paths defined as "thematic routs" in which the dominant motif is the agro-food product but the purpose is to make known and revive to the tourist the local customs and traditions through a supply chain from the farm-to-fork.

According to the first article of the European Charter on Oenotourism for wine tourism means to designate the development of all tourist and "spare time" activities, dedicated to the discovery and to the cultural and wine knowledge pleasure of the vine, the wine and its soil". This type of tourism is developing in EU countries as a form of alternative tourism and is intended to enhance the natural, cultural and artistic heritage, the tradition, the typicality and the economy that characterizes the rural area. The wine territories constitute a tourist resource in all respects, able to enrich and diversify the traditional tourist supply of Italy. (Lanfranchi M., Giannetto C., 2013).

The wine tourism in Italy

In 2012 the 5% of Italian tourist destinations was chosen for food & wine-related interests, with a structured demand for 64.3% from foreign tourists and 35.7% for the Italians. Food & wine tourism in 2012, compared to the last five years, has grown, reaching about five billion turnovers and thus becoming one of the main reasons for the "Made in Italy" vacation.
**Figure 1:** Wine & food tourism in 2012

Source: National Observatory of wine tourism

**Figure 2:** Souvenirs bought in Italy

Source: Coldiretti 2013
In May 2013, 35% of Italians argues that the real success of the holiday in Italy is represented by the gastronomic riches that the country possesses. Moreover, according to that survey, the typical products (wine, cheese, olive oil, salami or canned) become the souvenirs mainly bought by tourists, with 69% of preferences. This preference is superior to all other alternatives such as crafts (ceramics, wooden objects or fabric) which are purchased from just 18% of the tourists, or commercial products (such as postcards, gadgets and T-shirts) chosen from just 6% of travelers. The countries from which the largest number of tourists in Italy, are Germany (10 million arrivals), the United Kingdom, Switzerland and the United States. The geographical proximity of those countries to Italy certainly facilitates the arrival of tourists, but also the preference for natural and cultural destinations of high thickness. In commons with tourist capacity of medium size, wine tourism is affecting more than 50% on the total tourist movement. It covers all the seasons of the year, especially the autumn and spring and involves food trotter or simple wine tourists (2.5 million people).

**The wine tourist**

This new category of tourists is the result of the evolution of the tourism system in recent years which includes new objectives that consumers try to satisfy. Among the new requirements of the tourist highlights the search for novelty and quality of a product whose approach represents an experience that involves him firsthand. The new segment of food wine tourism affects a specific target consumer that generally has a certain degree of culture and is searching for a personalized holiday (Lanfranchi M., Goulas A., 2011). The identikit of the food & wine tourist is outlined from investigations conducted by Italian Tourism Observatory which shows that the "tourist-type" is usually man (62.3%), adult (particularly between 31 and 40 years old) who has high school diploma (an average of 52.8%) or degree (34.9%), married with children (48.2%), worker (70.4%) or younger (18.4%), student (on average 10.4%, almost 17% for
Europeans). The typical tourist spends the holiday dedicated to food & wine in the company of the partner (almost 50% of Italians), often with their children (20.9%). Even groups of friends (14.4%), especially if foreigners are an important target of demand for food & wine destinations. Vacation under the banner of "taste" is associated with the culture: learn about the historical and artistic resources of the territory, attend cultural events and knowing local traditions are among the main reasons for the stay. The food & wine holiday, it is also ideal to enjoy that to rest. Italian destinations, with food and wine vocation, moreover, are considered rich in natural beauty to explore and ideal for shopping. The tourist who spends the holiday dedicated to food & wine assigns to the experience of a judgment of 8.4 out of 10 based on the expectations-response relationship and it should be noted that the quality of the food and wine and the friendliness of the people, are the factors that fully meet the tourists. The awareness of the strength of Italian food & wine is clear. Italy is known by more than 10% of the world's population for food and 4% for wine.

**The socio-economic function of the "wine routes"**

The construction of a wine route allows connecting all resources in a given territory characterized by an important winemaking vocation and is able to exert its effect on demand for wine tourism. It becomes a tool of dissemination, information and market of wine products and wine tourist areas (Dragulanescu I.V., Ponticorvo G., 2008). The institutional role of the "thematic road" is therefore to best combine the needs of the demand, aimed at satisfying of their own needs, and those of the supply. The study on the potential attractiveness of wine routes has demonstrated how the thematic itinerary brings significant benefits to entire of food & wine tourism sector; the wine route is able to organize and integrate them economically more efficient and more socially acceptable resources and tourist activities to an area, allowing economic advantages in terms of economies of scale, resulting in the value system
inside the oenotouristic product, i.e. in those which are the four vertical sectors that make up the product-area, these are that of wine production, the receptivity, the catering and the complementary facilities.

Economies of scale occur mainly downstream or upstream of the activity of a single winemaking company, as well as in the management of common services during the production phase (Lanfranchi M., 2010). Beside the realization of economies of scale, the study also noted the important economies of the system, resulting from interrelations and synergies among the various components of the value system (economies in information management, economies arising from a more efficient distribution of tourist flows within the district, economies in the management of environmental aspects (Dragulanescu I.V., 2008). The wine route represents also a competitive advantage in terms of barriers to entry, as it requires qualified human resources, high degree of cohesion between operators and acquiring specific know-how. Therefore we can say that among the roles attributed to the wine route particularly important, as it determines a social benefit, is to promote the socio-economic integration between viticulture, tourism, food & wine and related activities in the field of culture, information and entertainment initiatives and characterization of the reference territory (Dragulanescu I.V., Novak P, 2010).

**An example of food & wine tourism in Sicily: Nisseni Castle Wine and Food Route**

Nisseni Castle Wine and Food Route have a total of thirteen member companies that are spread over an area that extends beyond the province of Caltanissetta (Sicily). The thirteen member companies covers an area of 430 hectares of which 250 hectares consists of vineyards, the remaining hectares are used for other typical Sicilian cultures such as olive trees, cereals, variety of fruit trees, etc. The companies have about fifty employees. They are responsible for harvesting, planting, use of agricultural machinery etc. Products that are produced in various
companies are obviously seasonal and therefore closely linked to climatic conditions of the territory (various types of Indian figs; wine; olives, etc.). The flagship product of all companies is undoubtedly the wine that can count various types of cultivated vineyards to "espalier" with a length of between 20 and 40 years. The vineyards produce an excellent wine that is mostly bottled and marketed to farm holidays in the area, or is being exported to several countries EU and non. The revenue for each product are variable from year to year, but unfortunately in this sector has experienced the negative impact of the economic crisis that, for some years now, accompanies each production sector in Italy. The "Route" is advertised mainly through the Internet, but it is also a sponsor of events, fairs, festivals and events. Also maintains solid relationships with various Tour Operators & Travel Agencies operating in Italy and abroad (Lanfranchi M., Giannetto C., 2011). Unfortunately an objective problem is that of road signs and the lack of promotion and communication by the institutions. In the absence of GPS navigation and information provided by in the "Route" to a tourist or passer-by who it is, would certainly complicates search for the tourist site, since the only signage was only detected in the proximity of junction along the State Roud 117 bis, from Piazza Armerina to Gela.

**Business case: Economic analysis of Previtti S.R.L. in Nisseni Castle Wine and Food Route**

Previtti’s company turn out to be largest in size compared to the other companies belonging to the Route. It extends for 200 hectares of which 20 are used for viticulture and has 9 employees. The company, in addition to the main agricultural activity, offers the possibility of rural tourism, food tourism and offering a series of services such as: educational farm, horseback riding lessons, excursions and guided walks; trekking activities; tasting and sale of typical products, wine tasting and wine sales and olive oil produced on the farm, parking campers, caravans
and tents; visit to the small Museum of rural traditions; accommodation in comfortable rooms, furnished in classical Sicilian style, etc.

**Table 1:** Products grown on the estate

<table>
<thead>
<tr>
<th>Product</th>
<th>Extension (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>151 ha</td>
</tr>
<tr>
<td>Vineyards</td>
<td>20 ha</td>
</tr>
<tr>
<td>Indian figs</td>
<td>15 ha</td>
</tr>
<tr>
<td>Olive groves</td>
<td>10 ha</td>
</tr>
<tr>
<td>Other</td>
<td>2 ha</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200 ha</strong></td>
</tr>
</tbody>
</table>

Source: own elaboration on data provided by Nisseni Castle Wine and Food Route

The company offers to its guests exclusively biological products such as wine, olive oil, honey, homemade liqueurs, Indian figs, fresh and dried fruits, cheeses and Sicilian salami, venison, roasted and grilled meats, homemade pasta, all seasoned with olive oil and wine produced on the farm. Evidence of these incredible assets of gourmet products to offer is the subdivision of hectares for each product.

Every year the farm produces about 200,000 bottles for both the selling in the company (sales at km 0) and for export. These numbers have led to the creation in the same estate of a vinification cellar, where the freshly harvested grapes are cooled and then vinified in order to preserve the characteristics of the wine. The cellar extends into an area of 4000 square meters. The main qualities of wine are produced Nero d’Avola, Petit Verdot and Chardonnay.

**Table 2:** Vine varieties cultivated

<table>
<thead>
<tr>
<th>Vine varieties</th>
<th>Extension (ha)</th>
<th>Vine varieties</th>
<th>Extension (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nero d’Avola</td>
<td>8 ha</td>
<td>Frappato</td>
<td>2 ha</td>
</tr>
<tr>
<td>Petit Verdot</td>
<td>3 ha</td>
<td>Pinot Noir</td>
<td>1 ha</td>
</tr>
<tr>
<td>Chardonnay</td>
<td>3 ha</td>
<td>White Muscat</td>
<td>1 ha</td>
</tr>
</tbody>
</table>
These varied types of grapes allow the production of many types of wine, with red representing the greater percentage of production, then follow the production of white and rosé wines and, although only recently (about a year), and Sparkling wines Raisin wines. The various types of wine vary depending not only on the type of vine but also by other factors such as time and refining tools, depending on whether it takes place in classic wooden casks or in more innovative steel barrels.

Table 3: Tipologie di vino prodotte

<table>
<thead>
<tr>
<th>Tipologia di Vino</th>
<th>% produzione</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vino Rosso</td>
<td>68 %</td>
</tr>
<tr>
<td>Vino Bianco</td>
<td>10 %</td>
</tr>
<tr>
<td>Vino Rosato</td>
<td>10 %</td>
</tr>
<tr>
<td>Vino Spumante</td>
<td>8 %</td>
</tr>
<tr>
<td>Vino Passito</td>
<td>4 %</td>
</tr>
</tbody>
</table>

The following table shows the economic result of the farm Pivetti who had at the end of 2012. This result was determined by the procedure of the calculation in details of items cost and revenue, which refers to general equation of the agrarian enterprise budget (has been examined the income statement through the elaboration of consolidated profit equation, consolidated in practice Serpieri Tassinari, Iacoponi, Prestamburgo). This calculation is the application longer consolidated and used according to the literature of agricultural economics (Tassinari G., 1942), and highlights the value of assets gross marketable production (primarily generated revenue from the sale of wine bottles) and liabilities the sum between raw material costs, depreciation, taxes, global income, and capital investments and on the bottom) (Serpieri A., 1963).

Source: own elaboration on data provided by Nisseni Castle Wine and Food Route
The profit equation shows that in 2012 the company had a profit of 177,238.00 euros generated solely by sale of product produced on the farm. For ease of calculation, and to highlight how much the company has increased its profit through the economic activities of rural tourism and food & wine tourism, we used the equation of Serpieri re-classifying and using the data in the income statement, we obtained sectorial accounts to check the productivity of various business activities (Iacoponi L., Romiti R., 1994). With this procedure we have included only the data related to supplementary income, that is, educational farm, tasting and sale of wine and trekking and horseback riding activities, voluntarily, isolating them from the main agricultural activity (Prestamburgo M., Saccomandi V., 1995).

Where $Plv$ is rural tourism production, in this case calculated taking into account that in 2012 the company has had a tourist flow of approximately 3,600 wine tourists, thanks to the establishment of the wine route; $Smt$ means expenditure on the purchase of "tourist" raw materials as the products needed to carry out the business of receiving (table linen, utensils, etc.), of accommodation, and the rural sports activities; $Rea$ is extra agricultural income, in our case represented by a single employee. The result that we got is evident only with the rural tourist activity, the farm has a profit of 45,160.00 €, equivalent to about 20.3% of the total corporate profit is 222,398.00 €. Synthetically below are explicated the data obtained.
Table 4: The Profit of Pivetti’s agricultural company, in 2012

<table>
<thead>
<tr>
<th></th>
<th>Profit</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit agricultural activity</strong></td>
<td>177,238,00</td>
<td>79,7%</td>
</tr>
<tr>
<td><strong>Profit rural tourism</strong></td>
<td>45,160,00</td>
<td>20,3%</td>
</tr>
<tr>
<td><strong>Global profit level</strong></td>
<td>222,398,00</td>
<td></td>
</tr>
</tbody>
</table>

Source: own elaboration on data provided by Nisseni Castle Wine and Food Route

**Conclusions**

The survey showed that to have a good tourist offer and to predominate the wine market, is no longer enough to have a competitive price, offer quality services or focus on advertising, but it is necessary to innovate and recognize in advance what will be the new traveler’s needs. Today traders are oriented towards consumer satisfaction and exploitation of all possible information channels aimed to "word of mouth" among potential tourists, aware that satisfying even a single customer could recall many more. Evolution is therefore the key word to follow and tour operators must keep pace with changes in consumer behavior and technology to occupy a good position in the market.

The ability to customize the trip is crucial because, nowadays, any tour operator is able to offer the consumer a standardized vacation with a medium/high quality and a low price, but few are able to go beyond, to conquer the customer by offering a truly unique experience. The trip is now understood as an experience, and the emotions and the feelings that it can move the element of differentiation that the modern tourist research and that the tour operator has to offer. To succeed in this goal it is important that local communities and their administrations valorize in a targeted way the specific vocations of their territory. It offers many ideas that allow its development: environmental resources, historical, artistic and cultural heritage that can be exploited to increase the number of visitors, tourists or consumers. It should be then create
synergies that result from the activation of the virtuous circle among tourism, trade and territory; and to do this it is necessary that both private and public entities have the will to achieve such synergies. It would be appropriate that all wine companies, trade associations, provinces, municipalities, businesses tourist intermediation companies and those of accommodation should be coordinate perfectly with each other to arrange tourist routes of taste, to the rediscovery of the countryside and traditions.

The study conducted showed that the construction of economic models based on the development of local food & wine tourism in synergy with the creation of thematic tours related to food products may represent an efficient instrument of promotion and enhancement through which rural areas can be divulged, marketed and enjoyed in the form of tourism offer. The thematic tourist routes have therefore an obvious territorial aims and their operational management guided by the territorial marketing allows the company to implement the important principle of diversification with a consequent significant integration of agricultural income, which as pointed out this work stands on average around 25 percent of farm income.

References


Information - Seeking as Optimal Consumer Experience. An Empirical Investigation

Author: Alina Lazoc, Dimitrie Cantemir Christian University Bucharest, Romania

The central objective of this paper is to investigate the mechanisms leading to the formation of an optimal emotional-cognitive involvement of consumers during the act of online information searching and, thus, to the development of an open, exploratory information behaviour. We set out to improve the understanding of the online medium’s impact on the information seeking experience and further on human’s exploratory information behaviour. The paper is organized in six sections. We start by delineating the purpose of our study. Then we present our research model and its underlying hypotheses. Thirdly, we discuss the theoretical and empirical background of the constructs employed in our model. The fourth section contains a description of the data collection procedures and the related practical matters. Finally, we offer a detailed presentation of the empirical test results and conclude with some theoretical and managerial implications of conceptualizing and modelling consumers’ optimal online information-seeking experiences.

Keywords: information; investigation; consumer experience
Purpose of the study

During an online information-seeking activity users can live a series of successive experiences. Our study’s objective is to evaluate the occurrence of a flow-like experience during these online information-seeking sessions. We consider flow important to the study of informational consumer behaviors in the digital age because it serves as a key antecedent to a more exploratory mindset and thus to more consumer generated value. Experiential behavior is relevant for word-of-mouth strategies based on influencing opinion leaders, as well as for providing entertainment and recreation and for enhancing consumers’ product knowledge.

Drawing on previous flow models, we posit that, in order to be a flow like experience, online information-seeking has to be difficult enough to challenge users to maximally exploit their web skills and, at the same time, it must be optimally sustained and coordinated by web interfaces in order to still be perceived as achievable. When entering the flow state, we assume users are fully concentrated on the information task; they intrinsically enjoy what they are doing and feel liberated from time pressure. The essential marketing outcome consists, in our vision, in developing a more open, risk-prone, exploratory informational behavior.

Research model and theoretical background

Drawing on eight structural models (Novak et al., 2000; Koufaris, 2002; Korzaan, 2002; Huang, 2003; Skadberg and Kimmel, 2004; Mathwick and Rigdon, 2004; Richard and Chandra, 2005; Guo and Poole, 2009) identified in online flow literature, we have built an empirical integrative model (Figure 1) to explain the flow experience of online information search as a complex process comprising preconditions, actual manifestations and a behavioral consequence.

We propose that the levels of navigability (Hypothesis 4) and usability (Hypothesis 3) of web platforms, as well as the level of challenge
associated with the online search (Hypothesis 2), the degree of users’ web literacy (Hypothesis 1) or the state of being telepresent in the online medium (Hypothesis 5) are critical for entering a flow state during online information search and becoming more exploratory in one’s information behavior (Hypothesis 6). We define flow itself as a state of deep concentration and intrinsic pleasure, in which the person searching for information doesn’t feel under time pressure or afraid of losing control over his action and goals. Drawing on this flow definition, we have applied distinct operational measures for each aspect of flow state. For testing flow’s relationships (as an overall experience) to its antecedents and the behavioral consequence of interest, we have used a summed scale accomplished as a simple arithmetic mean of the four sub-scales.

The hypotheses to be explored in this paper therefore are:

H1: The perceived level of the online information-seeking skills positively influences flow intensity during a web search session.

H2: The perceived amount of challenge is positively related to the flow intensity during online information-seeking activities.

H3: The perception of the general web usability positively influences flow while searching for information online.

H4: The perceived level of web navigability positively influences flow intensity during online information-seeking.

H5: Telepresence intensity positively influences flow intensity during online information-seeking.

H6: Flow state intensity during online information-seeking activities positively influences the users’ exploratory behavior.

The model comprises ten constructs that are operationalized with five-point rating scales (scale values from strongly disagree to strongly agree). In addition, an online information-seeking challenge variable specifies what respondents consider a challenge during online search. This background variable is not included in the base model.
The present section presents the theoretical and empirical background of each of the ten constructs introduced in the research model. Skills and challenges represent two essential preconditions of a flow state identified as such by most of the studies reviewed in our research (Novak et al., 2000; Koufaris, 2002; Huang, 2003; Skadberg and Kimmel, 2004; Li and Bowne, 2006; Guo and Poole, 2009). In the present model, both skills and challenges correlated to them refer to the online search process, ignoring other informational skills and challenges of users. The scales used to measure the two constructs are an adaptation of the scales proposed and validated by Novak and al. (1998; 2000). These scales have also been validated in other general web usage contexts (Huang, 2003; Li and Bowne, 2006), as well as in online shopping contexts (Koufaris, 2002; Skadberg and Kimmel, 2004; Guo and Poole, 2009) and in online gaming contexts (Voiskounsky et al., 2004; Chiang et al., 2011).

A technological feature we consider essential to define web 2.0 experiences and have which we therefore introduced in our research model is navigability. The navigability scale rephrases a subscale of
interactivity (the mapping scale) suggested by Novak et al. (1998) using Steuer’s (1993) interactivity model. Although Novak et al. (1998) did not obtain good test results (α = 0.50) for the scale in the context of an early development stage of the web, we propose retesting it in the context of present generation search interfaces.

Another technological feature we took into consideration is web usability, a construct closely related to that of navigability, as demonstrated by our selective literature review (Koufaris, 2002; Huang, 2003; Pace, 2003; Skadberg and Kimmel, 2004; Guo and Poole, 2009). The conceptual difference between the two constructs, as we perceive it, consist in the fact that navigability reflects the level of naturalness and intuitiveness with which search interfaces react to the actions initiated by the user, while usability rather describes the accessibility of the web’s modes of presenting information. We have taken some items from the perceived complexity scale referring to dynamic complexity (α = 0.84) and we have transformed it, by rephrasing the positive pole, in the expression of web usability (that is, approaching it from a structural point of view) and asked respondents to evaluate their perception of the web during while performing online information search activities with help of the search engines.

Supplementary, we chose to include telepresence1 as a flow antecedent in our research model as it describes the capacity of the web and its second generation applications to replicate reality. In order to measure telepresence, we have partially used the scale designed by Novak et al. (1998). We posit that when users do not perceive the web interface as standing between them and the real world information may be a strong determinant of the flow experience. The original scale (Novak et al., 1998) operationalizes a subjective experience generated by the multi- and hypermedia attributes of the web and it was successfully tested by the authors (α = 0.69) in the context of general web usage.

1 Telepresence “is the perception that the virtual environment one is interacting with is more real/dominant than the actual physical environment” (Novak et al., 2000:29).
Four dimensions of the flow state have been identified based on an overlap of definitions from a range of studies investigating the construct and considered adequate to define the flow state experienced during an online information-seeking activity. Attention focus (Koufaris, 2002; Huang, 2003; Li and Browne, 2006; Guo and Poole, 2009) and control (Koufaris, 2002; Huang, 2003; Li and Browne, 2006; Guo and Poole, 2009) are fundamental flow dimensions. While in a flow state, people do not have any room in their minds for any distractions, worries or irrelevant thoughts. They also feel a sense of control over their actions, which drives away concerns about failure. A flow activity is also a self-contained activity defined by intrinsic enjoyment (Koufaris, 2002; Skadberg and Kimmel, 2004; Li and Browne, 2006; Guo and Poole, 2009). Another commonly reported dimension of the flow experience (Skadberg and Kimmel, 2004; Li and Browne, 2006; Guo and Poole, 2009) is time distortion (also called transformation of time or temporal dissociation). A distorted sense of time makes time appear to pass very slowly or very rapidly compared to an ordinary experience.

We have used Guo and Poole’s measure (2009) for focused attention (α alpha=0.90) and we have extended it with Huang’s items (2003) from his focused attention scale (α alpha=0.82). We named the resulted scale attention focus. To measure the sense of control in the context of online information search we have used a short variant of Guo and Poole’s (2009) scale, tested by them in the context of online shopping (α alpha=0.90). For evaluating the intrinsic enjoyment dimension of online information search we have created a scale that combines items from Koufaris’s (2002) enjoyment scale (α alpha= 0.81) with items from Guo and Poole’s (2009) autotelic experience scale (α alpha= 0.91). The time distortion scale entirely uses Guo and Pool’s scale called transformation of time, that has proven consistent reliability (α alpha=0.92) in the context of online shopping.

A particular consequence of the flow experience of online search is of special interest to this study: exploratory informational behavior. Several studies explore the connection between flow and exploratory
behavior (Novak et al., 1998; 2000; Korzaan, 2003; Richard & Chandra, 2005). To measure exploratory behavior as a result of online search experience, we have used a five-item scale adapted after Novak et al. (1998). The exploratory behavior scale measures the degree to which the user is open to experiments and discovery in his/her information search behavior. It evaluates both exploratory goals and exploratory information-seeking strategies.

**Online data collection strategy**

The plan that we have conceived to collect data includes the creation of a survey which has two parts. In part a respondent were asked to give background variables such as age, education or professional status. In addition, they were solicited an evaluation (5-point Lickert scale) of their perception on what constitutes a challenge during online search sessions. Part B of the questionnaire has the main intention to make an in-depth investigation of the elements that make online information-seeking an optimal, flow-type experience.

Participants in this investigation were approached by placing invitations on several Facebook profiles (with the approval of owners) and by e-mailing invitations to personal contacts, requesting them to forward the link to the online questionnaire². The content included a brief explanation of the subject of the research and a personalized request for support in the distribution of the questionnaire (emotional request, chain request).

The questionnaire was applied as an online form, publicly available for one week. The form is based upon a specially designed web application which has been developed for performing the present research. By using the PHP and HTML languages, the application is adapted to the type of collected data and provides the possibility to select

---

² We chose to adopt the non-probability convenience sampling method (e-mail list and Facebook profiles of acquaintances), and we used the procedure of questionnaire self-administration.
questions and answer options from the database, but also to post them for those accessing the form.

The security and operativity of storing questions and answer variants were ensured by the use of the MySQL database engine, mainly chosen due to the very wide variety of data types it can store.

Answers storage was designed considering the further integration with the SPSS 19 software and thus determined answer choices to be encoded as SPSS variables. After filling in a certain number of questionnaires, MySQL facilitated data extraction for a preliminary SPSS data manipulation and generation of a clearer vision on probable results.

Research results

Descriptive statistics for the background variables

A total of 356 subjects responded to over 95% of the questions included in the questionnaire, of whom 109 (30.6%) men and 240 (67.4%) women. The collected data show that most respondents are aged between 18 and 35 years (79.8%), are presently not married (64.6%), have a high education level (82.1%) and are preponderantly active in the fields of education (36.5%) and services (26.1%).

Upon the in-depth investigation of what users consider to be most challenging aspects of information seeking we have found that the challenge mainly consists of selecting suitable key words (65.2%) and distinguishing relevant links from irrelevant links (50.8%). Less challenging are perceived scanning a page for relevant information (47.5%), choosing the correct syntax for a search engine query (34.0%) and understanding the content and non-linear structure of a web site (30.9%).

Bivariate analysis required the connection between two variables to be checked by the $\chi^2$ test (Foltean, 2000). The most statistically significant relations were found between the types of challenges and the age of the
respondents, followed by those between the types of challenges and the education level. Thus, while selecting suitable keywords for a search engine query represents a challenge for those over 25 years of age, scanning web pages for relevant information and understanding the content and non-linear structure of a web site rather challenges the younger subjects, aged under 25 years (Table 1).

Table 1: Significant age-related differences in challenge perception

<table>
<thead>
<tr>
<th>Type of perceived challenge</th>
<th>Age</th>
<th>$\chi^2$ Test</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection of keywords for the query</td>
<td>&lt;25: 59%</td>
<td>$\chi^2=4266$ (1,N=349); p=0.041</td>
<td>Significant difference</td>
</tr>
<tr>
<td></td>
<td>&gt;25: 70.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scanning a page for relevant information</td>
<td>&lt;25: 56.3%</td>
<td>$\chi^2=8127$ (1,N=349); p=0.005</td>
<td>Significant difference</td>
</tr>
<tr>
<td></td>
<td>&gt;25: 40.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding the content and non-linear structure of a web site</td>
<td>&lt;25: 38.4%</td>
<td>$\chi^2=5857$ (1,N=349); p=0.020</td>
<td>Significant difference</td>
</tr>
<tr>
<td></td>
<td>&gt;25: 26.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: developed by the author

A possible explanation might be the fact that people under 25 have simpler search goals due to what we presume to be their more uncomplicated view on information. However, when it comes to distinguishing between relevant and irrelevant information, this task requires a more nuanced view and a wider experience, which both come with growing age and superior education. 60.7% of those with a medium and lower education level considered that going through web pages in search for relevant information is a challenge, as compared to only 45.3% of those with a higher education level.
Purification of the measurement instrument

In order to test the predictive power of the elaborated model, we have first performed a purification of the measurement instrument. The first stage in the analysis of the measurement scales used in the present research consisted of checking uni-dimensionality by factor analysis techniques. The high values (between 0.5 and 0.89 for the KMO index) obtained for all model constructs upon the KMO and Barlett tests justified the use of the factor reduction method for all the ten scales, showing that variables are influenced by the extracted factors.

The values of communalities reflect the percent of the results dispersion explainable by the common action of the retained factors, and the results obtained indicate a good representation of the used factorial models. The values obtained for the Cronbach's alpha coefficient following these measurements, for all the ten scales, ranged between 0.527 and 0.906, indicating a sufficient level of reliability.

The performed factor analysis supported maintaining the scales in the initially proposed formats with three exceptions: (1) the consistency of the skills scale improved when eliminating an item; (2) also following factor analysis, the initial composition of the attention focus scale substantially changed – the calculated Cronbach's alpha value for the two identified factors justified eliminating the second dimension of the construct and exclusively integrating the first factor in the conceptual model of the research; and finally (3) for the exploratory behavior scale, the confirmatory factor analysis identified two dimensions – which we named exploratory behavior and exploratory goals – and excluded the latter from our model, based upon the theoretic argument that it does not express a consequence, but rather an antecedent factor of flow as modeled by previous studies (especially, Guo and Poole, 2009).
Hypotheses testing results

After presenting results for the descriptive analysis and the purification process of the measurement instrument, in the following part of our study we have evaluated the prediction power of the proposed theoretical flow model. At this stage, the power of relations between the included research variables was analyzed by simple linear regression (Foltean, 2000).

**Table 2: Hypotheses testing results**

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Significance</th>
<th>Anova Test</th>
<th>Model Summary</th>
<th>Coefficients</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>F</td>
<td>p</td>
<td>R²</td>
<td>Beta</td>
</tr>
<tr>
<td>H1</td>
<td>Online information-seeking skills positively influence flow intensity during web searching.</td>
<td>41.038</td>
<td>0.000</td>
<td>0.104</td>
<td>0.322</td>
</tr>
<tr>
<td>H2</td>
<td>Perceived challenge of online information search positively relates to the flow intensity.</td>
<td>138.301</td>
<td>0.000</td>
<td>0.281</td>
<td>0.530</td>
</tr>
<tr>
<td>H3</td>
<td>Web applications’ usability positively influences flow while searching for information online.</td>
<td>38.895</td>
<td>0.000</td>
<td>0.099</td>
<td>0.315</td>
</tr>
</tbody>
</table>
In the first hypothesis we have started from the presumption that high levels of web skills facilitate a flow type experience during online search. The hypothesis is confirmed, and regression analysis reveals a good F value (41.038) at a significance level of 0.000. The value of the R² coefficient indicates a 10.4% influence of web skills upon the optimal search experience.

Hypothesis 2 is based upon the assumption that high levels of challenge posed by an online information-seeking activity positively influence the intensity of flow while performing that activity. The F value is elevated and significant (138.301; p=0.000), which shows that the level of challenge is a good flow predictor. The regression coefficient for this relation recorded the highest value as compared to the other tested variables (Beta=0.530). Finally, the R² value shows that 28% of the flow intensity.
variance may be explained by the variance of the perceived challenge levels.

By testing hypothesis 3 we sought to verify the existence of a connection between the independent variable of web usability and the dependent variable of flow. The predictability of flow intensity based upon the level of web usability is high, as indicated by the F value (1.345) = 38.895, at a level of significance of 0.000, but the value of R2 indicates a low contribution of web usability variance in explaining the variance of flow (10%).

In the case of hypothesis 4, we presumed that the web navigability level positively influences the intensity of flow while searching information online. The results of statistical tests show that the level of navigability only explains the intensity of flow in a proportion of 6.3%. A possible justification of the lower value of the beta coefficient (0.251) might be the relatively low internal consistency of the navigability measurement scale which only includes two items to illustrate the concept. Flow intensity is determined by the level of navigability according to the following formula of the regression equation: Flow = 2.735 + 0.197 x (individual score of navigability). Thus, if the individual score of perceived navigability is 4.5 – we may predict a level of flow intensity of 3.62.

The assumption according to which telepresence influences the intensity of flow during an online search is confirmed by the high values of the F coefficient (96.158; p=0.000) and of the regression coefficient (Beta=0.462). The intensity of telepresence explains in a proportion of 21% the flow intensity during online information search and is, together with the perceived level of challenge, its best predictor.

Hypothesis 6 is confirmed (F=55.122; p<0.001), and the R2 value indicates a 13.5% contribution of flow variance in explaining the exploratory behavior. The beta value shows that, when the intensity of flow increases by one standard deviation, the intensity of the exploratory behavior increases by 0.367 standard deviation.
Implications and further research directions

Our test results demonstrate that the employed flow model can be successfully used to evaluate and predict optimal, engaging consumer experiences and an exploratory behavior in the context of marketing communication. However, we recommend further exploratory theoretical research in the area of information behaviors and web experience design studies in order to perfect the operationalization of more sensitive constructs like navigability, usability and the sense of control, which could improve the model’s prediction power in online information-seeking contexts.

The flow model is important for marketers because it underlies what makes for a compelling online information-seeking experience and helps improve advertising campaigns and other integrated marketing communication plans. It can also expand scholars’ knowledge of interactive and exploratory consumer behavior. An actual marketing benefit of designing compelling information-seeking experiences and encouraging consumers’ exploratory information behavior may be an increased level of consumer-driven innovation. Exploratory-minded consumers are more effective problem solvers, risk takers, as well as active, independent and creative communication partners.

A major methodological drawback of our present research consists in the fact that we did not manipulate external challenge levels and technological features. Instead, we simply asked subjects about their perceptions on personal and technological factors whenever they search for information online. Moreover, we asked them to generally and retroactively evaluate their online information-seeking experiences rather than their experiences with a particular search topic or a particular background (commercial or otherwise). Further research could evaluate the flow experience of online information seeking in such experimental contexts.
References


Considerations Regarding Cultural Values in Multinational Companies

Author: Mădălina Albu, Petroleum – Gas University of Ploiești, Romania

Multinational companies are the main object of interest in international management. Practicing a multinational strategy, the company has locations in a wide geographic area, offers standardized products and encompasses a large market worldwide.

Although there are specific values that can be established at the organizational level, however in this case the cultural dimension is based on work practices learned in the organization, especially through social processes that act later in the life of the individual.

This paper presents the considerations on the international cultural values in Oracle Company.

Keywords: companies; organization; cultural

Introduction

International management is an intercultural management as it pertains to relationships that are established and developed between different countries (different national cultural areas). Also this type of management is considering interactions between organizations -
company, customers, and competitors - that have different values and behaviors that have different business cultures.

Multinational companies are the main object of interest in international management, but its scope is not limited to those corporate activities. International management refers to the practice of leadership of all organizations operating internationally and the management of multinational companies is restricted to the business strategy of the agents of the global economy.

The "intercultural" is based on the fundamental values shared by the community (a social organization), those that are integrated structure of that organization. Instead, approach 'international' has a more pronounced institutional and political differentiation gives a major international actors life.

World organizations and managers has grown dramatically in the last decade. Providers, beneficiaries, competitors and staff all move easily from one country to another.

A number of developments and integration in the European Union Free Trade Agreement North application - American (NAFTA), the Uruguay Round outcome: the General Agreement on Tariffs and Trade (GATT) and the subsequent establishment of the World Trade Organization (WTO), all these generated favorable opportunities for the development of international economic relations. Managers and customers a growing number of organizations, be they commercial or non-profit, international encounter this reality in their thinking strategically or tactically, as in their daily work. In parallel with the expansion of the international economic environment, there was an ongoing revolution communications technology that enabled a rapid contact between individuals or groups of geographically dispersed.

Negotiation of contracts takes place in real time between groups located on different continents. Multinational organizations can more closely monitor the performance of foreign subsidiaries, potentially more rapid correction of deficiencies. Achieving organizational tasks, evolving
world of business can be tracked and coordinated details from virtually any place on earth.

These constant changes led to new problems that organizations must be able to solve. An international economic environment in perpetual development requires managers to be aware of developments in the world. This means that in order to make decisions quickly and correctly, to be new systems for collecting, processing that information.

The basic idea to be presented in the context of international relations is multinational executive persons are sent to foreign countries, but on the manager, increasingly, to employees in lower levels of organizations must operate in a context multicultural, wherever they find them.¹

Growing international activity involves new requirements for those participating in cross-cultural activities. They have to deal with issues such as the interpretation of the actions and attitudes of individuals or organizations that operate in a context different from that to which they were accustomed.

All they have to negotiate with groups that have different purposes not only theirs, but also different ways of reaching these goals, with different expectations vis-à-vis the behavior dialogue partner. The increasing diversity of the world organization, coupled with the increased pace of change in the environment, bring new requirements and problems to be solved on the shoulders of the organization's members, and they often are not prepared to deal with the situation properly.

**Benefits of Multiculturalism**

An important component of management strategy refers to specific intercultural communication in the global environment that may be affected by a number of barriers such as the following:

Misunderstanding the language of communication, leading to inability correct interpretation of the message;
Culture shock, or the inability to understand or to accept people with values, norms and different lifestyles;
Ethnocentrism, belief in the absolute superiority of their culture;
No opening date for the adoption of a rigid and formal attitude that impedes the free exchange of views.
The main benefits of multiculturalism are:
- Reduce costs - low level of integration of minorities (local staff) lead to job dissatisfaction and absenteeism, which translates into higher costs
- Procurement of resources - companies with a good reputation in terms of intercultural relations easily attract local human resources and can get better staff
- Advantages in Marketing - the existence of a multicultural staff allows the company to understand local prices and adopt appropriate marketing strategies
- Creativity - multiculturalism, as opposed to conformism and favorable diversity of perspectives, stimulates creativity
- Optimal Solutions - A diverse experiences and knowledge base allows to analyze issues from different perspectives and facilitate correct decision making
- Organizational Flexibility - to accommodate the cultural diversity firms adopt more flexible organizational policies and procedures

Most elaborate study on the influence of national culture on management practices belongs to the scientist Geert Hofstede (Consequences of Culture, 1980).

National culture includes a set of guidelines rather diffuse appeared as primary values formed the beginning of life in the family and other social mechanisms that operate early in childhood.

---

2 Bibu N. A., Management comparat – o abordare interculturală, o abordare modernă (ediţia a II - a), Editura Mirton, Timișoara. 2002
Although there are specific values that can be established at the organizational level, however in this case the cultural dimension here is based on work practices learned in the organization, especially through social processes that act later in the life of the individual.  

Hofstede and his team postulated the existence of a cultural level, namely the level of employment that interferes and is influenced by certain practices.

**Cultural Values in Oracle**

Culture of a society directly affects international management practices by:

- **Centralization / decentralization of decision**
  
  In some organizations all important decisions are taken by top-managers, and others participate actively and managers at medium and low levels. Intercultural managers are faced with a key issue: to what extent foreign cultures must impose rules and procedures that can make differences?

  These relationships are based on what the customer wants and the best possible sources of supply in the international system. The role of the office is not only to give directions without assessing what coordinates to ensure that certain countries have taken a course of growth and the other is based on their experience. Headquarters facilitates this. He can also help other countries to follow that example.

  Oracle has a general direction which is the thumbnail of the entire system. Does the office executives German, Dutch, French, Japanese, Indian, Italian to the extent that the company made a large amount of business with the relevant countries. It is not delegates or representatives in foreign countries but individuals who bring their contribution to multicultural management.

- **Safety / risk**

---

Some managers have problems under uncertainty, they need to measure risk, but for others, risk taking is encouraged, and decision making under uncertainty is common.

Oracle are keen streamline sales and presales stage, the stage of collection of business analysis of how much information just to decrease the risk in solutions implementation stages, stages of post-sale.

Reward individual / group: employees who do great work is rewarded individually (bonuses and commissions), other countries, however, cultural norms require group rewards;

Depending on the country in which it operates, Oracle will permit both individual bonuses based on individual performance, and group packages for the teams with the best results. In Oracle, human resources are the most important key, which invests in continuous process half performance proved so national, international and productive and healthy environment held.

- Formal / informal

In some formal procedures are followed rigidly, while in others. Although it seeks to eliminate bureaucracy, the most important Oracle processes are marked deliverables in writing. Both investment plans, business, pursuing ongoing projects are submitted and monitored by project managers who have the responsibility to submit to any step status reports, progress, potential problems encountered journals. Tenders and contracts are made in writing and become available after completing a well-established route, accepting and signing all the responsible chain of command.

- Organizational Loyalty high / low

In some societies people strongly identify with the organization or their employer, in other people identifies themselves with their job.

Through team-building programs, training, seminars and workshops are aimed both nationally and internationally, Oracle team loyalty. This is proven human resources "roots" accumulated years of experience and leave the company only in exceptional circumstances.

- Cooperation / Competition
Some organizations encourage competition among employees, other cooperation;

In the company studied these processes are harmonized periodic competitions are set to achieve some goals, but most of times Oracle promotes teamwork and achieving goals by joining forces the entire staff. The sale of software performance would not be possible were it not for a continuous collaboration between the team of developers, consultants, sales and marketing.

- **Vision on short / long term**
  
  Some companies focus on short-term objectives (profit, efficiency), others are more interested in long-term objectives (market share, technological development);
  
  The annual plans are developed short-term goals (current investments, acquisitions immediate) and long-term plans (covering a certain segment, eg, at the moment we want to develop financial applications covering global banking activity is to terminate the application software compatibility with Intel's Itanium processors)

- **Stability / innovation**

  Country’s culture encourages stability and resistance to change others brings value innovation and change. In this case, corporations from countries like USA, India, and Netherlands put more emphasis on developing research-development departments than in Romania. This is due to the lack of national (in Romania) of interest represented by faulty policies, minimum allocations to this sector, encouraging poor training of researchers who eventually remain in the country to develop this sector.

  National culture includes a set of guidelines rather diffuse appeared as primary values formed the beginning of life in the family and other social mechanisms that operate early in childhood.

  Although there are specific values that can be established at the organizational level, however in this case the cultural dimension here is based on work practices learned in the organization, especially through social processes that act later in the life of the individual.
Hofstede and his team postulated the existence of a cultural level, namely the level of employment that interferes and is influenced by certain practices.

Oracle provides the most complete, open and integrated business software and Systems Company’s international hardware. Company’s activities are organized into several major geographic areas, whose managers have subordinate heads of departments in each country of the area acting company. The activity of each regional department should be part of the overall strategy of the company; the directors shall be responsible area director of the company, which by functional department’s located headquarters make overall planning and control activities of each department.

Advantages - since the main objective is to meet the needs of some markets, the power of decision to the local directory is one of the great advantages of this type of structure; it has the effect of a more rapid adjustment of product prices and channels distribution. Another advantage is the thorough understanding of the local conditions, which enables regional economies of scale. When problems arise in a particular country, area manager can find and implement solutions more quickly through a transfer of technology or resources. Meanwhile, if the headquarters deciding on a new market penetration, area director is best able to decide which of the existing subsidiaries is best able to achieve penetration into that market.

We analyzed a series of values that are relevant to international affairs, in an approach that highlights landmarks - time, space, man, action - against which define the values.

Time, time plays a decisive role in the culture of a community and therefore business practice.

Characteristic elements:

- Careful planning of activities, lack of plan, haphazard actions etc. treated with caution or disapproval;
- Efficiency in tasks / activities; "delayed" repeated delays are negatively charged;
Punctuality in business relationships, delays, failure limits are interpreted as lack of interest in the business;

Perseverance and consistency in achieving the goal: in a certain period of time undertake one action and it must be completed before hiring a new action.

Area-cultures differ depending on how the reality around, back physical existence distance.

Cultures "frontier" (USA, Russia) are more extroverted and dynamic, they characterized by expansionary trends in surrounding areas, but also greater capacity for innovation. For example, in the U.S. there are four types of distances between people who communicate face to face "intimate" when sending confidential information, "personal" in relationships with family members and close friends, "social" is used in relations business, "public" when the exposure group.

Language-culture is characterized by a certain degree of complexity, as the communication of messages and how to interpret them involve more or less contextual information.

Oracle has a low contextual cultures is more open in communication and social interaction processes. Communication is direct and explicit agreements are made in writing.

American culture is characterized by low importance given to traditions ceremonies and rituals.

Another feature of American business practice - that the sudden jump to call spades a spade - can be counterproductive in dealing with partners in the Middle East or Latin America, where the actual negotiations are preceded by general approach, informal comments, actions "create the atmosphere."

In cultures "individualistic" (e.g. USA), the individual must fulfill certain functions with precise responsibilities.

The way the action is considered, in different cultures, the role of social action exceed the attitude towards change and progress. In Western cultures, it is considered that the future is not predestined and volunteer effort is necessary to achieve change in the desired direction.
Man is part of a mechanism that runs itself, but they can impact the course of things. As such, being active, the action plan matter and spirit is not only justified, but necessary.

Internationalization as a process taking place over time premise has global objectives, given the overall evolution of the business environment under the influence of several factors such as technological, economic, political and cultural.

**Oracle - Specific Policies**

Oracle is organized by regions and business segments. There are two major business segments: products (including product licensing, customization, implementation and post-implementation support) and IT consulting services.

Oracle offers a consulting partnership end-to-end. It provides global business consulting and technology solutions that enable service providers to improve business process efficiency, optimize costs, meet compliance requirements and risk, define IT architecture and manage business processes.

The products are offered as a perpetual license to use, which are priced based on the number of accounts or users application.

A. **Pricing Policy**
   Besides licensing Oracle products, customers can also optionally use integration services to other integrated systems.
   Customers usually sign an annual maintenance contract with Oracle which provides technical support, maintenance and upgrades for licensed products. These support agreements usually cover a period of 12 months and generate another revenue stream for the company.

B. **Investment Policy**
   Investments that are readily realizable and intended to be held for not more than one year are classified as current investments. All other investments are classified as long-term investments. Commercial investment refers to investment made in order to strengthen the
company’s business interests in providing information technology solutions for the financial services industry worldwide. The company will reinvest in business growth globally. Dividends from the years 2012, 2013 will be reinvested in product development, infrastructure expansion, growth of research and maintaining market leadership and financial applications database.

Philosophy is conservative treasury operations, funds investing predominantly Oracle deposits. The company has secured adequate internal controls, asset management, including cash management operations, credit and debt collection.

C. Monetary Policy

Foreign currency transactions during the year are recorded at the exchange rates prevailing at the transaction date. Non-monetary items which are carried in terms of historical cost in a foreign currency are reported using the exchange rate at the transaction date. Exchange differences arising on the settlement of monetary items or on reporting company monetary items at rates different from those at which they were initially recorded or reported in previous financial statements are recognized as income or expense in the year in which they arise.

In terms of forward exchange contracts entered into by the company to cover currency risk premium or discount arising at the beginning of forward exchange contracts (are amortized as income or expense over the life of the contract).

D. Environmental Policy

Oracle is a responsible point of view of the polluter pays principle. Internal policies which promote environmental protection are:

- Virtualization-running multiple virtual machines on a single server, reducing electricity consumption (savings were achieved by 50%)
- Controlling print-as a member of the campaign "Go Green" Oracle monitors and controls the printing (have achieved savings of 40%)
Other operations performed: light green, recycling paper, investing in energy storage equipment, spreading messages and emails which urge active participation in the cause.

E. Social Policy

The "i-flex for children" program is in its 8th successful year. It requires the support of disadvantaged children and performing actions to improve the living environment: building schools, hospitals, and tuition programs, sponsorship of sporting events, without regard to religion or political affiliation.

European Specificity in Oracle Romania

The main features of the European model of management would be: orientation to the human person: internal negotiation, mastering cultural diversity harmonizes extremes.

Orientation to the human person - European firms are inclined to give their employees more individual freedom. Caring for employees is materialized in social protection compliance requirements (pension system, protection for redundancies) in more important leisure time as concerns insurance and social integration of the individual. However, European firms are characterized by a high degree of social responsibility.

Internal negotiations - If European firms’ negotiations and activities for achieving compromises between competing parties - are not only business relationship with the external environment, ie with different interest owners, employees between headquarters and the various units of the company. European countries are generally aware of a strong trade union movement, whose demands must be considered in management decisions. European managers will need, therefore, to have as a negotiator in the ability to explain problems and convince the social partners; skills 'diplomatic', a flexible management style, open to compromise are traits European manager.

Cultural Diversity Management - Culturally diverse "old continent must meet certain requirements, such as the following: respect
Considerations Regarding Cultural Values in Multinational Companies

Special Issue
December 2013

for foreign cultures, promoting decentralization in management documents, the need to integrate international operations, integration of culture in human resources.

Diversity management and integration through people (integration through people) involve both specific culture enhancement of company personnel and the development of intercultural communication skills and training of human resources in an internationalist and multicultural conception.

Oracle Management Romania known as a "middle model", avoiding attitudes limit (imposed by the U.S. corporate values, "time is money") and seeks harmonization extremes. This is evidenced by:

a) relationship between the individual and the firm, characterized by a pragmatic approach to the European model between the personalist conception of American and Japanese corporate (eg, loyalty to the company) orientation with respect to time, the median between the pursuit of profit in the short term (USA) and long-term development of the company (Japan);

b) individualism-collectivism, European firms seeking balance between the enhancement of individuality and teamwork requirements.

Vision of human resources - During its evolution, Oracle Romania, has continuously developed its own culture. If at first reflected American culture, with international expansion (corporate influences from Asia, Europe), Oracle has become increasingly influenced by national culture. Parallel to this process, the company develops its own personnel policy. This includes the selection, training, evaluating, rewarding and motivating employees.

Relations between the company’s management and employees are strongly influenced by the company culture. With increasing involvement in Romania, Oracle adopted a multicultural policy in achieving its business as well as employee relations.

Relations between the company’s management and employees are strongly influenced by the company culture. With increasing
involvement in Romania, Oracle adopted a multicultural policy in achieving its business as well as employee relations.

Recruitment methods used in Oracle are multiple and could be divided into two categories: formal and informal. For example, on the website www.oracle.ro displaying vacancies, recruitment portals are employment ads, a selection is made and the campus but there is kind of informal employment (persons recommended by the staff). Each employee has to fulfill its duties under the job description. Periodically, the company verifies that they have been met and, especially, how they have been met. For Oracle, assessment of the staff is a rather difficult problem. Although the goals to be achieved are the same, the efficiency of their achievement is measured differently from country to country. This data is based on the different meanings of labor. In Japan, for example, it is estimated the activity of a working day, no matter how many targets are actually made by an employee of the day, while in the United States is estimated objectives. In Romania are Ponte days worked but are monitored and evaluated and the results of the employee in the work.

Conclusions

Factors outside the company reflects, on the one hand, business conditions in Romania (national factors), and on the other hand, the context of general economic, technological, political, cultural, the company carries out its activities worldwide (international factors). The two types of factors are interrelated and business of the company has always looked a dual perspective: international and intercultural.

Oracle Management Romania known as a "middle model", avoiding attitudes limit (imposed by the U.S. corporate values, "time is money") and seeks harmonization extremes.

This is evidenced by:

a) the relationship between the individual and the firm, characterized by a pragmatic approach to the European model between
the personalist conception of American and Japanese corporate (eg, loyalty to the company) orientation with respect to time, the median between the pursuit of profit in the short term (USA) and long-term development of the company (Japan);

b) the individualism-collectivism, European firms seeking balance between the enhancement of individuality and teamwork requirements.

It can be concluded that during its evolution, Oracle Romania, has continuously developed its own culture. If at first reflected American culture, with international expansion (corporate influences from Asia, Europe), Oracle has become increasingly influenced by national culture. Parallel to this process, the company develops its own personnel policy. This includes the selection, training, evaluating, rewarding and motivating employees.

References


The Development of Economic Competitiveness Based on Knowledge

Author: Loredana - Maria Paunescu, Petroleum & Gas University, Romania, loredana.paunescu@yahoo.com

This analysis has as starting points some economic theories that must be taken into account, such as: the need for a convergence with the European economic field - the recovery field gaps by increasing the economic competitiveness and the development of competitive economic advantages; the convergence on medium and long terms - the need for a knowledge-based economy and the sustainable economic growth and improvement of the standards of living of the population as determined by the development of competitiveness of economy in the context of the single global market. The study also presents general and specific objectives and strategies for overcoming the gaps in the economic field.

Keywords: economic growth; globalization; competitiveness; potential accessibility; global market; strategy; objectives.

Economic growth

The dynamic nature of the development and implementation of policies and legislation of the European Union show that the performance in the socio-economic development cannot be achieved in any other way than
in the political, legislative and administrative environment that allows the achievement of goals and maximizes the results.

Romania’s accession to EU calls for its transformation into a competitive, dynamic country in the context in which the European Union has set certain global goals. The key factor in determining economic growth under conditions of the full entry into a market dominated by the powerful forces of competition is raising economic competitiveness. In addition, the development of competitive economic advantages must be a constant process, which takes into account the European trends and the process of globalization as a whole. Therefore, competitiveness should not be seen as a process of exploiting short-term benefits (e.g. reduced cost of labour), but as a process of building an economic structure based on capital investment and innovative - research - development processes. In other words, the articulation of convergence angles on the medium and long term needs to consider the development of a knowledge-based economy [1].

**Competitiveness of the economy**

Sustainable economic growth and the improvement of the standard of living of the population, are determined by the development of the competitiveness of the economy in the context of the global challenges (globalization of the economy, opening international markets, rapid technological change), challenges that must be turned into opportunities for the Romanian economy.

Since joining the EU, Romania follows the development of convergence with the European economic area, both at a nominal and real level. This process of recovery of gaps requires that, in the 2007-2013 period, Romania needs to have high economic rates, while maintaining stable macroeconomic balances.

In order to achieve all the economic goals regarding the development of the economic competitiveness at an international level, Romania has to obtain certain strategic objectives, such as:
a) the general objective:
Increasing productivity of the Romanian enterprises for bridging the gap toward productivity average at Union level it aims at generating up to 2015 the average productivity growth. 5.5% annually, allowing Romania to reach a level of around 55% of the EU average. From the analysis of the current situation, it is an unfavorable situation, several factors influencing competitiveness. Despite progress in privatization and regulation of the financial sector to improve access to capital for companies is still very limited.

b) the specific objectives:
- The contribution of SMES to GDP growth by 20% till 2015.
- Increasing the value of the total expenditure of C-D to 3% of GDP in 2015.
- Increasing number of enterprises using the Internet (access to on-line services) from 19% in 2003 to 55% in 2015.
- Primary energy intensity reduction by 40% until 2015, compared to 2001.
- The use of technologies and of the necessary equipment with a duration for the life period exceeded, energy-intensive drastically reduce productivity in most industrial sectors.

The SME sector is perhaps the most affected, with a structure that denotes a low orientation towards the productive activities, as can be seen from the analysis of the current situation. Despite the viewings, the share of SMEs in GDP is still insufficient, being necessary both to increase the quantity and quality of the SME sector. SME access to capital, technology and infrastructure is low, well below the level that would allow the exercise of vital role of SMEs in strengthening economic competitiveness through flexibility with introducing innovative processes and adaptability to market requirements.

The competitiveness of an economy relies on the efficient consumption of energy resources and energy. Described in this context there should be given special importance in the production, transportation, distribution and efficient use of energy. Romania is
characterized by an extremely high energy intensity compared not only with the EU average but also with the former Communist countries media in the region. Furthermore, comparative analysis of competitiveness indicators shows that energy intensity represent a factor of competitiveness with the largest gap towards the countries of the European Union. This gap can be a major handicap for the competitiveness of the national economy, especially regarding the gradual increase in energy prices and their alignment to the European ones.

In this context, the economic competitiveness is determined by:

- the involvement of urban centers in the creative and innovative use of national potential, to form a hierarchical system of poly development areas by concentrating certain combinations of products and services are competitive or likely to become competitive (IT services, financial, creative industries, environmental services, personalized services, tourism, etc.) along with the development of accessibility resources in education and research and innovation, infrastructure, quality of the environment and quality of life[6];
- realization of an integrated system of national potential and accessibility by establishing interconnections between elements of the polycentric system;
- the use of research and innovation potential, and in particular the academic centers, which become promoters of innovative activity and offering multiple opportunities and chances for professional development as a factor of stabilization of the local workforce and attracting highly skilled labor force;
- development and promotion of tourism by capitalizing on the natural and cultural heritage and focusing on the natural and cultural landscape. At the same time, tourist development will

---

follow the national plan for landscaping (travel section),
targeting creative managing natural landscapes and cultural
heritage of the countryside;
- establishing connections at a higher scale, at territorial levels by
  stimulating the emergence and consolidation of economic
  clusters[4].

Economic strategies

There are needed some strategies to increase the economic
competitiveness such as:

1. Improving competitiveness by improving access to the market of
   enterprises, especially small and medium ones;
2. the development of the knowledge-based economy by promoting
   research and innovation and accelerate the development of the
   information society;
3. Improving energy efficiency and using renewable energy
   resources;

**Figure 1:** Economic Competitiveness (Source: The Author)

The attention should be drawn on ensuring territorial cohesion that
results in long-term balanced economic development and rising living
standards. In the medium term a policy geared exclusively towards balancing the space economically strong areas would result in weakening and, therefore, it is necessary to assess, the selection and prioritizing investment options taking into account the mix of optimal combinations/competitive activities, the existence of the facilities and services required for the functioning of the magnetic poles of development, accessibility checking, existing facilities on the preparation of human resources, offer the necessary courses and units and their functional compatibilities[3].

**Conclusions**

Thus, the economic growth should be based on avoiding the overproduction crisis (both in the field of goods and services), and is required as the development to production, absorption and, implicitly, of human resources, both inside and outside the territory of our country. Also, the development should avoid crises whose intensity can affect the population or the relations between different states.

**References**


Study on the Accounting and Tax Scheme of Second-Hand Goods Such as Cars

Authors: Negruţiu Magdalena, Titu Maiorescu University, Bucharest, Romania, m.negrutiu@yahoo.com; Calotă Traian-Ovidiu, Titu Maiorescu University, Bucharest, Romania, traiancalota@yahoo.com

From a tax point of view, taxable dealers have the right to choose applying the special VAT scheme, under certain conditions and limitations. The European Directive requires, as a general rule, to assess the margin for each good, as a difference between the selling price charged by the reselling person and the purchase price for such good. However, as an alternative method, the European directive allows that, under certain conditions, the Member States shall provide in their national legislation that the profit margin calculates globally, for all operations performed during the tax period (month, quarter, etc.).

This article aims to release, for the first time on national level, divergences between the application of EU and national legislation on the tax arrangement of second-hand goods such as cars, starting from the fact that national legislation has chosen only the application of the second method (method of establishing the overall profit margin at the level of a tax period), irrespective of the type of second-hand goods, dealers and accounting system used by the latter.
Keywords: second-hand goods; accounting arrangement; profit margin; tax period; value based comprehensive inventory management; specific identifying of stocks; tax base; VAT tax arrangement; perpetual inventory.

JEL: H32 – Firm; K34 - Tax Law; M41 – Accounting; M48 - Government Policy and Regulation

Introduction

Chapter 4, Title XII of Directive 112/2006/EC: Special arrangements for second-hand goods, works of art, collectors’ items and antiques have been transposed into the national law within Art. 152 point 2 of the Tax Code, "Special arrangements for second-hand goods, works of art, collectors' items and antiques" and section 64, fourth paragraph of the Government Decision 44/2004 for the implementation of Art. 152 point 2 of the Tax Code, as amended and supplemented.

In the normal taxation scheme, as a general rule, dealers are required to collect VAT on the selling price of each car sold, but are entitled to deduct VAT when purchasing such goods. Since in the retail trade with used cars, there are several occasions when they are purchased without VAT (for example, purchases from individuals), in this case, applying the general rules on VAT would have lead to supplementation of VAT payable to the budget. Instead, application of the special taxation scheme allows tax collection at the profit margin level, as a difference between the selling price without VAT and the purchase price of such good.

What are the conditions for the use of the special scheme?

The scheme for the taxation of the profit margin made by the taxable dealer on the supply of second hand goods such as those at issue in the
main proceedings constitutes a special arrangement for VAT – derogating from the general scheme of Directive 2006/112.

The special taxation scheme is optional, but its implementation is only possible if certain conditions are met cumulatively, as follows:

| 1) | **Cars are second-hand goods in tax meaning** (Art. 311 first paragraph of Directive 2006/112/CE versus Art. 152 point (2) first paragraph letter d) of the Tax Code corroborated with section 64 first and second paragraphs of the Methodological Guidelines GD 44/2004).

For example, national legislation defines the second-hand goods as “those tangible movable assets that can be reused as they are or after performing some repairs, others than works of art, collectors’ items or antiques, precious stones and other goods specified in the rules”.

In other words, used cars are purchased to be sold as such or after being repaired.

**Attention:** Second-hand scheme may not be used for new cars. |
| 2) | **Dealer is a taxable person** for VAT: purposes:

- In the European legislation is mentioned the taxpayer intermediary (Art. 311 first paragraph of Directive 2006/112/EC; we find it in the national legislation under the name of taxable dealer (Art. 152 point 2, first paragraph, letter e) of the Tax Code). |
| 3) | Taxpayer dealer buys **cars in the European Community**;

**Attention:** It is prohibited to apply second-hand scheme for cars imported from third countries. |
| 4) | **The person supplying the goods** concerned to the taxable dealer **could not deduct** any of the input tax paid on the purchase of those goods and therefore bore that tax in its entirety.

Article 314 of Directive 2006/112/EC versus Art. 152 point (2) second paragraph of the Tax Code specifies the persons from whom you can buy second-hand cars. Thus, **goods must be purchased from**:

(i) a non-taxable person (i.e. an individual);
(ii) a dealer in another EU member state who also applies special VAT scheme (this is necessary to be also included in the invoice);
(iii) another taxable person, in so far as the supply by the latter is exempt in terms of the European Directive and national legislation; |
Attention: As shown in Case C-160/11 (Bawaria Motors sp. z o.o. in opposition to the Minister Finansów) “[…] a taxable dealer is not eligible for the application of the margin scheme where it supplies motor vehicles considered to be second-hand goods, within the meaning of Article 311(1)(l) of that directive, which it has previously acquired exempt from VAT from another taxable person which had only a right of partial deduction of input VAT paid on the purchase price of those vehicles”.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5)</td>
<td>Taxable dealer <strong>must calculate profit margin</strong> according to the statutory VAT. Here are found special rules relating to (i) how to assess the purchase cost (for example, it should not be taken into account the cost of repairs carried out in order to sell the goods purchased), (ii) selling price and (iii) methods or proceedings for assessment the profit margin (on which we will refer to letter C) of this article, hence the major divergences between the two legislations);</td>
</tr>
<tr>
<td>6)</td>
<td>Taxable dealer <strong>shall not register, separately</strong>, in the sales invoice, the tax related to the sold goods (Article 332 of Directive 2006/112/EC versus Art. 152 point (2), twelfth paragraph of the Tax Code). The dealer shall issue an invoice, by <strong>self-invoicing</strong> to each supplier from whom it purchases goods under the special scheme and who is not obliged to issue an invoice, such as non-taxable individuals. Also, the dealer should keep <strong>separate records</strong> and comply with <strong>mandatory reporting</strong> imposed by the tax law.</td>
</tr>
<tr>
<td>7)</td>
<td><strong>Taxpayers are not entitled to deduct the VAT</strong> when purchasing vehicles from the auto dealer who has implemented the special scheme for such supply, the more because VAT is not included in the invoice issued by the dealer (Article 331 of Directive 2006 / 112/CE versus Art. 152 point (2), tenth paragraph of the Tax Code).</td>
</tr>
</tbody>
</table>

What are the methods or procedures for collecting the special scheme taxes provided in the European legislation?

The corresponding European Directive provides two methods for determining the profit margin: (i) the method of identifying the margin of each good sold, as a general rule and (ii) the global method (calculated only once at the end of the tax period on the total margin obtained by the dealer during such tax period), as an alternative rule.
which is the basic method?

Article 315 of Directive 2006/112/EC mentions the basic method to be used by the dealers, in the meaning that the tax base related to good supplies referred to in Article 314 shall be the profit margin obtained by the taxable intermediary minus the sum of VAT related on the profit margin. The profit margin of the taxable intermediary shall be equal to the difference between the selling price imposed by the taxable intermediary for goods and their purchase price.

For example, for a good purchased by RON 20,000 and sold under the special scheme by RON 30,000 (24% VAT included):

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>profit margin earned</td>
<td>RON 10,000</td>
</tr>
<tr>
<td>(-) VAT related to</td>
<td>RON 1,935.48</td>
</tr>
<tr>
<td>the profit margin</td>
<td></td>
</tr>
<tr>
<td>24/124 * RON 10,000</td>
<td>1,935.48</td>
</tr>
<tr>
<td>=</td>
<td>Profit margin</td>
</tr>
<tr>
<td></td>
<td>(tax base)</td>
</tr>
<tr>
<td></td>
<td>RON 8,064.52 lei</td>
</tr>
</tbody>
</table>

Checking: * 24% VAT = RON 8,064.52 = RON 1,935.48. As the final profit margin is RON 8,064.52, this means that the recognized income is RON 28,064.52 (margin + merchandise expenses sold).

which is the alternative method?

Art. 318 of Directive 2006/112/EC provide the alternative method:

1) In order to simplify the procedure for collecting the tax and after consulting the VAT Committee, Member States may provide that, for certain transactions or certain categories of taxable intermediaries, the tax base relating to supplies of goods subject to the margin scheme be calculated for each tax period for which the taxable intermediary is obliged to submit the VAT return referred to in Article 250.

If this provision is made in accordance with subparagraph 1, the tax base related to supplies of goods to which the same VAT rate applies, will be the total profit margin obtained by the taxable intermediary, minus the amount of VAT relating to that margin.

2) The total profit margin shall be equal to the difference between the following two amounts:

(a) total value of supplies of goods subject to the margin scheme and performed by
the taxable intermediary during the tax period covered by the statement, in other words, **total amount of selling prices**;
(b) total value of purchases of goods of the kind referred to in Article 314, made by the taxable intermediary during the tax period covered by the statement, in other words, **total amount of purchase prices**.

which is the reason of option in using one of the two methods?

It is noted that the margin scheme regulated in Art. 314, corroborated with Art. 315 of Directive 112/2006/CEE involve the specific identification, piece by piece, of the purchase price for the goods bought and delivered under the special scheme. However, according to the compliance with Art. 318 of the same directive, an exception to this rule may apply; in order to simplify the procedure for collecting the tax, this can be achieved only for certain transactions or certain categories of taxable intermediaries and only after consulting the VAT Committee. The exception is applicable, in particular, in the case of low-value and fungible goods, for which, on delivery, the purchase price thereof cannot be assessed.

European legislation tax approach is flexible and rational, because it allows taxpayers to apply the rule that best suits the nature of second-hand goods sold, the accounting model adopted by the entity on the stocks possessed. For example:

- for second-hand clothing and footwear where specific identification is not possible, accounting policies may aim at using perpetual inventory method at selling price, the analytical accounting being overall value, in this case, for these operations;
- for the second-hand means of transport, it is used the perpetual inventory method at purchase cost; the analytical accounting being quantitative and value (because cars are goods identified by chassis / engine unique series).
Irrespective of the method used, the dealer must use (i) a distinct purchase journal where to be written down the purchase cost for each good and (ii) a separate sales journal for highlighting the selling price including VAT, related to the good sold. Based on the two journals, it can be determined the VAT collected on profit margin, either (i) for each good delivered under special scheme (in case of the basic method), or (ii) globally, at the end of the tax period, upon the total profit margin.

**Which is the method of collecting the special tax under the national legislation?**

The definition of the profit margin is given in Art. 152 point 2, first paragraph, letter g) of the Tax Code, as follows:

<table>
<thead>
<tr>
<th>profit margin</th>
<th>is the difference between the selling price applied by the taxable dealer and the purchase price, in which:</th>
</tr>
</thead>
<tbody>
<tr>
<td>g)1. selling price means the amount received by the taxable dealer from the purchaser or from a third party, including subsidies directly linked to the transaction, taxes, duties, levies and charges and incidental expenses such as commission, packaging, transport and insurance costs charged by the taxable dealer to the purchaser, except for the reductions in the price;</td>
<td></td>
</tr>
<tr>
<td>g)2. “purchase price” means everything constituting the consideration, according to the definition of the selling price, by the supplier from the taxable dealer.</td>
<td></td>
</tr>
</tbody>
</table>

Section 64, fourth paragraph, letter a) of the Methodological Guidelines clarifies unequivocally what is the only method used to determine the profit margin: "tax base for supplies of goods to which the same tax rate applies is the difference between the total profit margin made by the taxable dealer and the tax value related to such margin". Therefore, the national legislation adopted from the EU legislation only the exception to the rule, the one found in Art. 318 of the European legislation, which, as we recall, may be achieved only for certain transactions or for certain categories of taxable intermediaries, but only after consulting the VAT Committee.

Total profit margin can be positive or negative. Consequently, tax may be due to the state when the total margin is positive or it will be
carried forward in the following tax period, if the total margin is negative, except for the last tax period. Therefore, the legislator has regulated two different calculation relationships for the total profit margin, as follows:

| 1 | Section. 64 fourth paragraph letter b) of the Methodological Guidelines: **total profit margin** for a certain tax period (month, quarter), other than the last tax period of the calendar year shall be equal to **the difference** between:

b)1. aggregate amount, equal to the **total selling prices** determined in accordance with *Art. 152 point 2, first paragraph, letter g) section 1)* of the Tax Code, supplies of goods subject to special scheme made by the taxable dealer at the time; and

b)2. aggregate amount, equal to the **total purchase prices** calculated according to *Art. 152 point 2, first paragraph letter g) section. 2)* of the Tax Code, purchase of goods provided at *Art. 152 point 2, second and third paragraphs of the Tax Code*, made by the taxable dealer at that time;

Attention: Section 64.(5) of the Methodological Guidelines regulates that, if the **total of profit margin** for a certain tax period, other than the last tax period of the calendar year, is **negative**, that **margin shall be carried forward in the next tax period**, by entering this negative margin into the special register, provided in the seventh paragraph.

| 2 | Section. 64 fourth paragraph letter b) of the Methodological Guidelines: **total profit margin** for the last tax period of the calendar year shall be equal to **the difference** between:

b)1. aggregate amount, equal to the **total selling prices** determined in accordance with *Art. 152 point 2, first paragraph, letter g)*, section 1) of the Tax Code, of the supplies of goods subject to special scheme made by the taxable dealer at that time; and

b)2. aggregate amount, equal to **the total purchase prices** determined in accordance with *Art. 152 point 2, first paragraph, letter. g)*, section 2) of the Tax Code, of the supplies of goods provided under *Art. 152 point 2, second and third paragraphs of the Tax Code*, made by the taxable dealer under the special scheme during that year, **plus** the total value of goods in the stock at the beginning of the calendar year, **minus** the total value of goods in the stock at the end of the calendar year, **plus** the value of profit margins, either positive or negative, already declared for the previous tax periods of that year.

Attention: If the **total profit margin for the last tax period of the calendar year is negative**, **the margin cannot be carried forward to the following calendar year**, under section 64. (6).
In order to comply with the provisions of the Tax Code, section 64, seventh paragraph of the Methodological Guidelines, it is established that the taxable dealer shall keep:

- special purchase journal where all goods purchased during the tax period and subject to the special regime shall be entered;
- special sales journal where all goods sold under the special scheme, during the same tax period, shall be entered;
- comparative registry that allows to determine, at the end of each tax period, other than the last tax period of the calendar year, the total tax base for the supplies made during that tax period and, if applicable, the tax collected.

**Case Study in terms of the national legislation**

Next, we shall illustrate, in terms of accounting and tax provisions, sale of second-hand goods, such as transportation means. Let’s suppose that a car dealer is subject to VAT payment, with a quarterly base for declaring VAT. He sells second-hand cars purchased from individuals (non-taxable) under special scheme, holding on 01.01.N goods worth RON 148.000: (i) vehicle 01, at purchase price of RON 45.000 (ii) vehicle 02, at purchase price of RON 53.000; vehicle 03, at purchase price of RON 50.000. In the course of "N" tax period, the following operations are carried out:

<table>
<thead>
<tr>
<th>Period</th>
<th>Supplies at the selling price</th>
<th>Cost purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>First quarter</td>
<td>Vehicle 2 56.000</td>
<td>Vehicle 4 66.000</td>
</tr>
<tr>
<td></td>
<td>Vehicle 5 17.500</td>
<td>Vehicle 5 14.800</td>
</tr>
<tr>
<td>Second quarter</td>
<td>Vehicle 3 70.000</td>
<td>Vehicle 6 56.500</td>
</tr>
<tr>
<td></td>
<td>Vehicle 5 17.500</td>
<td></td>
</tr>
<tr>
<td>Third quarter</td>
<td>Vehicle 1 52.800</td>
<td>Vehicle 07 28.000</td>
</tr>
<tr>
<td>Fourth quarter</td>
<td>Vehicle 4 78.500</td>
<td>Vehicle 08 16.500</td>
</tr>
<tr>
<td>Total per year</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>274.800</td>
<td>181.800</td>
</tr>
</tbody>
</table>

It is further rendered the accounting records, journals and amounts representing VAT declared in each tax period.
1. which is the accounting and tax scheme applied in the first quarter?

- Sale of vehicle 02, at the selling price of RON 56,000:

  \[
  \begin{align*}
  411 & \quad \text{„Customers”} = 707 \quad \text{„Income from sale of goods”} \\
  & \quad 56,000
  \end{align*}
  \]

- Release from administration for vehicle 02, at the amount of RON 53,000:

  \[
  \begin{align*}
  607 & \quad \text{„Merchandise expenses”} = 371 \quad \text{„Merchandise”} \\
  & \quad 53,000
  \end{align*}
  \]

- Purchase of vehicle 04, at the amount of RON 66,000:

  \[
  \begin{align*}
  371 & \quad \text{„Merchandise”} = 462 \quad \text{„Sundry creditors”} \\
  & \quad 66,000
  \end{align*}
  \]

- Purchase of vehicle 05, at the amount of RON 14,800:

  \[
  \begin{align*}
  371 & \quad \text{„Merchandise”} = 462 \quad \text{„Sundry creditors”} \\
  & \quad 14,800
  \end{align*}
  \]

**Special Purchase Journal for the First Quarter**

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Purchase document</th>
<th>Name/Supply name</th>
<th>Self-invoicing</th>
<th>Total purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vehicle 04</td>
<td>CVC 110 20.01.N</td>
<td>Tamas V.</td>
<td>1 20.01.N</td>
<td>66.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>80.800</td>
</tr>
</tbody>
</table>

Total purchases for the 1st quarter 80.800
Study on the Accounting and Tax Scheme of Second-Hand Goods Such as Cars

Special Sales Journal for the First Quarter

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document Type</th>
<th>No.</th>
<th>Date</th>
<th>Name/ Customer name</th>
<th>Total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vehicle 02</td>
<td>F</td>
<td>01</td>
<td>15.03.N</td>
<td>Iosef R.</td>
<td>56.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total sales for the 1st quarter</td>
</tr>
</tbody>
</table>

Comparative Registry for the First Quarter

<table>
<thead>
<tr>
<th>Crt No.</th>
<th>Name of good</th>
<th>Sales document Type</th>
<th>Selling price (inclusive of VAT)</th>
<th>Purchas e price</th>
<th>Purchase document</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT 24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vehicle 04</td>
<td>-</td>
<td>- 66.000</td>
<td>AF 1/20.01N</td>
<td>- 66.000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2.</td>
<td>Vehicle 05</td>
<td>-</td>
<td>- 14.800</td>
<td>AF2/11.02N</td>
<td>- 14.800</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3.</td>
<td>Vehicle 02</td>
<td>F1/15.03N</td>
<td>56.000</td>
<td>AF 10.08N-1</td>
<td>56.000</td>
<td>- 24.800</td>
<td>20.000</td>
<td>4.800</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total for the 1st quarter</td>
<td>56.000</td>
<td>80.800</td>
</tr>
</tbody>
</table>

Negative margin – 24.800, negative tax base- RON 20.000 and negative VAT of RON 4.800 will be carried forward in the second quarter from the N tax period.

2. which is the accounting and tax scheme applied in the second quarter?

- Sale of vehicle 03 + vehicle 5, at the selling price of RON 87.500 (70.000 + 17.500):

\[ \text{4111} \quad \text{„Customers“} = \quad \text{707} \quad \text{„Income from sale of goods“} = 87.500 \]

- Release from administration for vehicle 02, at the amount of RON 64.800 (50.000+14.000):
Study on the Accounting and Tax Scheme of Second-Hand Goods Such as Cars

Special Issue
December 2013

„Merchandise expenses” = „Merchandise” 64.800

purchase of vehicle 06, at the amount of RON 56.500:

„Merchandise” = „Sundry creditors” 56.500

Special Purchase Journal for the Second Quarter

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Purchase document</th>
<th>Name/Supply name</th>
<th>Self-invoicing</th>
<th>Total purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vehicle 06</td>
<td>CVC 112 10.05.N</td>
<td>Mares I.</td>
<td>3 10.05.N</td>
<td>56.500</td>
</tr>
</tbody>
</table>

Total purchases for the 2nd quarter 56.500

Special Sales Journal for the Second Quarter

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Name/Customer name</th>
<th>Total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vehicle 03</td>
<td>F 02 19.04.N</td>
<td>Genoa M.</td>
<td>70.000</td>
</tr>
<tr>
<td>2</td>
<td>Vehicle 05</td>
<td>F 03 15.06.N</td>
<td>Ratiu N.</td>
<td>17.500</td>
</tr>
</tbody>
</table>

Total sales for the 2nd quarter 87.500

Comparative Registry for the Second Quarter

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Selling price (inclusive of VAT)</th>
<th>Purchase price</th>
<th>Purchas e document</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT 24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vehicle 06</td>
<td>F3/10.05N 56.500</td>
<td>AF 3/10.05N</td>
<td>-24.800</td>
<td>20.000</td>
<td>4.800</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Vehicle 03</td>
<td>F2/19.04N 70.000</td>
<td>AF 06.11N-1</td>
<td>-</td>
<td>70.000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Vehicle 05</td>
<td>F3/15.06N 17.500</td>
<td>AF 2/11.02N</td>
<td>17.500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

285
The entity states, in the Form 300 related to the second quarter of the “N” tax period, VAT payable in the amount of RON 1,200:

\[
\begin{align*}
\text{635} & \quad \text{“Other taxes, duties and similar expenses”} = \quad \text{4427} & \quad \text{“Output VAT”} = 1,200 \\
\end{align*}
\]

3. which is the accounting and tax scheme applied in the third quarter?

- Sale of vehicle 01, at the selling price of RON 52,800:

\[
\begin{align*}
\text{4111} & \quad \text{“Customers”} = \quad \text{707} & \quad \text{“Income from sale of goods”} = 52,800 \\
\end{align*}
\]

- release from administration for vehicle 01, at the amount of RON 45,000:

\[
\begin{align*}
\text{607} & \quad \text{“Merchandise expenses”} = \quad \text{371} & \quad \text{“Merchandise”} = 45,000 \\
\end{align*}
\]

- purchase of vehicle 07, at the amount of RON 28,000:

\[
\begin{align*}
\text{371} & \quad \text{“Merchandise”} = \quad \text{462} & \quad \text{“Sundry creditors”} = 28,000 \\
\end{align*}
\]

**Special Purchase Journal for the Third Quarter**

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Purchase document Type</th>
<th>No.</th>
<th>Date</th>
<th>Name/Supply name</th>
<th>Self-invoicing No.</th>
<th>Date</th>
<th>Total purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vehicle 07</td>
<td>CVC</td>
<td>113</td>
<td>16.08.N</td>
<td>Jianu I.</td>
<td>4</td>
<td>16.08.N</td>
<td>28,000</td>
</tr>
<tr>
<td><strong>Total purchases for the 3rd quarter</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>28,000</td>
</tr>
</tbody>
</table>
Special Sales Journal for the Third Quarter

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Name/ Customer name</th>
<th>Total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Vehicle 01</td>
<td>F 04 09.09.N</td>
<td>Onu C.</td>
<td>52.800</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Total sales for the 3rd quarter</strong> 52.800</td>
</tr>
</tbody>
</table>

Comparative Registry for the Third Quarter

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Selling price (inclusive of VAT)</th>
<th>Purchase price</th>
<th>Purchas e docume nt</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT 24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vehicle 07</td>
<td>-</td>
<td>-</td>
<td>28.000</td>
<td>AF 4/16.08 N</td>
<td>- 28.000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2.</td>
<td>Vehicle 01</td>
<td>F/09.09.N</td>
<td>52.800</td>
<td>-</td>
<td>AF 07.08N-1</td>
<td>52.800</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Total for the 3rd quarter</strong> 52.800</td>
<td>28.000</td>
<td>x</td>
<td><strong>+24.800</strong></td>
<td>+20.000</td>
<td>+4.800</td>
</tr>
</tbody>
</table>

The entity states, in the Form 300 related to the third quarter of the “N” tax period, VAT payable in the amount of RON 4,800:

\[
\begin{align*}
\text{635} & \quad \text{“Other taxes, duties and similar expenses”} = \quad \text{4427} \\
& \quad \text{“Output VAT”} \quad 4,800
\end{align*}
\]

4. which is the accounting and tax scheme applied in the fourth quarter?

- Sale of vehicle 04, at the selling price of RON 78,500:

\[
\begin{align*}
\text{411} & \quad \text{“Customers”} = \quad \text{707} \\
& \quad \text{“Income from sale of goods”} \quad 78,500
\end{align*}
\]
release from administration for vehicle 04, at the amount of RON 66,000:

\[
\begin{align*}
\text{607} & \quad \text{“Merchandise expenses”} = \quad \text{371} & \quad \text{“Merchandise”} \\
& \quad = 66,000 \\
\end{align*}
\]

purchase of vehicle 08, at the amount of RON 16,500:

\[
\begin{align*}
\text{371} & \quad \text{“Merchandise”} = \quad \text{462} & \quad \text{“Sundry creditors”} \\
& \quad = 16,500 \\
\end{align*}
\]

**Special Purchase Journal for the Fourth Quarter**

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Purchase document</th>
<th>Name/Supply name</th>
<th>Self-invoicing</th>
<th>Total purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Type</td>
<td>No.</td>
<td>Date</td>
<td>No.</td>
</tr>
</tbody>
</table>

**Total purchases for the 4th quarter** 16,500

**Special Sales Journal for the Fourth Quarter**

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Name/Customer name</th>
<th>Total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Type</td>
<td>No.</td>
<td>Date</td>
</tr>
<tr>
<td>1.</td>
<td>Vehicle 04</td>
<td>F</td>
<td>05</td>
<td>05.12.N</td>
</tr>
</tbody>
</table>

**Total sales for the 4th quarter** 78,500

The formula for the last tax period (Fourth quarter):

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Indicators</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; quarter</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt; quarter</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt; quarter</th>
<th>4&lt;sup&gt;th&lt;/sup&gt; quarter</th>
<th>Total per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sales at selling price</td>
<td>56,000</td>
<td>87,500</td>
<td>52,800</td>
<td>78,500</td>
<td>274,800</td>
</tr>
<tr>
<td>2.</td>
<td>Purchases at cost</td>
<td>80,800</td>
<td>56,500</td>
<td>28,000</td>
<td>16,500</td>
<td>181,800</td>
</tr>
<tr>
<td>3.</td>
<td>Margins declared for the 1&lt;sup&gt;st&lt;/sup&gt; to 3&lt;sup&gt;rd&lt;/sup&gt; quarters</td>
<td>-24,800</td>
<td>+31,000</td>
<td>+24,800</td>
<td>-</td>
<td>+31,000</td>
</tr>
<tr>
<td>4.</td>
<td>Initial stock value on 01.01.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>148,000</td>
</tr>
<tr>
<td>5.</td>
<td>Final stock value on 31.12.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>101,000</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Profit margin for the 4&lt;sup&gt;th&lt;/sup&gt; quarter</strong> [6 = 1 - (2 + 3 + 4 - 5)]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+15,000</td>
</tr>
</tbody>
</table>

288
Since the profit margin for the last tax period is positive + RON 15,000, it follows that the tax base is RON 12,097 (RON 15,000 * 24/124) and VAT payment for the fourth quarter amounts to RON 2,903:

\[
\frac{635}{\text{"Other taxes, duties and similar expenses"}} = \frac{4427}{\text{"Output VAT"}} = 2.903
\]

If the total profit margin for the last tax period of the calendar year had been negative, the margin would have not been carried forward to the following calendar year.

According to national tax legislation, the entity declared in the course of the current year a total VAT payable in the amount of RON 8,903 (RON 1,200 from the second quarter + RON 4,800 from the third quarter + RON 2,903 from the fourth quarter).

**Case Study in terms of the basic scheme provided by the European legislation**

We will resume the same example in terms of applying the margin scheme covered in Art. 314 and corroborated with Art. 315 of Directive 112/2006/CEE, involving the specific identification, piece by piece, of the purchase price of goods bought and delivered under special scheme. As the transactions are the same, we’ll present only the tax scheme (accounting treatment being identical to the one shown in point D) of this material.

**Comparative Registry for the First Quarter**

<table>
<thead>
<tr>
<th>Crt. No</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Selling price (inclusive of VAT)</th>
<th>Purchase price</th>
<th>Purchase document</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT 24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vehi</td>
<td>F1/15.0</td>
<td>56,000</td>
<td>53,000</td>
<td>AF</td>
<td>3,000</td>
<td>2.4</td>
<td>581</td>
</tr>
</tbody>
</table>
First it should be noted that the special purchase and sales journals for the 1st - 4th quarters are the same as those listed in point D), for which reason we have not presented here, too.

The comparative registry differs from the Romanian version, since it includes only the information on second-hand cars sold during that tax period. In addition, we note that it is declared both the sale price, as well as the purchase price of goods sold, irrespective of their acquisition date (from the current year or from the previous years), for which reason the profit margin shall be established for each good sold.

As a consequence, VAT payable for the first quarter amounts to RON 581, unlike RON 0 due when applying the national law (the margin was negative and had been carried forward).

### Comparative Registry for the First and Second Quarters

<table>
<thead>
<tr>
<th>Cr. N. O.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Selling price (inclusive of VAT)</th>
<th>Purchase price</th>
<th>Purchase document</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT 24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Vehicle 02</td>
<td>F1/15.0 3N</td>
<td>56.000</td>
<td>53.000</td>
<td>AF 10.08N -1</td>
<td>3.000</td>
<td>2.419</td>
<td>581</td>
<td></td>
</tr>
<tr>
<td><strong>Total for the first quarter</strong></td>
<td></td>
<td>56.000</td>
<td>53.000</td>
<td>x</td>
<td>3.000</td>
<td>2.419</td>
<td>581</td>
<td></td>
</tr>
<tr>
<td>2. Vehicle 03</td>
<td>F2/19.0 4N</td>
<td>70.000</td>
<td>50.000</td>
<td>AF 06.11N-1</td>
<td>20.000</td>
<td>16.129</td>
<td>3.871</td>
<td></td>
</tr>
</tbody>
</table>
VAT payable for the second quarter is in the amount of RON 4,394.

### Comparative Registry for the First, Second and Third Quarters

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Selling price (inclusive of VAT)</th>
<th>Purchase price</th>
<th>Purchase document</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT base 24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vehicle 02</td>
<td>F1/15.03N</td>
<td>56,000</td>
<td>53,000</td>
<td>AF 10.08N-1</td>
<td>3,000</td>
<td>2,419</td>
<td>581</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total for the first quarter</td>
<td>56,000</td>
<td>53,000</td>
<td>x</td>
<td>3,000</td>
<td>2,419</td>
</tr>
<tr>
<td>2</td>
<td>Vehicle 03</td>
<td>F2/19.04N</td>
<td>70,000</td>
<td>50,000</td>
<td>AF 06.11N-1</td>
<td>20,000</td>
<td>16,12</td>
<td>3,871</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total for the second quarter</td>
<td>87,500</td>
<td>64,800</td>
<td>x</td>
<td>22,700</td>
<td>18,306</td>
</tr>
<tr>
<td>3</td>
<td>Vehicle 05</td>
<td>F3/15.06N</td>
<td>17,500</td>
<td>14,800</td>
<td>AF 2/11.02N</td>
<td>2,700</td>
<td>2,177</td>
<td>523</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total for the third quarter</td>
<td>52,800</td>
<td>45,000</td>
<td>x</td>
<td>7,800</td>
<td>6,290</td>
</tr>
<tr>
<td>4</td>
<td>Vehicle 01</td>
<td>F4/09.09N</td>
<td>52,800</td>
<td>45,000</td>
<td>AF 07.08N-1</td>
<td>7,800</td>
<td>6,290</td>
<td>1,510</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total for the third quarter</td>
<td>52,800</td>
<td>45,000</td>
<td>x</td>
<td>7,800</td>
<td>6,290</td>
</tr>
<tr>
<td></td>
<td>Aggregate amount</td>
<td></td>
<td>196,300</td>
<td>162,800</td>
<td>33,500</td>
<td>x</td>
<td>27,01</td>
<td>6,485</td>
</tr>
</tbody>
</table>
### Comparative Registry for the First, Second, Third and Fourth Quarters

<table>
<thead>
<tr>
<th>Crt. No.</th>
<th>Name of good</th>
<th>Sales document</th>
<th>Selling price (inclusive of VAT)</th>
<th>Purchase price</th>
<th>Purchase document</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT 24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vehicle 02</td>
<td>F1/15.03N</td>
<td>56.000</td>
<td>53.000</td>
<td>AF 10.08N-1</td>
<td>3.000</td>
<td>2.419</td>
<td>581</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total for the first quarter</strong></td>
<td></td>
<td>56.000</td>
<td>53.000</td>
<td></td>
<td>3.000</td>
<td>2.419</td>
<td>581</td>
</tr>
<tr>
<td>2.</td>
<td>Vehicle 03</td>
<td>F2/19.04N</td>
<td>70.000</td>
<td>50.000</td>
<td>AF 06.11N-1</td>
<td>20.000</td>
<td>16.129</td>
<td>3.871</td>
</tr>
<tr>
<td>3.</td>
<td>Vehicle 05</td>
<td>F3/15.06N</td>
<td>17.500</td>
<td>14.800</td>
<td>AF 2/11.02N</td>
<td>2.700</td>
<td>2.177</td>
<td>523</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total for the second quarter</strong></td>
<td></td>
<td>87.500</td>
<td>64.800</td>
<td></td>
<td>22.700</td>
<td>18.30/6</td>
<td>4.39/4</td>
</tr>
<tr>
<td>4.</td>
<td>Vehicle 01</td>
<td>F4/09.09N</td>
<td>52.800</td>
<td>45.000</td>
<td>AF 07.08N-1</td>
<td>7.800</td>
<td>6.290</td>
<td>1.510</td>
</tr>
<tr>
<td>5.</td>
<td>Vehicle 04</td>
<td>F5/05.12N</td>
<td>78.500</td>
<td>66.000</td>
<td>AF 1/20.01N</td>
<td>12.500</td>
<td>10.08/2</td>
<td>2.41/8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total for the third quarter</strong></td>
<td></td>
<td>52.800</td>
<td>45.000</td>
<td></td>
<td>7.800</td>
<td>6.290</td>
<td>1.510</td>
</tr>
<tr>
<td></td>
<td><strong>Total for the fourth quarter</strong></td>
<td></td>
<td>78.500</td>
<td>66.000</td>
<td></td>
<td>12.500</td>
<td>10.08/2</td>
<td>2.41/8</td>
</tr>
<tr>
<td></td>
<td><strong>Aggregate amount</strong></td>
<td></td>
<td>274.800</td>
<td>228.800</td>
<td></td>
<td>46.000</td>
<td>37.09/7</td>
<td>8.90/3</td>
</tr>
</tbody>
</table>

VAT payable for the fourth quarter is RON 2.419. Total of VAT declared during the year is still RON 8.903, just like in global method required by the national law.

### Conclusions

Although Directive 112/2006/CEE, when applying the special scheme for second-hand goods, regulates two VAT collection procedures, implicitly two distinct computational methods, namely (i) the rule: The "piece by piece" and (ii) the exception: "simplified" procedure, the national legislation refers only to the exception, namely: the simplified procedure. In addition, the national legislation makes a general approach of the issue, unlike the European regulations that separately treat the tax
scheme of taxable persons who apply special schemes for sales of second-hand vehicles.

Following the review conducted, we hereby present you the comparative table with the distribution of values in the two versions reviewed, mentioning that in the column named "the rule", we have entered the basic scheme stipulated by the European Directive and in column named "exception" we have entered the results obtained following the implementation of the alternative method stipulated under the European legislation (and taken exclusively by the national legislation).

<table>
<thead>
<tr>
<th>Tax period</th>
<th>Profit margin (inclusive of VAT)</th>
<th>Tax base</th>
<th>VAT collected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rule</td>
<td>Exception</td>
<td>Rule</td>
</tr>
<tr>
<td>First quarter</td>
<td>3.000</td>
<td>-24.800</td>
<td>2.419</td>
</tr>
<tr>
<td>Second quarter</td>
<td>22.700</td>
<td>31.000</td>
<td>18.306</td>
</tr>
<tr>
<td>Third quarter</td>
<td>7.800</td>
<td>24.800</td>
<td>6.290</td>
</tr>
<tr>
<td>Fourth quarter</td>
<td>12.500</td>
<td>15.000</td>
<td>10.081</td>
</tr>
<tr>
<td>Total</td>
<td>46.000</td>
<td>46.000</td>
<td>37.097</td>
</tr>
</tbody>
</table>

Note that the size of VAT payable is the same, irrespective of the method used. However, the basic scheme stipulated in the European legislation on VAT is easy to apply and to follow, unlike the unique method chosen by the Romanian legislator (which, besides being particularly cumbersome, it is based on a correct formula, but apply differently for the first three quarters, as compared to the last quarter of this year).

In addition, the method required by the Romanian legislator has several major drawbacks, such as:

1) **in terms of state**, tax collection occurs late and, therefore, the state will not dispose of cash in due time; In addition, the tax control work will hinder with no reason,
without direct correlations existing between the accounting and the documentary systems;

<table>
<thead>
<tr>
<th>in terms of taxpayers:</th>
</tr>
</thead>
<tbody>
<tr>
<td>discomfort due to the obligation to use a method that is suitable only for the overall value management, although the “piece by piece” method would have been appropriate for the nature of such goods (in which specific identification and quantitative value records enables, at any time, the knowledge of the profit margin corresponding to each car sold separately);</td>
</tr>
<tr>
<td>significant increase in the workload, with direct implications in the distortion of the assets, liabilities and shareholders’ equity;</td>
</tr>
<tr>
<td>lack of information control. If the rule “piece by piece” applies, checking is made based on the basis of accounting records of sale and release of administration, as well as on the basis of turnovers of accounts 707 “income from sale of goods” and 607 “merchandise expenses ”during the reporting tax period. This is possible because accounting is quantitative and value and the way of identifying the goods sold, engine number and / or old vehicle registration number;</td>
</tr>
<tr>
<td>inconsistency of using in the national tax legislation of the following terms: &quot;purchase price&quot;, as well as &quot;purchase cost&quot;. As we know, accounting requires evaluation of assets at their entering into management, at purchase cost, but the national tax legislation refers most often to the purchase price. In very rare cases, but only as an exception, the purchase cost is the same as the purchase price for car dealers. Note that taxation prohibits that the size of repairs should lead to an increase in the cost of goods purchased.</td>
</tr>
</tbody>
</table>

In our opinion, the article is an original approach that facilitates the improvement of the collection system of the budgetary income and, in this way; it leads to the optimization of the tax treatment in terms of the state and taxable dealers, who are selling second-hand cars from Romania.

In addition, we express our conviction that this article contributes to the development of fundamental and applied research of
activities in the field of accounting and taxation, as it provides an integrated and novelty approach of the issues related to the effectiveness of the accounting and tax systems in Romania.

References

[5] Case C-160/11 (Bawaria Motors sp. z o.o. in opposition to Minister Finansów);
Between Form without Substance and Substance without Form: Estimating the Brand Image of Romanian SMEs

Author: Oncioiu Ionica, Titu Maiorescu University Bucharest, ionicaoncoiu@yahoo.ro, Romania

The recent financial and economic crisis assessment of brand image depends crucially on the choice of underlying assumptions and analytical tool and is subject to considerable uncertainty. Many countries pass from economy based on intangible resources and innovation, competitiveness, and economic dynamism to digital economy. The good brand image of a company can be destroyed in a matter of minutes on the Internet by anyone, even a competitor. The rules relating to brand image accounting, measurement and reporting represent an excellent case in point, traditionally dominated by capitalization and harmonization of the regime having been disposed by international accounting standard in favour of an impairment testing regime pursuant to which periodic harmonization charges are no longer required. The paper’s main purpose is to discuss according to the transition to IFRS the answer to the follow questions: Is branding image evaluation a myth? Can any of the existent brand image evaluation models generate comparison between knowledge-based organizations? In a time of economic crisis, we decided to use an econometric model that allows assessing the implications of brand image, with examples on Romanian SMEs. Results revealed the problems concerning brand image recognition and valuation of the brand image in crisis period.
Keywords: substance; brand image; Smes

Introduction

Today, there are significant social, political, and economic challenges that created to governments new threats from financial crises and other risks. Those challenges are based on demographic, climate, security, technological and economic changes.

The transition to IFRS represents the latest episode of brand image often turbulent story. One striking feature of this framework for brand image measurement and reporting is its order magnitude increase in complexity compared to typical prior practice. Application of this system requires navigation through several layers of difficult and potentially contestable choices. It is for this reason in particular that much of the recent literature relating to this issue focuses on the incentive compatibility problems which may be associated with the implementation of impairment based approaches to brand image measurement and reporting (e.g; Beatty & Weber, 2006; Hayn & Hughes, 2006). Without derogating from the importance of these findings, the focus of this paper is squarely cast on a different issue, the degree to which firms actually comply with the formal precepts of the standards governing impairment testing regimes. Prior studies appear to have been constructed on the tacit assumption of systematic standards compliance on the part of financial statement prepares.

The measurement of the brand image as a residual value is consequent with the “top to bottom” approach, according to which the good will is vied as an investment part which is based on the buyers expectance regarding the future economic benefits resulted from the enterprises group.

On the other hand, the brand image accounting estimates are often made in conditions of uncertainty because it involves the determination of their judgment. As a result, the risk of material
misstatement is greater when these estimates are involved and in some cases the auditor may determine that the risk of material misstatement is greater that requires special audit.

In our opinion, the implementation of IFRS in the EU for brand image is certainly a major breakthrough in accounting harmonization process, contributing significantly to improving the integration and competitiveness of EU capital markets by providing the legal framework for the implementation of accounting standards quality, enabling a greater extent comparability of accounting information. However, because the mechanism of endorsement of IFRS, there may be situations where the EU does not support the full adoption of international referential, practically giving rise to a variant thereof, which may hamper the process and acceptance of international accounting convergence markets without reconciliation capital of the world (mainly USA) immaterial of EU companies. We believe in this regard as absolutely necessary for the EU to adopt all IFRS referential, which, of course, requires a closer cooperation with the IASB, especially in the pre-issue new standards.

Therefore, the representation of the value of brand image own statements to a value as close to the real one, is essential for users since they base their decisions based on its level. Therefore, we can say that accounting estimates on brand image is one of the challenges of international accounting and auditing in the context of convergence.

The paper is organized as follows. The first section introduces the concept of brand image and discusses the importance of reflecting on the brand image and the main indicators proposed by the theoretical and empirical literature. The next section presents the empirical framework and results of the estimations of selected indicators under a variety of assumptions and in the final section provides concluding remarks and some accounting implications.
Literature review

Brand image inhabits an unruly and unsettled domain. Accounting theorists have long debated and rarely agreed on its nature and source. In the process they have generated a tangled collection of mostly irreconcilable explanations.

According to Sands (1963), brand image represented the value capable of being generated by an organization as a consequence of facing less than competition in the markets in which it operated. On the other hand, Gynther (1969) proposed that brand image came into being as a consequence of the existence of a range of factors which while favorable to the economic position and performance of a firm were not capable of being measured and recognized individually. Notably, the conceptual confusion relating to brand image is not limited to the accounting literature. Legal conceptions of brand image as expounded by the courts have also shown considerable variation over time, and often varied substantially from those accepted at various points in time in the accounting and commercial domains. From the early 17th century onwards, a string of cases have been decided in which courts have attempted to define the term brand image, and to determine the circumstances in which it might arise, and what it might attach to where it arises.

To overcome such problems should be recognized internationally brand image at the end of each accounting year, their transparency, prevent fraud and violations of accounting principles, to help business people (investors) contributed the Council of Europe (CoE), which brought changes in accounting rules (referential national, European, international) and contributed to the adoption of certain international accounting standards.

Watts (2003) represents an early and high profile example of some of the criticisms which have been leveled at this approach. Other commentators, including Massoud & Rayborn (2003) have expressed similar sentiments, and questioned the desirability of a reporting
framework so reliant on subjective judgments without appropriate verification checks and balances. Others have asserted the existence of obvious technical flaws in the manner in which asset impairment standards have been drafted (Haswell & Langfield-Smith, 2008).

A study in 2006 investigated the relevance of intangible “soft” as well as intellectual capital, brand, loyalty and customer satisfaction. The authors, Larcker and Ittner, have attempted to answer the following questions:

- Customer satisfaction is economically relevant stock market?
- The economic value of consumer satisfaction is fully reflected in companies’ financial documents?
- Does measuring consumer satisfaction provide new market?

To solve these problems have used “American Customer Satisfaction Index” (the American Consumer Satisfaction Index) and a similar index, used in Sweden. Consumer satisfaction attributes were made in relation to future performance of companies. Thus, it was shown that there is a positive relationship between customer satisfaction and market value of firms, but these issues are only partially reflected in economic documents - financial companies. Furthermore, published by the American Society for Quality Control and Customer Satisfaction Barometer by the Swedish indicators related to consumer satisfaction, suggests that the information provided by these indicators, not only partially reflected in the share price. Thus, this research suggests that non-financial indicators of consumer satisfaction are needed to estimate the future performance of companies in certain cases only.

Consistent with the concerns raised in these conceptual contributions, evidence is accumulating in the empirical literature of an array of problems associated with impairment testing regimes.

**Is the brand image evaluation a myth or reality?**

Over time, brand image has become one of the most controversial issues in accounting. Its value is generally determined by appraisal, which is
based on evaluator's assumptions. As such, the value of brand image is determined subjectively. Subject recognition of brand image in financial statements found both supporters and opponents among professionals.

Supporters of recognized brand image say that is "the present value of the surplus revenue that a company can get." This group claims to determine the fair value of these excess revenues is similar to determining the present value of cash flows associated with other activities and projects. Opponents of the recognition fund argue that the purchase price paid, many times proves to be based on unrealistic expectations, leading to further reductions default to zero of the brand image. Both arguments have merit. Many companies are able to achieve revenues in excess out of their investments. As such, the prices of ordinary shares of these companies must register first a book value of brand image. Consequently, investors who buy ordinary shares of such companies pay for intangible assets (reputation, brand names, etc.).

Controversy related to brand image is reference mainly to the recognition and evaluation. The brand image concept one of the first articles that make a reference to the commercial fund was published in the year 1884, although this concept is much older. Leake (1948 quoted by Bloom 2006) presents a discussion that took place in the year 1571 which utilize the expression brand image. But he is also the one who claims the first references to the term brand image in a class about which Lord Eldon commented: “the goodwill that was the subject of the sale is nothing more than the probability of an old client to come back.” Since then were written numerous articles and books about this subject, the same as generations of accountants were confronted with this problem.

Is the brand image an active or not. In order to establish the arguments for and against the recognition of the brand image as an active, we will analyses the definition of the immaterial actives established by the International Organism of accountancy normalization and problems in identifying the immaterial actives which it faced. The accountancies of an element in the immaterial immobilizations category requires that an enterprise to demonstrate that the element fulfils the
definition of an immaterial immobilization and the criteria to recognize the active (it is probably that the enterprise is to obtain future economic advantages due to the active and if its costs can be evaluated.).

In the current crisis is important the reference to fair value or value in use, and disclosure which of these reference bases has been adopted. While it is likely that in most circumstances recoverable value will be determined by reference to value in use, the possibility that the fair (market) value of certain asset classes may be reliably determinable, for example, by dint of the existence of active markets for assets of the class in question, means that it will on some occasions be feasible to determine recoverable amount on a fair value basis.

An obvious problem which arises where this information is not provided is the lack of capacity on the part of the financial statement user to understand how brand image is distributed across a business, where it is concentrated and what types of underlying business activities it is principally associated with. This results in a diminished capacity on the part of financial statement users to develop detailed reporting entity impairment risk profiles.

By way of contrast, firms choosing to adopt the fair value approach to impairment testing face a lower required disclosure burden and avoid the obligation to provide details such as discount rates and assumed growth rates. The challenge presented as a consequence of the decision to adopt the fair value approach to brand image impairment testing is to find an appropriate benchmark asset portfolio, a current price for which can be reliably observed.

**Theoretical background and empirical methodology**

It was determined that the most appropriate model to optimize the components of intangible assets is linear programming model (LP). It is known that any model (PL) consists of two parts: the objective function and system limitations.
It employs the statistical correlation values of the indicators $X$ and $Y$. We will refer to the first model for companies listed on stock exchanges. It is the first analytical methodology formulation; the objective function is a regression equation.

If we have a statistical selection of size $n$

$$\left(Y, X_{1t}, X_{2t}, \ldots, X_{kt}\right) \text{ with } (1 \leq t \leq n) \quad (1)$$

carried on the vector:

$$\left(Y, X_1, X_2, \ldots, X_k\right) \quad (2)$$

where $Y$ is the difference between the market value of the company and the value of equity (own - equity) of the balance sheet and $X$ - the set of indicators expressing the company's objectives or management strategies for their extinction, then we can write the regression equation of the hyper plane related.

For linear regression function such that expresses the links between $Y$ and $X$ values for optimal management components research, the method of least squares (LSM) that if given the choice statistic can determine the coefficients $\theta_0$ and $\theta_j$ with $(j = 1, k)$ related.

It is based on the regression equation of the hyper plane:

$$Y = \theta_0 + \theta_1 X_1 + \theta_2 X_2 + \ldots + \theta_n X_n, \quad (3)$$

the ratio to be determined by using the values of statistical selection (4.1), the coefficients $\theta_0$ and $\theta_j (j = 1, n)$

Method m.c.m.m.p. requires minimizing a function in this case has the form:

$$\psi = \sum_{i=1}^{k} \left(Y_i - \theta_0 - \sum_{j=1}^{n} \theta_j X_{ij}\right)^2 \quad (4)$$
Minimizing this function is performed by canceling its partial derivatives with respect \( \theta_0 \) and \( \theta_j \) with \( (j = 1, k) \):

\[
\frac{\partial \psi}{\partial \theta_0} = 0; \quad \frac{\partial \psi}{\partial \theta_1} = 0; \quad \frac{\partial \psi}{\partial \theta_2} = 0; \quad \ldots \quad \frac{\partial \psi}{\partial \theta_n} = 0
\]

(5)

This is a normal system of linear equations which is solved by the Gauss-Jordan method and thus resulting parameters \( \theta_0, \theta_1, \ldots, \theta_n \) of the equation called the objective function of the model (PL).

The correlation is verified by multiple correlation coefficient \( r \), calculated as follows:

\[
r = \sqrt{1 - \frac{S_y^2 (k-n)}{\sigma_y^2 (n-1)}} \quad (k - \text{sample}, \ n - \text{variable})
\]

(6)

SY is the standard deviation of the Y values calculated with the equation adopted and \( \sigma_y \) the standard deviation of the sample statistic values.

**Data and Empirical Results**

In developing this model and the database has left the analysis and grouping of 12,447 listed and unlisted Romanian companies in relation to brand image indicator (Table 1). This indicator includes the following elements: reputation company manager who evaluates and employs people with valuable intellectual capital, years of experience in the profession, employee satisfaction, value added related to the employee, the report adds value to 1 Euro.

Using the data presented in Table 1 is considered as a set of five statistical observations of vector elements above, registered firms whose data were used for the numerical realization of the model system of
constraints (1) - (6) corresponding to achieving this companies over the last five years, will provide the data required.

<table>
<thead>
<tr>
<th>Group</th>
<th>Value brand image</th>
<th>Firms on the interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Under 20,000 euro</td>
<td>5,275</td>
</tr>
<tr>
<td>II</td>
<td>20,000 – 40,000 euro</td>
<td>1,002</td>
</tr>
<tr>
<td>III</td>
<td>40,000 – 60,000 euro</td>
<td>746</td>
</tr>
<tr>
<td>IV</td>
<td>60,000 – 80,000 euro</td>
<td>695</td>
</tr>
<tr>
<td>V</td>
<td>80,000 – 100,000 euro</td>
<td>756</td>
</tr>
<tr>
<td>VI</td>
<td>100,000 – 120,000 euro</td>
<td>594</td>
</tr>
<tr>
<td>VII</td>
<td>120,000 – 140,000 euro</td>
<td>467</td>
</tr>
<tr>
<td>VIII</td>
<td>140,000 – 170,000 euro</td>
<td>670</td>
</tr>
<tr>
<td>IX</td>
<td>170,000 – 200,000 euro</td>
<td>1,025</td>
</tr>
<tr>
<td>X</td>
<td>Over 200,000 euro</td>
<td>1,217</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>12,447</td>
</tr>
</tbody>
</table>

Source: own calculations

X₁ sales growth is correlated with similar data from the relevant industry. Value added X₂ corresponds to the data in the financial statements of the company. For the satisfaction of people showed X₃ also monitor values of intangible assets based on market research.

Rewrite the regression equation expressing the dependence of the value of intangible asset management as Y and the three indicators X₁, X₂ and X₃, vary with time t in years,

\[ Y_t = \theta_0 + \theta_1 X_{1t} + \theta_2 X_{2t} + \theta_3 X_{3t} \]  

(7)

To make it easier to work, the amount of the system is pre-calculated in Table 2.
Table 2: Intermediate calculations for determining the coefficients $\theta$

<table>
<thead>
<tr>
<th>t</th>
<th>$Y_t$</th>
<th>$X_{1t}$</th>
<th>$X_{2t}$</th>
<th>$X_{3t}$</th>
<th>$Y_tX_{1t}$</th>
<th>$Y_tX_{2t}$</th>
<th>$Y_tX_{3t}$</th>
<th>$X_{1t}^2$</th>
<th>$X_{2t}^2$</th>
<th>$X_{3t}^2$</th>
<th>$X_{1t}X_{2t}$</th>
<th>$X_{1t}X_{3t}$</th>
<th>$X_{2t}X_{3t}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6</td>
<td>11</td>
<td>25</td>
<td>2,05</td>
<td>13</td>
<td>0</td>
<td>24</td>
<td>24,6</td>
<td>24</td>
<td>1</td>
<td>250</td>
<td>45,01</td>
<td>10,25</td>
</tr>
<tr>
<td>2</td>
<td>5</td>
<td>4</td>
<td>26</td>
<td>2</td>
<td>40</td>
<td>26</td>
<td>0</td>
<td>20</td>
<td>32</td>
<td>135</td>
<td>2</td>
<td>8</td>
<td>208</td>
</tr>
<tr>
<td>3</td>
<td>27</td>
<td>10</td>
<td>28</td>
<td>2,25</td>
<td>54</td>
<td>12</td>
<td>20</td>
<td>0</td>
<td>156</td>
<td>8</td>
<td>10,13</td>
<td>560</td>
<td>45,12</td>
</tr>
<tr>
<td>4</td>
<td>38</td>
<td>7</td>
<td>27,5</td>
<td>2,2</td>
<td>57</td>
<td>20</td>
<td>90</td>
<td>16</td>
<td>11</td>
<td>2,5</td>
<td>151</td>
<td>9,6</td>
<td>412,33</td>
</tr>
<tr>
<td>5</td>
<td>35</td>
<td>5</td>
<td>25</td>
<td>2,4</td>
<td>35</td>
<td>17</td>
<td>75</td>
<td>04</td>
<td>50</td>
<td>125</td>
<td>0</td>
<td>11,52</td>
<td>250</td>
</tr>
<tr>
<td>$\sum_{t=1}^5$</td>
<td>11</td>
<td>37</td>
<td>13,5</td>
<td>10,9</td>
<td>16</td>
<td>37,37</td>
<td>50</td>
<td>3,7</td>
<td>63</td>
<td>2,5</td>
<td>693</td>
<td>47,73</td>
<td>198,16</td>
</tr>
</tbody>
</table>

Source: author's calculation

$$S^2_Y = \frac{(6-5,22)^2 + (5-7,03)^2 + (27-35)^2 + (38-29,35)^2 + (35,5-35,27)^2}{2,5-2} = 287$$

For standard deviation $\sigma_Y$, first calculate the average $\bar{Y}$.

$$\bar{Y} = \frac{6 + 5 + 27 + 38 + 35,5}{2,5} = 22,3$$

Taking this into account, the variance (dispersion) $\sigma^2_Y$ will have the value:

$$\sigma^2_Y = \frac{(6-22,3)^2 + (5-22,3)^2 + (38-22,3)^2 + (35,5-22,3)^2}{4-1} = 660,5$$

Resulting correlation coefficient:

$$r = \sqrt{1 - \frac{287 \ (2,5-2)}{660,5 \ (2-0,5)}} = \sqrt{0,86} = 0,93$$
Since we obtained \( r > 0 \), means that we are dealing with a direct correlation between variables. Value is reached, \( r = 0.975 \), states that it is a high correlation, which lends credibility to the use of the formula for practical purposes.

If it is envisaged that the primary LP model solution required changing the dependent variable \((Y + 273.33)\) with \(F(x)\) resulting from solving primal,

\[
\max F(x) = \max (Y + 546.66) = 324.1\text{millionEuro}
\]

it is clear that the same value of the objective function was obtained by solving the dual. Therefore the value of time management by optimizing both models - the primary and dual - remains the same, namely:

\[
\Delta Y = 324.1 - 273.33 = 50.77\text{millionEuro}
\]

Regarding chances to overcome the crisis, Romanian firms immature to chance and have little chance of survival, while Romanian companies mature high-value intangible assets have theoretical chances much higher, but they have no guarantee that crisis will pass. It should be noted that the maturity of a company has nothing to do with her age.

**Conclusions**

Basically, international accounting bodies and the assessment ones pay attention to quality standards and implicitly to the methods for estimating their fair value of brand image.

Brand image are identifiable non-monetary assets, without physical substance, held for use for the production of goods or services, to be rented to third parties or be used for administrative purposes. Recognition of an element of brand image requires the company to demonstrate that the item meets the definition above: to have identifiable character, to be controlled, to obtain future economic benefits and can to be able to asses at a reliable cost.

But brand image is the difference between the consideration paid and the purchaser's share of identifiable net assets acquired. This is
a “partial brand image” method because the non-controlling interest is recognized at its share of identifiable net assets and does not include any brand image.

The results of this analysis raise more questions than they answer. Could this be a manifestation of inadequate competence or of stubborn unwillingness to yield to the precepts of the mandated reporting framework – comforted by a sense that meaningful rebuke is unlikely? Could this be a signal that policy makers have promulgated standards so complex, unwieldy and conceptually challenged that any hope of systematic compliance, still less the production of serviceable information via their application is no more than a mirage - a false impossible shore? For researchers at least, these puzzles are ripe with challenges we hope will not go long unanswered.

In our study we have shown, however, those companies applying international accounting rules are required to handle intense intangible values and the identification and management of risks related to recognition, measurement and presentation thereof. From this obligation there may result a competitive disadvantage for companies that only apply national rules that do not recognize and do not record any significant value on brand image values. The solution is convergence, translated by aligning with international accounting standards. Specifically, convergence requires a single set of standards, with the possibility of adapting their national realities, developed with the participation of representatives of several countries.

From the functional point of view the proposed model for risk analysis of intangible assets proved appropriate expectations. The objective function obtained from the multiple regression confirms its value in that it discriminates parameters correctly with dynamic variables \(X\) as experimental data and the correlation coefficient is \(r = 0.93\).

It turned out that the intangible asset optimization using linear programming model proposed is economically efficient. Frame rate \(\varepsilon\) in efficiency between the limits 0, 9 and 1, 5 with the 95% is an economic success, and it is also protected from serious risks.
After exposure of the main conclusions we reached during this research project, consider emphasizing useful contributions to the state of knowledge in the area of issue recognition, measurement and presentation of the brand image in the context of international accounting convergence. As regards the Romanian legal landscape on intangibles accounting as a result of the growing need for transparency, to improve the management entities, was started a process of alignment to European and international accounting standards. It sought to amend accounting rules so that they can be made compatible with IFRS issued by IASB and the Fourth European Directive.

However, returning to the restatement of accounts under brand image in excess of hyperinflationary attorney presents advantages, in principle; inconvenience is probably caused by higher costs from further processing. The auditor should consider also whether individual differences of brand image were accepted as reasonable or oriented in one direction as cumulated can have a significant effect on the financial statements. In such circumstances, the auditor must assess the brand image accounting estimates taken as a whole. Therefore, it can be said that accounting estimate on brand image is one of the challenges of international accounting and auditing in the context of convergence.

References


Consequences of Corruption and Prevention Program in Romania

Authors: Enea Constanța, Constantin Brancusi University of Targu Jiu, Romania; Enea Constantin, Constantin Brancusi University of Targu Jiu, Romania

The consequences of corruption are differently perceived by companies also depending on their size by number of employees. Small companies consider to a larger extent that the main consequence of corruption is the moral; decline of society. Medium companies believe loosing foreign investments is the main consequence in this respect and large companies consider to a larger extent that the development process is slowed down by corruption. The consequences of corruption are differently perceived by companies also depending on the source of capital. Romanian capital companies consider to a larger extent that the main consequence of corruption is that is slows down the private sector development while foreign companies believe to a larger extent that the main consequence of corruption is foreign investment opportunities.

Keywords: consequence; corruption; prevention

Introduction

After the change of the political regime in 1989, Romania became the place of numerous changes that were meant to place our country among
the young democracies with a functional economy. Achievements registered in these domains were often thrown into shade by noisy corruption scandals, which monopolized the front page of the newspapers. Thus, we came to the situation occurred in 1996, when most of the parties included in their political program an ambitious fighting program against corruption. The fact that they had no success in that legislature led to a civic sanction of that legislature and to the change of the government party in the year 2000. The party elected in the year 2000 “has among its priorities corruption control by radical measures”.

Corruption existed even before 1989 but it was publicly denied till the beginning of the nineties. After being publicly admitted the corruption phenomenon didn’t lead to a public policy immediately. The public policies came out when politics overlapped the problem. They were the result of thousands or maybe millions of people who wanted to stop the phenomenon. The first ones to ask for a public policy against corruption were the citizens, which came up against small corruption in the administration. Here they had to pay bribe in order to get a license or any other document and not to be put in line. This is also a matter of ignorance because most of the citizens are not aware of their rights or they don’t know the procedures to get such licenses and documents.

The state also needed a public policy against corruption in order to accomplish its functions and to exert a positive role, productive one and not a negative, destructive one. As a result of the public request The National Fighting Corruption Program was created. The majority of the citizens believe the elaboration and carry out part of this program are done by the government, especially by the Prime minister and by the President. The fact is that it had been mainly influenced by the parties: the one in power needs a good perception among citizens in order to be reelected in 2011 and those standing in opposition needs a negative perception among citizens, meaning a failure of the legislature, so they can seize the opportunity and win the elections in 2011. In the end all of this is in fact the result of the fight between the interests groups. “The interests groups are most of the time hierarchical hierocracy, managerial
teams led from the top by a few office holders” which for their own interests use the others. There are also wealthy men or persons with a very high public status who act as the interests groups. They use their money and voices to push the policy where they want it.” Regarding the corruption the most active were the business associations (as ARIES), which because of this phenomenon couldn’t protect their interests and fulfill their goals. The business associations contributed to the information exchange among citizens, especially between businessmen and political leaders. The information exchange was done through media, meetings, memorandums, polls and other means. They are very important if we want to emphasize the way the phenomenon is understood by the population and to be able to get to a common point of view.

The necessity of a fighting corruption program came also as a result of the citizens’ inequality. I’m not talking about inequality in front of the law but about the socio-economic inequality, which leads to the impossibility of fulfilling their interests (they don’t have money to pay the bribe to the civil servants as it’s bigger every day). This is also the situation of some of the firms, which pay a bigger percent of their profit as bribery every day. At the beginning fighting corruption meant just punitive measures. The law punished the offences that were in connections with the phenomenon such as bribery, stock embezzlement, as the corruption offence does not exist. Now the accent is put on preventing measures. That means creating ethic codes for business, special statuses for civil servants, magistrates etc.

Romania now has a law package for fighting corruption even though they didn’t follow the procedures and the Government decided to assume the responsibility for them. Some of the people may believe this also means corruption at the highest level in state. Romania must now focus on applying the public policy of fighting corruption. Beside laws we also have the institutional frame (even though is not the best one); there are special departments in the Public Ministry, Supreme Court and also in the Ministry of home Affairs, Ministry of Justice. Lately there are also
many cases of policemen and justice officials accused of corruption. Now when we have a national program of fighting corruption a problem that must be solved is the assessment of its results. First of all they are assessed by the citizens. Their opinion is reflected in the opinion polls. In accordance with one of these polls, citizens think most of the civil servants are corrupt. The Government also admitted that 44% of the civil servants are corrupt (a 2002 poll). An assessment of the phenomenon is also made by the state according to the economy results. Very important are the assessments made by international organizations or by other governments (the EU governments and the American one). The most recent EU Report on Romania considers corruption is still a big impediment for foreigner investments.

An assessment of how the fighting corruption program is put in practice is made by the interests groups. They may also help solving problems that may occur. They can also stop a public policy before it came true. That happens because for resolving a public policy all must reach a joint, but for stopping one only one person with veto right must be against.

As a closing I may say that corruption is an “endemic” phenomenon with a fluctuating evolution. Stopping it is a priority for our country and progresses have been made. We now have a pretty good law package in this domain, we have the structures to apply it and citizens are more than ever decided to fight against it. Although the results are not always the best we must continue and we must also follow the other countries example if they had better results. The consequences of corruption are differently perceived by companies depending on provenience. Western area companies consider the main consequence of corruption is in fact that it poses a threat to state security. Moldavian companies’ representatives believe the main consequence in this respect is decreasing living standard. Southern companies consider to a larger extent that the main consequence of corruption is investors losing interest in Romania and Bucharest companies consider to a larger extent that the development process is slowed down by corruption.
Table 1: Which, in your opinion, is the main consequence of corruption?

<table>
<thead>
<tr>
<th>Region</th>
<th>West</th>
<th>South</th>
<th>East</th>
<th>Bucharest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poses a threat to state security</td>
<td>17</td>
<td>11</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Leads to a decrease in standards of living</td>
<td>16</td>
<td>15</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td>Slows down the private sector development</td>
<td>14</td>
<td>11</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Slows down the development process</td>
<td>5</td>
<td>0</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Poses a threat to human rights</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Poor people become poorer</td>
<td>8</td>
<td>7</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Increasing criminality</td>
<td>0</td>
<td>7</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Foreign investors loose interest in Romania</td>
<td>18</td>
<td>22</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Decreases the number of those believing in honesty</td>
<td>8</td>
<td>11</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>The moral decline of society</td>
<td>10</td>
<td>7</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

The consequences of corruption are differently perceived by companies also depending on their size by number of employees. Small companies consider to a larger extent that the main consequence of corruption is the moral; decline of society. Medium companies believe loosing foreign investments is the main consequence in this respect and large companies consider to a larger extent that the development process is slowed down by corruption. The consequences of corruption are differently perceived by companies also depending on the source of capital. Joint companies believe to the same extent with foreign companies that loosing foreign investments is a consequence together with a decrease in the number of those believing in honesty.

Table 2: Which, in your opinion, is the main consequence of corruption?

<table>
<thead>
<tr>
<th>Source of capital</th>
<th>Romanian</th>
<th>Joint</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poses a threat to state security</td>
<td>6</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Leads to a decrease in standards of living</td>
<td>20</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Slows down the private sector development</td>
<td>16</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Slows down the development process</td>
<td>13</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Poses a threat to human rights</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Poor people become poorer</td>
<td>6</td>
<td>5</td>
<td>7</td>
</tr>
</tbody>
</table>
Bucharest and Southern region companies are more willing to invest on a percentage basis in programs fighting corruption. In the same time, Western region companies are less willing to do so.

**Table 3:** What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

<table>
<thead>
<tr>
<th>Region</th>
<th>West</th>
<th>South</th>
<th>East</th>
<th>Bucharest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than de 1%</td>
<td>67</td>
<td>57</td>
<td>46</td>
<td>43</td>
</tr>
<tr>
<td>1-5%</td>
<td>20</td>
<td>19</td>
<td>46</td>
<td>35</td>
</tr>
<tr>
<td>6-10%</td>
<td>11</td>
<td>24</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>11-25%</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>26-50%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>More than 50%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Large companies are willing to invest more in programs fighting corruption comparing to small companies. The majority of small companies would invest less than 1% while 175 of large companies would invest 6-10%. We should remember that the percentage of the revenue used for informal payments by large companies was smaller than small companies' equivalent. Medium companies also are willing to invest more in programs fighting corruption.

**Table 4:** What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>1-10</th>
<th>11-250</th>
<th>Over 251</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1%</td>
<td>52</td>
<td>53</td>
<td>43</td>
</tr>
<tr>
<td>1-5%</td>
<td>35</td>
<td>26</td>
<td>37</td>
</tr>
<tr>
<td>6-10%</td>
<td>11</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>11-25%</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>26-50%</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>More than 50%</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Obviously, domestic capital companies are more willing to invest in programs fighting corruption comparing to joint and foreign capital companies. 15% of Romanian companies would be willing to invest 6 to 10% out of the total revenue in programs fighting corruption. On the other hand, foreign companies are less affected by corruption.

Table 5: What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

<table>
<thead>
<tr>
<th>Source of capital</th>
<th>Romanian</th>
<th>Joint</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1%</td>
<td>42</td>
<td>52</td>
<td>54</td>
</tr>
<tr>
<td>1-5%</td>
<td>41</td>
<td>33</td>
<td>38</td>
</tr>
<tr>
<td>6-10%</td>
<td>15</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>11-25%</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>26-50%</td>
<td>0</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>More than 50%</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

There is a relation between the percentage paid by companies accounting for corruption and the percentage companies would be willing to invest in fighting corruption. The statistic trend nevertheless is towards paying less for programs fighting corruption than for actual corruption. This is the natural choice of the entrepreneur if to choose from financing a public good and make it on his own. It is certain that some corruption practices put some companies at an advantageous position comparing to the others. The wish for personal profits is to a higher degree seen as a cause of corruption in Moldavia (over 53% of the subjects) while low salaries are considered a more significant cause in the Western region and Bucharest comparing to the other regions. Too much bureaucracy seems to be seen as the main corruption cause in the Southern area and legislative problems are seen as tied to corruption to a larger extent in Bucharest. Differences of perception of corruption causes can also be seen as for the size of company by number of employees. The wish for personal profit is to a larger extent seen as a cause of corruption by small companies (10 employees or under) while medium and large companies tend to causally explain corruption through faulty legislation.
and weak law enforcement. Moreover, small companies believe to a higher degree high bureaucracy is a cause for corruption in Romania.

Foreign capital companies’ representatives consider to a larger extent that the main cause of corruption is faulty legislation and weak law enforcement (29%) while joint capital companies believe the wish for personal profit causes corruption. Domestic capital companies believe low salaries largely account for corruption in Romania. Personal experience seems to be a more important information source for corruption in case of companies from Moldavia. Mass-media as well seems to be an important source in this region. For Western companies representatives, relatives, friends, acquaintances represent a more important information source comparing to other regions.

**Table 6:** What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

<table>
<thead>
<tr>
<th>Percentage of revenue used for informal payments</th>
<th>Less than 1%</th>
<th>1-5%</th>
<th>6-10%</th>
<th>11-25%</th>
<th>26-50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1%</td>
<td>65</td>
<td>32</td>
<td>18</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>1-5%</td>
<td>24</td>
<td>52</td>
<td>50</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>6-10%</td>
<td>10</td>
<td>14</td>
<td>27</td>
<td>38</td>
<td>0</td>
</tr>
<tr>
<td>11-25%</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>26-50%</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>More than 50%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>0</td>
</tr>
</tbody>
</table>

From the economic point of view additional taxation in order to finance the reduction of corruption should be oriented towards reducing bureaucracy (investments in technology to replace bureaucracy clerks) rather than towards increased quality of services. Barriers when dealing with public institutions are generally related to cumbersome procedures and to a smaller extent to low quality of services. As it may be observed from the table below financial losses generated by corrupting behaviors in relation with public institutions is smaller in the Western region and bigger in the Southern region. While 75% of Western region companies report less than 1% of the turnover spent on informal payments, in the Southern region almost one third of the companies’ representatives
report informal payments up to 10%. In Bucharest roughly 1/10 o the interviewed companies report informal payments that may reach 25% of the company turnover.

**Table 7**: Percentage of turnover spent on informal payments to civil servants

<table>
<thead>
<tr>
<th>Region</th>
<th>West</th>
<th>South</th>
<th>East</th>
<th>Bucharest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less then 1%</td>
<td>75</td>
<td>53</td>
<td>63</td>
<td>47</td>
</tr>
<tr>
<td>1-5%</td>
<td>20</td>
<td>20</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>6-10%</td>
<td>6</td>
<td>27</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>11-25%</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>26-50%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

The size of informal payments in the company turnover is bigger in case of small companies. 7% of these companies report 11 to 25% of turnover spent on corruption. In case of large companies the majority of informal payments are under 1%. One must give consideration to the fact that large companies’ turnover is also higher. In absolute terms the value of financial loses generated by corruption could be higher with companies with over 250 employees comparing to small companies. Nevertheless on a percentage basis the portion of turnover spent on informal payments has a greater impact on small companies’ activities. While for a large company 1% or under may not cause serious economic dysfunctions, in case of small companies 11 to 25% may barely allow the company maintain a normal course of business. The fact that large companies pay less on a percentage basis for informal contacts with public institutions while small companies pay a bigger portion in this respect means there is a trend towards leveling the price of informal payments for certain services. In other words corruption does not function as a redistributive mechanism, in which case informal payments should have been proportional to companies’ wealth but more like robbery in which taxes are flat in view reducing bureaucracy.
Table 8: Percentage of company’s revenue used for informal payments to civil servants

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>1-10</th>
<th>11-250</th>
<th>over 251</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1%</td>
<td>53</td>
<td>60</td>
<td>63</td>
</tr>
<tr>
<td>1-5%</td>
<td>27</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td>6-10%</td>
<td>12</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>11-25%</td>
<td>7</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>26-50%</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 9: Percentage of company’s revenue used for informal payments to civil servants

<table>
<thead>
<tr>
<th>Source of capital</th>
<th>Romanian</th>
<th>Joint</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than de 1%</td>
<td>51</td>
<td>59</td>
<td>89</td>
</tr>
<tr>
<td>1-5%</td>
<td>29</td>
<td>30</td>
<td>11</td>
</tr>
<tr>
<td>6-10%</td>
<td>15</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>11-25%</td>
<td>5</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>26-50%</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

As the table below shows, foreign capital companies usually pay lower informal taxes. Roughly 89% of foreign companies report under 1% of turnover as informal payments, while 15% of Romanian capital companies report 6-10% of turnover as informal payments. The difference between Romanian and joint capital companies stays still, even if 30% of the latter reports 1-5% of turnover spent on informal payments, comparing to only 11% of the foreign capital companies. 25 institutional barriers were suggested in the questionnaire and companies’ representatives assessed the extent to which these are negatively affecting their activity. An average of 12 institutional barriers was identified as such in Moldavia, comparing to 8.8% in Bucharest.
The graph below shows that large companies (over 250 employees) have to deal with less institutional barriers comparing to small companies which report an average number of 10 barriers to large extent negatively affecting their activity, out of the total 25.

Foreign capital companies deal with less institutional barriers than Romanian or joint capital companies. While foreign companies
report an average of 8 institutional barriers to large extent negatively affecting their activity, Romanian companies report a 10 in this respect.

**Institutional barriers by source of capital**

![Bar chart showing institutional barriers by source of capital](chart.png)

**Figure 3**

Corruption culture is showcased by the mentalities of corruptors within the business environment. 14% of Bucharest companies’ representatives consider that bribe is always justified in order to speed-up a transaction. Meanwhile, in the Western region 60% consider bribe is never justified in order to speed-up a transaction. In Moldavia, 71% of the companies’ representatives believe such behavior is sometimes justified.

**Table 10:** Are informal payments justified in order to speed-up transactions?

<table>
<thead>
<tr>
<th>Region</th>
<th>West</th>
<th>South</th>
<th>East</th>
<th>Bucharest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>60</td>
<td>52</td>
<td>20</td>
<td>41</td>
</tr>
<tr>
<td>Sometimes</td>
<td>31</td>
<td>41</td>
<td>71</td>
<td>45</td>
</tr>
<tr>
<td>Always</td>
<td>9</td>
<td>7</td>
<td>10</td>
<td>14</td>
</tr>
</tbody>
</table>

Likewise, 7% of Bucharest companies consider bribe is always justified in order to avoid paying taxes, while 91% of Western region companies consider such behavior is never justified.
Table 11: Are informal payments justified in order to avoid paying taxes?

<table>
<thead>
<tr>
<th>Region</th>
<th>West</th>
<th>South</th>
<th>East</th>
<th>Bucharest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>91</td>
<td>81</td>
<td>90</td>
<td>81</td>
</tr>
<tr>
<td>Sometimes</td>
<td>4</td>
<td>11</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Always</td>
<td>5</td>
<td>7</td>
<td>0</td>
<td>7</td>
</tr>
</tbody>
</table>

62% of large companies consider bribe is never justified in order to speed-up a transaction, while 13% of small and medium size companies consider this behavior is always justified.

Table 12: Are informal payments justified in order to speed-up transactions?

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>1-10</th>
<th>11-250</th>
<th>over 251</th>
</tr>
</thead>
<tbody>
<tr>
<td>never</td>
<td>38</td>
<td>39</td>
<td>62</td>
</tr>
<tr>
<td>sometimes</td>
<td>49</td>
<td>48</td>
<td>34</td>
</tr>
<tr>
<td>always</td>
<td>13</td>
<td>13</td>
<td>4</td>
</tr>
</tbody>
</table>

There is a clear tendency for Romanian or joint companies to justify corruption by means of speeding-up transactions or avoid paying taxes, while foreign companies are rather against such justifications.

Conclusions

Informal payments companies in Romania make in case of various institutions do not necessarily lead to arise in satisfaction towards services ordered. As some researches show the level of satisfaction decreases while corrupting behavior spread. In other words, satisfaction towards services offered by public institutions appears in case of companies which do not make informal payments whereas complaints appear at companies making such payments.
According to the survey 68% of those who did not paid informal taxes to customs authorities are happy with services offered where as 75% of those who paid bribe to customs authorities are complain about services offered. The same situation applies in case of services offered by the roadway police. 60% of those who did not paid bribe are satisfied about the services offered while 66% of those who paid bribe complain about the services offered. Same distribution applies to fiscal inspectors: 70% of those who did not paid bribe where satisfied while 71% of those who paid bribe complain about services offered.

When asked whether paying informal taxes to public institutions problems are expedited faster entrepreneurs answered on an overwhelming majority yes. A positive correlation may be observed between informal payments and a decrease in time spent/ bureaucracy needed to expedite a certain problem at different institutions.

As a conclusion informal payments do not lead to increased quality in services, but may reduce bureaucracy or time spent. This satisfaction towards services offered by public institutions to which informal payments are made is probably a quality/ price based assessment. In case of those paying informal taxes the price is bigger for the same quality of services which determines a lower satisfaction comparing to those not making informal payments.

References

[1] CProject “Initiatives for Reduction of Corruption and Development of Ethical Practices” is supported by the Center for International Private Enterprise (CIPE) in Washington D.C. CIPE is an affiliate of US Chamber of Commerce, International Center for entrepreneurial studies Bucharest University


The Influence of Micro and Macro Environment Components on Trade Companies in Romania

Authors: Elena Pîndiche, The Christian University Dimitrie Cantemir of Bucharest, Romania; Roxana Ionita, Lecturer, The Christian University Dimitrie Cantemir of Bucharest, Romania

This paper deals with the impact of micro and macro environment components on trade companies in Romania. Trade companies organize and operate under specific environmental conditions impact or both. In the activity of any companies the environment plays a key role in defining its strategies in seizing and using opportunities of development, being practically the support in achieving the objectives of growth, profitability or just survival. Trade companies should have the best possible perception of the components on each macro, because some of them are heavily dependent than others. Dealing with environmental factors allow detection trading company strengths and weaknesses, and to measure responsiveness and anticipation.

Keywords: micro environment; macro environment; company
Introduction

Trading company designs and operates under specific environmental conditions impact or both. The external environment of the firm identifies two major components: the microenvironment - the firm has direct links, reciprocal often imposed by the need to achieve its object and macro environment - the firm has indirect relationships in most cases only company suffering its influence.

The micro and macro environment components of the firm

At the microeconomic level, for consumer products as inputs buyer or consumer goods, the balance is reflected in the size and structure of utilities that you can buy with the income available, maximizing the sum of these utilities. The contribution of trade to ensure stability at this level is how he determines normality market, the existence of an offer corresponding to volume, structure, place and time the manifestation of demand in this regard.

Providers, who make trading company resources ordinary course of business, are organizations and individuals that provide firm inputs (materials and supplies, machinery, equipment, energy, packaging, labeling, services, financial, informational, etc.). Suppliers should look not only to their traditional sense, but as public or private service providers (transport units, repair and maintenance, mail, telephone, telegraph, internet service providers and suppliers of human resources (labor distribution offices jobs, job fairs organizers, educational and vocational training, head-Hunters). It is very important on the one hand monitoring of suppliers, on the other hand establishing trust and long term, achieving a mutual interdependence.

Customers trading company is the most important component of the company's microenvironment, the starting point needs to...
substantiate policy objectives marketing. Depending on their status and
the nature of the claims against the company products, customers are
final consumers of products who make the market for the company’s
products, intermediate (rarely used in the productive goods market) and
are represented by firms that facilitate promotion, sale and
distribution of goods to the final consumer in the form: traders,
wholesalers, physical distribution firms, trade, transport, etc.,
marketing service agencies, advertising agencies, financial
intermediaries, banks, insurance companies and so on. A customer’s
decision to return or not trade company is determined by several factors,
emotional, such as: overall satisfaction, intention to return for shopping,
intention to recommend a brand, a product or service. The consumer is,
at the same time, convenience and risk. Today consumers are aware of
and care about what they buy, how to do, what to do and how the
product is packaged. The way consumers gather and share information
has changed, customers are connected to the Internet more than ever.
Spread information instantly, globally. Sustainability is a business
imperative. Consumers want to act and buy sustainable products, but are
limited by three key barriers: high price, confusion and lack of
confidence, the availability of alternatives. Under current conditions,
trade company must adopt new approaches to address the market: to
become creative application and acquire the ability to create customer.

Competitors are similar firms seeking to meet the same needs
of customers, as perceived by consumers as alternatives to satisfy their
needs. Trade companies must anticipate and respond to mutations in the
microenvironment company, such changes should influence and control
the size of their interface with the companies that have the same activity.

Competing foreign trade and multinational firms came in
Romania and became significant. Picture issues facing Romanian trade
companies reflect a variety of aspects: structural and performance gap
Romanian trade across other states, constraints and specific legal
requirements of the acquests communautaire, the content of public policy
that addresses the trade European Union.
Ability of larger firms to reduce costs by achieving economies of scale to support costly research and development programs that materialize into products and proprietary technologies or impose brands with a strong presence in the public consciousness, small and medium businesses oppose them greater flexibility and adaptability to changes that occur in the market, greater mobility in meeting the needs of personalized social climate motivating.

Public or publics represent any interest group that has actual or potential impact on organizational capacity to achieve the objectives of the company trade. In our view, we can identify several types of bodies that surround Trade Company and a direct influence, such as: financial institutions, media outlets, citizen associations, government agencies, local public bodies, public attitudes general, etc.

**Macro components and their role in the company's strategic approach to trade**

The second component of the external environment, ranks macro environment essential to guiding the company’s activity in accordance with the needs of society, he influenced the company's shares through several types of behaviors, such as: consumer behavior and commerce, competition and the behavior and position of government.

Trading company should have the best possible perception of the components on each macro, because some of them are heavily dependent than others (eg, the economic environment cannot be separated from the social or political environment). Dealing with environmental factors allow detection trading company strengths and weaknesses, and to measure responsiveness and anticipation. Since macro elements do not evolve simultaneously in the same direction and with the same intensity, the effects triggered the company are outstanding.

Knowing physiognomy and external environmental requirements Commerce Company acting particularly important for
connecting business to its dynamics. The trade company may propose to develop demand for certain products and services, high frequency renew offer of goods, improve distribution of its products or services, to make effective promotional activities etc.

The sector is currently trading firms are characterized by instability, limited demand with risk adverse and highly price sensitive demand, the determinants of global financial tensions banks froze lending attitude. In this respect, our approach we started to explain the evolution of political, emphasizing the influence of economic factors and social factors reaching technological, legal and environmental.

With regard to political factors, several authors have developed theories more or less complete. In appreciation of Somes C. These are country specific and are mainly structures of society, social classes, political forces, the degree of state involvement in the economy, the stability of the climate politic. The most visible components are usually political factor: the political regime, the type of government, political party system (one-party, two-party, multiparty, coalition), the stability of the current government policy measures, the stability of the policy measures taken historic (analysis is done through an emphasis on the past, national political life), the fees, the attitude towards foreign investors and to investment, economic regulation, legislation on environmental protection.

Assessment of the political climate of interest in establishing and carrying out the strategy. Romania currently has a requirement to decreasing corruption phenomenon Prints a negative political environment. According to CPI, corruption is perceived as much higher in Romania than in other Eastern European countries. Romania had the lowest score of all Member States, namely: 3.8 out of 10 points, according to the Global Corruption Report 2011, Transparency International Romania. This negative indicator turns Romania into a country less attractive to investors and is considered by some agencies, affecting interest rates. Our country has seen scores indicating delayed reforms, abandoning the impact of systemic reforms, reducing the interest of
policy makers to combat corruption, the existence of many conflicts between the state powers that led to destabilization and discrediting measures. These have resulted in lack of progress and the negative effects are reflected in particular on the competitiveness of the Romanian economy. Destruction safety mechanisms in the spending of public resources, manifested in the last year, the economic crisis and rising indebtedness of the country has reduced to an extent greater market competitiveness of Romania European public funds.

The relationship between the population and the state (represented by the administration and public utilities) is hampered due to lack of trust and suspicion on the accuracy of setting tariffs, taxes, etc. Relationship entrepreneurs and political environment is also influenced by the characteristics and climate latter. The report, Paying Taxes 2011”, released by Price Waterhouse Coopers in Romania is ranked 149 in the world to pay taxes incurred by a company and the second lowest out of 183 countries surveyed by the number of payments to be made annually to pay tax obligations. The number of required fees Romania is higher than in any other EU country, the difference is very large, and the second in the union, according to this criterion is occupied by Poland, which ranks 129. Realizing a less dangerous of the data presented, we consider that report; Paying Taxes 2011 "reflects more negative influence on business and trade on firms as the analysis does not focus on reporting to the European Union, but on a planetary scale.

All these elements characterized finally, the political climate of a country, its assessment is important in determining national development strategies in the commercial sector. It is necessary that the political environment through, the actors support its profitability sectors correlated with how natural resource exploitation.

The whole economic life of the component space acting firm determines its economic environment. Economic factors concern the allocation of resources in society and commerce that company management should aim to adopt best decisions: the GDP branch structure of the national economy development level of each branch, the
The Influence of Micro and Macro Environment Components on Trade Companies in Romania

budget deficit, the effects of recessions price developments, taxation, economic development, population, development and distribution income social groups, trade balance, forex anciar situation, interest rates, loan applications development inflation, employment of labor, etc. Trade companies must follow very closely the evolution of some items as income, cost of living, interest rates, the economy and the structure of credits, items that have a significant impact, particularly on trade companies whose products are aimed at people with high income and those who are price sensitive.

The evolution of the current account deficit in Romania reflects a combination of structural factors and long-term growth of external shocks and domestic policies. Specifically the external deficit is attributed to insufficient development of production capacity of the economy compared to domestic demand growth, the sharp increase in demand driven by increasing incomes well above labor productivity growth and the sheer volume of credits granted to NGOs. Conventional threshold of sustainability of the current account deficit every year shows that Romania has excessive current account deficits. It is economically rational for this deficit exists, but not to this scale.

One of the sources of power and the creation of capital, at the moment, is the savings. It is seen that a source of this flow to steal money from “24, by saving investment is required.

Economic growth must be achieved through innovation (human resource development), developing natural resources, and financial resources. Trade companies must pay attention to major trends in the size of income and consumption expenditure structure of the market. Analysis of the temporal relationship between the two phenomena reveals the close application of needs consumer goods people's material contained in real need. Regarding the minimum gain interest on two aspects: the motivation of human resources engaged in commerce firms (reduced gain may not ensure the existence of ) the financial resources available to the population. Depending on the average gross salary, persons engaged in commerce firms are found usually in the unfavorable
salary scale, ranking in the top end of the main economic activities. Also earning minimum while representing our country a competitive advantage hiding limited financial resources available to the population.

The financial crisis has affected the cost and availability of external financing. Risk premiums for CEE countries increased significantly (left) and by rating agencies is increasingly pessimistic (right). In our assessment of current benefits among trading firms on the one hand we can state the high potential demand for household credit, knowing that this is, in fact, the client company's trade, and on the other hand the benefits of the capital blast.

Interest rates on bank loans double impact exercise, namely the willingness of consumers to make purchases from non-primary products and the firm's ability to finance for investment. From the point of view of the consumer, a high rate of interest not only limit its expenses, but they do prevent (other) loans, which means a reduction spiraling ever closer to total expenditure for goods non-vital.

The economic environment has been characterized in recent years by high inflation, so the turnover of trade enterprises was reduced, but in recent years this has improved a lot.

Inflation based on prices skid, short term and medium to firm trade can be a real engine of growth, amid increasing demand, selling prices can increase without affecting turnover, but its medium and long term deviations are emerging (eg, erosion of employee income) and the inflationary spiral is high.

Current developments in the exchange rate negatively affect trade companies since it increases the prices of food and non-food, and thus decrease the purchasing power of the population. Due to exchange rate volatility, customer's individuals who took out loans in euros have
felt the effect of the rise of interest rates overlapped increases, this limiting their available income and employment potential new loans. This indicator is most affected by lack of investor confidence due to the direct effects it produces inflation. Currency depreciation effects on all sectors of the economy show. If devaluing the short term, to lead to a boost exporting business activity.

Regarding the distribution of failures, in 2011 the situation is one unfavorable trade companies; the first position is situated as in all previous years commercial sector.

Regarding the commercial sector, there was a mutation in the number of bankruptcies in retail outpaced that of the wholesale and distribution main cause of the large number of bankruptcies in the retail, wholesale and distribution is the competition from large supermarket chains and hypermarkets on small traders.

The generic name, bankruptcies "were considered in all cases of insolvency recorded ie companies that have opened bankruptcy, business reorganization and companies in which bankruptcy was closed for lack of active having to the expansion of such networks to cities becoming smaller. This is not a situation that occurs only in Romania, according to a survey by Coface in the Central and Eastern European countries occupy the top position among commercial bankruptcies. The effects of the economic crisis are still being felt increasingly stronger trade companies by sales decreased difficult access to finance and thus considerably reducing liquidity.

Conclusions

Noteworthy is the fact that under the generic name, trade ' recorded a multitude of companies that might be included in another category, are directly influenced by the risk of another economic sector. For example, trade in construction materials and sanitary equipment is less influenced by the opening of large shopping centers and more specialized retailers of construction. On the other hand, most companies registered in
Romania as engaged in trade, and many of them have not had any activity, which led to their liquidation and deregistration. This reduces the overall riskiness of the sector. Economic factor influences the trading company differ depending on the type of commercial units, but depending on the product. Supermarkets and hypermarkets are more resistant than all trading companies. Small business merchants and may disappear in trade large retailers, especially due to cost strategies should address.  

Nationally, unemployment affects current size lowering the gross domestic product and the company to bear the costs of unemployment contribution to the unemployment fund additional expenditure due to their support. At the individual level, family unemployment rate increased negative impact on income; unemployment benefit is less than the wage and record erosion of savings if any. People with austere budget can represent clients lost for some firms to trade and market for those who need products sold at prices corresponding financial situation therefore trade companies recorded lower revenues. Existence month term unemployment is an environment for crime, violence, etc. 

The tax is another economic variable affecting the macro-environment in which Trade Company operates. High taxation in Romania diminishing purchasing power of consumers and trading companies, and the number of charges leads, while allocating a greater period of time to pay them.

References


Contributions of Emotional Education Youth’s to Improve or Change Teaching Methods

Authors: Paraschiva Grigorie, Viilor Economic College, Antim Ivireanu Technological High School, Orthodox Theological Seminary, Lumina University, Bucharest, Romania; Popa Marineta, Viilor Economic College, Romania; Ramona Georgiana Busuioc, Mihail Kogălniceanu High School, Snagov, Romania; Ilie-Alexandru Grigorie, Ștefan Odobleja High School, Romania

This paper is intended to emphasize the possibilities to show the influence of emotional education Romanian youth’s to improve or change teaching methods to grow up the Romanian economy within teenagers, in spite of all problems related to education, poverty, economic crisis, unemployment, migration, unmet training etc.

On the one hand, it identifies and proposes the approach of a new research regarding the decrease of the following phenomena: the truancy and dropout of Romanian students, the migration of young Romanian people and youth unemployment.

On the other hand, the paper reflects the important role of students and their emotional education as contributions to the improvement of teaching methods and vocational training development during the current economic crisis. We investigate how can students influences the Romanian labour market and the educational system. The
objectives refer to the assessment of the tendencies of Romanian youth involved to create a new future for own country. The results of the research draw attention to the potential loss of our knowledge society.

The paper highlights the new trend influencing the youth labour market and the changes in the interactions between the educational services market and the labour market.

**Keywords:** Social Emotional Learning; Continual Improvement; Teaching Methods Change

---

**Introduction**

The paper highlights the new global educational trend influenced by the students [16], the youth labour market and the changes in the interactions between Romanian educational services market and the labour market. [25].

Our expectations are:

- show the importance of appreciations of the students' role in education and labour market; [25]
- demonstrate the differing types of quality tools/techniques attributed to the Japanese but used by all of us in educational organizations/ companies; [26,29]
- illustrate the applicability of tools and techniques of quality teaching methods improvement using American models; [26,27,31]
- describe individual applications of appropriate quality tools which involve Emotional Education and Teaching Methods Change[26,27,31].

Objectives:

- An appreciation of the students' role in education;
A continual improvement of emotional education as a type of change that is focused on increasing the effectiveness and/or efficiency of an educational organization;

An interpretation of policy and regulatory educational challenges in relation to student’s unlimited quality initiatives and emotional education.

Prior work

From the perspective of Teaching Methods Change, we examined the new trend influencing the educational market. [25]. We also discussed the main strategic choices available for the Romanian students to improve teaching methods using emotional education [25, 26]. Numerous research studies support the claim that affect plays a critical role in decision-making and performance as it influences cognitive processes [21, 27, and 28].

Despite this body of research there is insufficient theory within educational pedagogy to recognize and address the role and function of affect [26, 28, 29]. The innovative models and theories that have been proposed to facilitate advancement in the field of educational pedagogy tend to focus on cognitive factors. Consequently, affective cues, which have a significant role, are often misinterpreted or ignored [[26, 28, 29, 31].

We propose several new models for framing a dialogue leading to new insights and innovations that incorporate theories of affect into educational pedagogy [26, 28, 29, 31].

Design/Methodology

This report presents a map of past, present and future changes to education and training as student’s contributions to the improvement teaching methods using emotional education [20, 21, 22, 26, 28, 29, 31].
Defining and Understanding SEL (Social Emotional Learning) [16, 26, 27, 31]

Effective teaching of social and emotional learning must begin with a clear definition and scope of the skills students need to learn. Broadly speaking, SEL refers to a set of skills that individuals need to succeed in schooling, the workplace, relationships, and citizenship. SEL has been defined or characterized in a variety of ways (Humphrey et al., 2011). The term has served as an umbrella for many subfields of psychology and neuroscience, each with a particular focus (effortful control, emotion regulation, prosaically skills, and aggressive behavior problems) and many types of educational interventions.

The scope and focus of SEL frameworks and interventions also vary: some focus on one set of skills (recognizing and expressing emotions) while others are broader, and some include executive functioning or cognitive regulation (e.g., attention skills, working memory) while others do not.

Given these differences in terminology and framing, there is a need for a clear organizing framework for SEL. We present an initial framework here (see Figure 1) that is based on research and developmental theory.

In particular, we draw on “developmental-contextual models,” which view development as taking place in a nested and interactive set of contexts ranging from immediate (family, peer system, classroom, school) to more distal (cultural and political) contexts [31].

At the center of the framework is a circle representing the core domains of SEL skills? Based on our review of research, we group these skills into three conceptual categories: emotional processes, social/interpersonal skills, and cognitive regulation. Emotional processes include emotional knowledge and expression, emotional and behavioral regulation, and empathy and perspective-taking. Social/interpersonal skills include understanding social cues, interpreting others’ behaviors, navigating social situations, interacting positively with peers and adults,
and other prosaically behavior. Cognitive regulation includes attention control, inhibiting inappropriate responses, working memory, and cognitive flexibility or set shifting [31].

These three domains of SEL skills are related to short- and long-term outcomes presented on the right side of the figure. These include academic achievement (grades, standardized tests of academic skills), behavioral adjustment (taking others’ perspectives, getting along well with other children, solving conflicts, and exhibiting less aggression and conduct problems)[31].

Figure 1[31]: Organizing Framework for SEL

Current Approaches to SEL in Education [16, 17, 26, 27,31]

Based in part on the research that has informed the framework above, the last decade has witnessed rapid expansion in research and programming focused on enhancing school students’ SEL skills to reduce behavior problems and promote positive social interactions [27, 31]. This period has also witnessed a growing convergence of developmental science and prevention science in guiding the design and evaluation of SEL and related interventions.
Evaluations of programs targeting SEL skills have shown promising results for students. Most of the evaluations conducted to date have utilized quasi-experimental methods, but a smaller number have demonstrated their effectiveness via rigorous experimental evaluations [17, 31].

A meta-analysis of both quasi-experimental and experimental evaluations found significant positive effects [14, 31]. It included evaluations from 213 school-based, universal primary prevention programs that used a range of reliable and valid measures (including children’s self-report, adult report, and standardized assessments) across six outcome categories. In all six categories—social and emotional skills, attitudes toward self and others, positive social behaviors, conduct problems, emotional distress, and academic performance—results were positive, with effect sizes ranging from 0.22 for conduct problems to 0.57 for social and emotional skills. Furthermore, there were few differences in effectiveness according to students’ age, ethnicity, or income.

While there is clear evidence that high-quality SEL programming can make a difference, as indicated directly above, effect sizes from the most rigorous evaluations are small to moderate, typically in the range of one-fifth to one-half of a standard deviation (e.g., Jones et al., 2011). Effects are usually larger for high-risk students than for universal populations or low- to moderate-risk students [14, 31].

However, even small effects can have meaningful implications [14, 31]. This may be especially true for the most at-risk students, who appear to need and benefit from such programs the most. Furthermore, short-term effects for these students may translate into long-term effects for themselves and their classmates because research on classroom composition and spillover effects suggest that one or a few disruptive students can impact the whole class [14, 31].

Nonetheless, when it comes to targeting behavioral and academic outcomes, bigger effect sizes are clearly better than small ones, and reports in both research and the media about students’ behavioral and academic outcomes highlight the need for greater impact [14, 31].
Characteristics of Effective SEL Programs [6, 12, 14, 19, 26, 27, 31]

Intervention programs are not all created equal; some programs are more effective than others. Research linking specific SEL program components to outcomes has been rare, but meta-analyses and reviews have begun to identify a set of important issues.

Durlak and colleagues (2011) found that the most effective programs were those that incorporated four elements represented by the acronym SAFE: (1) sequenced activities that led in a coordinated and connected way to skills, (2) active forms of learning, (3) focused on developing one or more social skills, and (4) explicit about targeting specific skills.

Beyond program characteristics, implementation fidelity and quality are also key factors in the effectiveness of SEL programs. Measuring implementation and evaluating its impact on outcomes has been a missing link in the literature on SEL programs and other related prevention programs, due in part to measurement challenges and varying definitions of implementation quality. In their meta-analysis, Durlak and colleagues (2011) found that only 57% of studies reported any implementation data [6, 12, 14, 19, 26, 27, 31].

In a review of 34 prevention programs with demonstrated positive effects, Domitrovich and Greenberg (2000) found that most included some measure of implementation, but the measures were usually limited and only about onethird of the programs examined the association between implementation and outcomes. Using the limited range of studies that have measured and reported on implementation, Durlak and colleagues (2011) found that implementation quality was positively associated with student outcomes, supporting findings from an earlier review by Domitrovich and Greenberg [6,12,14,19,26,27,31].

In their meta-analysis, Durlak and colleagues (2011) found that only 57% of studies reported any implementation data. In a review of 34 prevention programs with demonstrated positive effects, Domitrovich and Greenberg (2000) found that most included some measure of
implementation, but the measures were usually limited and only about one third of the programs examined the association between implementation and outcomes [14].

To understand the need for a novel model, let us first examine the current educational model. The current model, as shown in Figure 2, begins with ‘data,’ which is a collection of answers to questions that the learner has not yet seen fit to ask or needs to ask. Such data becomes ‘information’ when it answers a question that the learner cares to ask. For the most part, a teacher, who must somehow motivate the student to care enough to seek the answers found in the data, supplies these questions.

Studying is like ‘panning for gold’ where the answers are the ‘nuggets’ buried in a ton of otherwise uninteresting gravel. Once we have our ‘nuggets of information’ how do we organize them into a ‘body of knowledge’? We may think of ‘information’ as the pieces of an unassembled jigsaw puzzle, whereas ‘knowledge’ is the assembled jigsaw puzzle. That is, the question-answer pairs are organized into a coherent structure, in the logical and natural order in which new questions arise as soon as old ones are answered[27,31].

The assembled ‘jigsaw puzzle of knowledge’ reveals a previously hidden picture—a ‘big picture,’ if you will. Or to put it another way, the assembled ‘jigsaw puzzle of knowledge’ is a tapestry into which woven many otherwise hidden is and previously unrevealed stories.

Focus of modern day Educational pedagogy

**Figure 2:** Old Model: Supports Rule-based Learning
The novel model shown below in Figure 3 goes beyond the current model shown in Figure 2. The foci of attention shifts to the construction of ‘knowledge’ and to the extraction of meaningful ‘insights’ from the ‘big picture.’ When ‘knowledge’ is coupled with a personal or cultural value system, ‘wisdom’ emerges. In other words, wisdom allows us to harness the power of knowledge for beneficial purposes. ‘Wisdom’ affords us the possibility of extracting the stories woven into the tapestry of knowledge. So from ‘wisdom’ we craft the bardic arts of story making and storytelling. The ancients crafted myths and legends. These were the prototypical stories of their cultures, which were intended to impart ‘wisdom.’[27].

A story is thus an anecdote drawn from the culture. A well-crafted anecdote or story has value both as an amusement and as a source of insight into the world from which it is drawn. And the plural of ‘anecdote’ is data—a collection of anecdotal stories or evidence. This observation closes the loop in Figure 3[27].

**Figure 3 [27]: New Model: Supports Model-based Reasoning**

Figure 3 suggests a novel model that, on a fundamental level, supports an improved educational pedagogy. This will serve as a
foundation for the next part of our model—how a learner’s affective state should be incorporated into the overall model [27].

**Results** [21, 22, 25, 26]

There are the follow results:

- to contribute to this vision-building process on ways of addressing emerging competence needs,
- to contribute to the development of imaginative visions and scenarios of the youth’s future of learning and working in order to support priority setting for emotional education, training and skilling policies;
- to decrease young people’s migration and unemployment.

**Implications** [21, 22, 25, 26]

New technology in education and labour market; tools and services enhancing learning; open education and resources; assessment, accreditation and qualifications; globalization of education; roles of institutions; individual and profession-driven education; life-long learning; formal education goes informal; individual and social nature of learning, the epistemological and ontological bases of pedagogical methods.

Emotional education is key driver of scientific discoveries. Scientific discoveries are key drivers of economic growth, driving and fueling the economy [25]. Leading economists have identified technological progress as the single most important determining factor in sustained economic growth. While some technologies can be anticipated, especially those that are improvements or new uses of old technologies, there is such rapid change in fundamentally new areas that it is hard to fully understand the implications [25].
Examples are the human genome project, the explosive changes taking place in information technology, the growth of nanotechnology, and biotechnology, which has the potential to transform areas as different as farming and computer technology [25].

**Background [21, 22, 25, 26, 28]**

Providing effective education is important in ensuring well-rounded and competent students who can contribute towards the development of our nation. This study is part of a larger study investigating the effects of an affective-cognitive approach on learning. Since 2009 our small group of teachers, as well as parents, involved in educational process has been started to find solutions for quality assurance problems in education.

- We are now trying to open a new folder with many educational and economical files for improvement Romanian education and economy. The most important files are Emotional Education, Continual Improvement of Educational Organizations and Teaching Methods Change [21, 22, 25, 26].
- There is the philosophy of making each students/ future worker responsible for the quality of his or her work.
The QFD methodology has been developed into a continuous process, and it can be applied equally well to educational or manufacturing environments. QFD {Quality Function deployment}[21, 22, 25, 26].

Customers (Students, Employers, Parents, Representatives of political, social, educational and economic environment) Requirements Engineering Characteristics, Parts Characteristics Key Process Operations, Education and Production Requirements. Institutions have a dire challenge in measuring and reading performance requirements from various programs. Blended learning has become a higher choice for several institutions as the numbers of enrolled students increase. This method will result in a higher turnover for students of professionals in the next and upcoming generations. This change will shift the academic role as institutions create opportunities for students on other areas of professional departments other than on-campus based programs [21, 22, 25, 26].

Sustainable development considerations require youth to embrace a range of additional skills beyond the science they have traditionally relied upon to solve engineering and mathematique problems. This will require changes to the way in which education prepares students for professional practice. To meet this demand, the existing content-based curriculum was transformed into an outcome based education curriculum for training engineers [21, 22, 25, 26].

The change has created new teaching demands on engineering and mathematique lecturers with the introduction of new compulsory courses (creativity course, soft skills courses, entrepreneurships,
community involvements etc.) in addition to the increasing engineering subject matter content to be covered [26].

For example, in both Japan and Singapore university teacher training focuses on content and pedagogy (teaching methods) in conjunction whereas in the U.S. teaching candidates often learn little mathematical content, and pedagogy is often taught separately, divorced from the content that teachers will teach. In fact this lack of pedagogical content knowledge (PCK) by U.S. teachers has been shown in study after study. It has also been shown that teachers in Singapore, China, and Japan have high PCK [28]. "Parental attitudes are important but what many people miss is the fact that in the U.S. parents pay tutors for the lack of what their children learn in school while in Singapore and Japan parents pay tutors to improve their children's chances of success on high stakes entrance exams (much like parents pay for SAT tutoring in the U.S.)."But why is this? One reason is that teachers often teach the way they were taught. If you were taught mathematical procedures simply by rote without ever learning why they work it is likely that this is how you will teach. If you were taught in a way that develops conceptual understanding of mathematics, you will more likely teach better. Since Singaporean and Japanese educators were taught in this type of educational system, it is more likely they will teach conceptually. But this only contributes a small amount to their PCK [28].

If you talk to university educators in Japan and Singapore they will tell you that their students often do not understand mathematical procedures conceptually and many are math-phobic. They do not assume that teaching candidates are prepared to explain mathematics to children in ways that they will understand the underlying rationale behind the procedures. Therefore great care is taken to help teaching candidates to overcome their fear of mathematics, build confidence in their own mathematical capabilities, and understand the intersection of curriculum, content, and pedagogy deeply. If we want to improve how mathematics is taught in the U.S. we need to improve the way teachers
are trained. (See my posts on teacher training in Singapore and Japan to learn more about how teachers are trained.)[28]

"If we want to improve how mathematics is taught in the U.S. we need to improve the way teachers are trained."[28] On the scale of value where are Romanian students now? Maybe they think: The link between design thinking and creativity is emotional education.

**Data and method [25, 26, 27, 28, 29, 30, 31]**

The study was carried out by using the statistical data collected from the Institute of Statistics from USA, Japan, Singapore, EU, and the Reports of World Bank, UN, or EU Commission. We examined to underline the aspects regarding the quality of educational sector from the studied area, both by outlining the major problems and also by finding adequate solutions for a long-term quality improvement of interdependence within another sectors of activity. We involved the important role of emotional education to assure best quality for educational process [25, 26, 27, 28, 29, 30, 31].

The relevant final stage for the study was the analysis and the interpretation of the results obtained, which completed the general image over the quality assurance of educational system, as first step to improve the access of youth to Romanian Labor Market marking the positive and negative aspects with the problems that determine a defective system influenced by factors that are internal and external to the respective region [25, 26, 27, 28, 29, 30, 31].

Using the statistical data available, we have indicated the emotional education as a core between Research, Innovation, Education, Enterprises and Universities.

**Affective State: Emotions and Learning**

The extent to which emotional upsets can interfere with mental life is no news to teachers. Students who are anxious, angry, or depressed don’t
learn; people who are caught in these states do not take in information efficiently or deal with it well (Daniel Goleman, Emotional Intelligence)[24].

In an attempt to install/build/re-engineer the current state of educational pedagogy, educators should first look to expert teachers who are adept at recognizing the emotional state of learners, and, based upon their observations, take some action that scaffolds learning in a positive manner. But what do these expert teachers see and how do they decide upon a course of action? How do students who have strayed from learning return to a productive path, such as the one that Csikszentmihalyi [27] refers to as the “zone of flow”?

This notion that a student’s affective (emotional) state impacts learning and that appropriate intervention based upon that affective state would facilitate learning is the concept that we propose to explore in-depth[27].

To prove our point, note that skilled humans can assess emotional signals with varying degrees of precision. For example, researchers are beginning to make progress giving computers similar abilities to accurately recognize affective expressions [, facial expressions, and gestural expression [27]. Although computers only perform as well as people in highly restricted domains, we believe that:

- accurately identifying a learner’s cognitive-emotive state is a critical observation that will enable teachers to provide learners with an efficient and pleasurable learning experience, and,
- unobtrusive highly accurate technology will be developed to accurately assess actions in less restricted domains [27].

Our own preliminary pilot studies with elementary school children suggest that a human observer can assess the affective emotional state of a student with reasonable reliability based on observation of facial expressions, gross body language, and the content and tone of speech. If the human observer is also acting in the role of coach or mentor, these assessments can be confirmed or refined by direct conversation (e.g. simply asking the student if she is confused or
frustrated before offering to provide coaching or hints). Moreover, successful learning is frequently marked by an unmistakable elation, often jointly celebrated with “high fives.” In some cases, the “Aha!” moment is so dramatic, it verges on the epiphanies. One of the great joys for an educator is to bring a student to such a moment of triumph. But how can computers acquire this same level of proficiency as that of gifted coaches, mentors, and teachers [27]?

The first step is to offer a model of a learning cycle, which integrates affect. Figure 6 suggests six possible emotion axes that may arise in the course of learning. Figures 7a and 7b interweave the emotion axes shown in Figure 6 with the cognitive dynamics of the learning process. In Figure 7, the positive valence (more pleasurable) emotions are on the right; the negative valence (more unpleasant) emotions are on the left. The vertical axis is what we call the Learning Axis, and symbolizes the construction of knowledge upward, and the discarding of misconceptions downward [27].

**Figure 6[27]:** Emotion sets possibly relevant to learning

By using the descriptive analysis of the data, we presented the distribution of the values for the indicators calculated in relation to the standards or the reference objectives established by the National System of Indicators for Education. In addition, by processing the statistical data regarding quality of education, we obtained the necessary information to describe the functionality and the level of performance of the educational system and to examine the evolution in quality assurance of education in time and space [27].
Figure 7a [27]: Four Quadrant model relating phases of learning to emotions

Results and discussions

In either case, they are in the top half of the space if their focus is on constructing or testing knowledge. Movement happens in this space as learning proceeds. For example, when solving a puzzle in The Incredible Machine, a student gets a bright idea how to implement a solution and then builds a simulation. If she runs the simulation and it fails, she sees that her idea has some part that doesn’t work—that needs to be diagnosed and reconstructed. At this point the she may move down into the lower half of the diagram (Quadrant III) into the ‘dark teatime of the soul’ while discarding misconceptions and unproductive ideas. As she consolidates her knowledge—what works and what does not—with awareness of a sense of making progress, she advances to Quadrant IV. Getting another fresh idea propels the student back into the upper half of the space (Quadrant I). Thus, a typical learning experience involves a range of emotions, cycling her around the four quadrant cognitive-emotive space as she learns [27].

If one visualizes a version of Figure 7a and Figure 7b for each axis in Figure 6, then at any given instant, the student might be in multiple Quadrants with respect to different axes [27].

They might be in Quadrant II with respect to feeling frustrated and simultaneously in Quadrant I with respect to interest level. It is important to recognize that a range of emotions occurs naturally in a real
learning process, and it is not simply the case that the positive emotions are the good ones [27].

We do not foresee trying to keep the student in Quadrant I, but rather to help him see that the cyclic nature is natural in learning science, mathematics, engineering or technology (SMET), and that when he lands in the negative half, it is an inevitable part of the cycle. Our aim is to help students to keep orbiting the loop, teaching them to propel themselves, especially after a setback [27].

A third axis (not shown) can be envisioned as extending out of the plane of the page—the cumulative knowledge axis. If one visualizes the above dynamics of moving from Quadrant I to II to III to IV as an orbit, then, when this third dimension is added, one obtains an excelsior spiral. In Quadrant I, anticipation and expectation are high, as the learner builds ideas and concepts and tries them out. Emotional mood decays over time either from boredom or from disappointment. In Quadrant II, the rate of construction of working knowledge diminishes, and negative emotions emerge as progress wanes. In Quadrant III, as the negative affect runs its course, the learner discards misconceptions and ideas that didn't pan out. In Quadrant IV, the learner recovers hopefulness and positive attitude as the knowledge set is now cleared of unworkable and unproductive concepts, and the cycle begins anew. In building a complete and correct mental model associated with a learning opportunity, the learner may experience multiple cycles until completion of the learning exercise. Note that the orbit doesn't close on itself, but gradually spirals around the cumulative knowledge axis [27].
Figure 7b [27]: Circular and helical flow of emotion in Four Quadrant model

On the one hand, the scope of this paper is to present low results of quality educational sector, with implications for Romanian and American youth’s mathematiques knowledge, and to apprehend the way in which the spatial distribution, mainly deficient, of some general social services, leads to the occurrence of territorial disparities aimed to keep different chances of people [25, 26, 28, 29].

On the other hand, we present high results of quality educational sector in two educational units where Romanian students are brilliant. That means good jobs for our young people [25, 26].

For example, in both Japan and Singapore university teacher training focuses on content and pedagogy (teaching methods) in conjunction whereas in the U.S. teaching candidates often learn little mathematical content, and pedagogy is often taught separately, divorced from the content that teachers will teach. In fact this lack of pedagogical content knowledge (PCK) by U.S. teachers has been shown in study after study. It has also been shown that teachers in Singapore, China, and Japan have high PCK [28, 29, 30].

The limited repertoire of effective teaching skills of engineering lecturers makes their task especially challenging in light of the higher expectations in terms of student’s learning outcomes [25, 26].

Although learning is the expected outcome, teaching is the precursor to learning and thus the importance of teaching and pedagogical methods. What is more critical —the way students are taught has a significant influence on the type of cognitive structures they create and the way they store and structure knowledge they acquire determines to a great extent how flexible they will be when they must use that knowledge[ 25,26]. The instructional cycle is a process that most effectively occurs at the departmental level in the hands of the faculty who understand the practices, conventions, and methods that their disciplines convey to majors; [9]. Learning goals can be written for
individual courses or for academic programs. They answer two questions:
- What do you want students to know by the time they finish a course or a major? This is a question about the content of the course or major and about the relationships between content areas. - What do you want students to be able to do with what they know? We talk about the skills that are important to the course or the major—how students learn and use the content of the discipline to make or report meaning.

Course-based and departmental learning purposes are interactive. There is no one right way to develop learning fulfills. The process can be either top-down (basing course-level goals on learning goals for the major) or bottom-up (inferring program goals from existing course goals). More likely, it will be an evolving combination of the two. Most importantly, student learning goals represent the structure and character of the particular discipline in which they are situated and the collective wisdom of the faculty [25, 26]. After World War II the Japanese adopted 'quality' as a philosophy for economic recovery and, in line with this traditional approach, sought seven tools [26].

**Conclusions**

All members of our team are actors of educational process as teachers, managers or parents and we try to understand and to grow up the potential of our tooth students and children. This paper is first step but not the last.

Our group takes a look at Group Concept Mapping (GCM) [21, 22, 25] and we applies a structured participative approach to facilitate groups of experts to arrive at a consensus about a particular issue, characteristics of Quality Assurance of Education in the future, regarding to its interdependence with Social Emotional Education, Continual Improvement, Teaching Methods Change, Technological Changes, Innovation and Competitiveness, R& D and revival of Romanian economy [20,21,22,25,26 ].
As GCM model, this analysis depicts, in the form of thematic clusters, the experts’ common understanding of the issue under consideration. We use a structured facilitative multi-step approach including a number of simple and intuitive activities such as idea generation, and sorting and rating of ideas. The research method, by its “hybrid” nature, can easily integrate any qualitative method for data collection and analysis, such as individual interviews, surveys, focus groups or Delphi method [20, 21, 22, 25, 26].

Instruction for academic and social emotional learning should use varied modalities and approaches to reach the different styles and preferences of all learners [20, 21, 22, 25, 26]. That means [21, 20, 21, 22, 25, 26].:

- All educational systems in Europe will be connected in a central system to identify the best students in order to support them no matter their country of origin.
- In Europe (EU) many students will learn with and from each other in international collaborations.
- We will cease to rely on experts as the source of knowledge and curriculum and move towards quality based on use and endorsement through internet systems.

Our models are inspired by theory often used to describe complex dynamic interactions in engineering systems. As such, they are not intended to explain how learning works, but rather to provide a framework for thinking and posing questions about the role of emotions in thinking, teaching and learning.

As with any metaphor, the model has its limits. The model does not encompass all aspects of the complex interaction between emotions and learning, but begins to describe some of the key phenomena that need to be considered in metacognition.

These models go beyond previous research studies not just in the range of emotions addressed, but also in an attempt to formalize an analytical model that describes the dynamics of a learner’s emotional
states, and does so in a language that supports metacognitive analysis[27].

Acknowledgements

This material is based upon work supported by the National Science Foundation under Grant No. 0087768. Any opinions, findings, or conclusions or recommendations expressed in this material are those of the author(s) and does not necessarily reflect the views of the National Science Foundation. We are also grateful to Deputy Dean Mariana Stefanescu, PHD Professor of Politehnica University, Bucharest, for her assistance in the preparation of this manuscript.

References


Debt Sustainability

Author: Mirela Anca Postole, Titu Maiorescu University Bucharest, Romania, anca.postole@yahoo.com

In the conducted research the author started from the reality according to which debt sustainability, in general terms, refers to the capacity of a state to consistently pay off its debts, internal and external, contracted as subjects of both public and private law, without impacting the growth and economic development perspectives. The main risks involved in the management of sovereign debt are analysed. The author also approaches aspects regarding the main sustainability indicators for debt, as these are the most frequently used coefficients for debt management.

The results of the research point out a significant conceptual problem referring to the distinction between the reimbursement problems of the debt generated by the dramatic decrease of liquidities and those determined by insolvability.

Keywords: debt sustainability; liquidity; solvability; debt risks; sustainability indicators

Classification JEL: H61; H62; H63
Introduction

In the debate regarding debt sustainability there is no mention made to debt management, it is only stated that a careful selection of debt instruments is necessary to control payments for interests and debt accumulation.

In countries with a high level of debt where interest payments take up a significant part from the budget's returns minimizing debt costs is extremely important. It is also important to avoid the risk of unfavorable shocks on economic growth or production increase which could bring the debt at an unsustainable level.

The optimal debt structure derives from a specific analysis of the relative impact of risk and costs of alternative debt instruments on the costs induced by a possible failure on reaching the stability objective. This allows for a risk quantification considering the foreseen costs for the debt service and, of course, by identifying the optimal combination through the calibration process between cost and risk minimization. Debt establishment is done by low cost financing and by the emission of instruments that ensure protection for debt percentage variations determined by lower than predicted rate of inflation and increase of production. For example, bonds indexed with inflation insure protection against variations in the debt percentage determined by a lower rate of inflation then predicted. Fixed interest bonds (unlike short term bonds) contribute to the stabilization of the debt percentage by cyclic decreases if between the rate of interest and the rate of production we have a negative correlation.

In practice if debt sustainability is generally ensured by a restrictive fiscal policy, the minimization of estimated costs for the debt service becomes less important.
Aspects on existing debt sustainability studies

Liquidity variables, measured with respect to ratio of short term debt service and reserves continue to be very important to different specifications of the model and stress tests, which does not apply to other variables. Reinhart (2002) used such a large sample for the study of the prediction power of sovereign financial evaluations with regard to monetary crises and situation of external debt cease of payments. Considering the framework provided by the „signal theory” and by using a sample of 59 countries between 1970 and 1999 a strong connection between monetary crises and cease of debt payment was discovered in developing countries: approximately 85% of all situations for cease of debt payment are related to monetary crises. Another major find refers to the fact that sovereign financial evaluations systematically fail to foresee monetary crises, but are quite efficient in foreseeing situations of debt payment incapacity which these determine.

The indifference toward the constant increase of public spending has attracted budget imbalances and a modification of the public debt. Some of the causes for the budget deficits are: constantly increasing spending for maintaining government functioning; constant increase in spending for payment of the public debt (part of this generated by the financing of budget deficits in the previous years); drastic increase of inflation; high expenses which didn’t prove to be productive and others factors (Gherghina, Mosteanu, Lacatus, 2010).

Although the studies try to establish if debt generated crises can be predicted and if so, which are the relevant indicator for this, a series of more complex aspects for evaluating debt sustainability are not covered, especially those regarding to the fixing of adequate threshold values for

---

1 In this study monetary crises were identified by crisis indicators developed by Kaminsky and Reinhart (1999), while incapacity of debt payment was established using cases documented by Beim and Calomiris (2001), Detragiache and Spilimbergo (2001) and others. In the sample used for the analysis of the relation between situations of cease of debt payment and monetary crises we find 106 situations of debt payment incapacity and 154 monetary crises, 135 of these on emerging markets.
different indicators of sustainability, this finally leads to a limited knowledge horizon\(^2\).

In this context, studies done by the International Monetary Fund and the World Bank with regard to debt sustainability in poor countries with a high degree of indebtedness could seem more relevant, despite the fact that the methods used and the evaluations done for poor countries might not totally apply in the case of emergent countries. As mentioned in a 1996 study from the IMF the ratios between incomes form exports and the actual debt service and/or the net actualized value for all service payments of a future debt have been selected as direct indicators of external sustainability. Also levels of 20-25\% and 200-250\% for these indicators were recommended as thresholds that once passed would involve significant difficulties in accomplishing the debt service. These thresholds are probably based on empiric analysis of experience for emerging countries and on accomplished performances for meeting the debt service in a certain time period; the purpose of this empiric analyses seems however to be limited considering the small number of countries included in the sample\(^3\).

**Defining concepts for debt sustainability**

It is useful to start the definition of debt sustainability considering it as a situation in which the debtor is capable of continuing its debt service with no unrealistically large balance correction for income and spending. Sustainability excludes the following situations: situation in which debt restructuration is already necessary (or is anticipated to be necessary); situation in which the debtor continues to accumulate debt on an unlimited period, at a higher rate than the debt service capacity (Ponzi game); or the situation in which the debtor activates beyond its own limits, accumulating debt while knowing of the necessity for a debt

\(^2\) For monetary crises, many of the studies used on the large scale the „signal theory“ or „indicator theory“. Among others see Frankel and Rose (1996), Goldstein, Kaminsky and Reinhart (2000), Kaminsky, Lizondo and Reinhart (1998).

\(^3\) For more details see Underwood (1990) and Cohen (1995).
restructuration that will allow payment (even when there are no internal changes).

The debt dynamic involves the existence of several closely related concepts:

- **Solvability** – An entity is solvent if the actualized value (AV) of current primary and future spending is not higher than the actualized value of its present and future income sources while detracting all initial debts.

- **Liquidity** – An entity has no liquidities if all its liquid actives and available funds are not enough to meet payment obligations for matured credits, even if the solvability condition is met.

The distinction between solvability and liquidity is sometimes difficult to make as the lack of liquidities may be manifested by increasing interest rates in the extreme case when there are no available funds, so the marginal rate of interest becomes infinite this in the end questions the entities solvability.

Considering all of the above it is useful to define:

- **Sustainability** – Payment obligations for an entity are sustainable if they cover the updated value of the budget constrains without any major corrections in the income and expenses balance considering market financing costs.

- **Vulnerability** – Vulnerability is simply the risk that the liquidity and solvability conditions are broken and the debtor could be confronted a crisis.

### Measurement instruments for debt sustainability

There are generally two methods for determining the level of sustainability for a country. One of the methods refers to a medium term macroeconomic comprehensive model, specially focused on fiscal aspects and generate by payment, while the other covers the evaluation of
different types of risks associated with debt and monitoring the evolution of the percentage for debt sustainability over time.

**Macroeconomic model**

The macroeconomic model is constructed within the Management of Actives and Passives and is centered on minimizing cost for borrowing subjected to establish risks or minimizing risks associated to established costs. The benefits for such a model are quite obvious, in the sense that it can be used not only in debt management but also for determining the optimal growth, fiscal profiles or medium term payments balance. However developing such models implies not only a huge amount of data but also a high level of expertise form the developers and this could imply a series of constrains for emerging countries.

**Types of risks associated with debt**

This method constitutes a frame which allows for the identification and evaluation of financial and operational risks for the management of the external debt. Risks can be divided into three categories:

A. External market based risks, these include:
   - Liquidity risk;
   - Rate of interest risk;
   - Credit risk;
   - Foreign currency risk;
   - Convertibility risk;
   - Fiscal/budget risk.

B. Operational and management risks, such as:
   - Operational risk;
   - Failure of control systems;
   - Financial error risk.

C. Country specific and political risks
Table 1

<table>
<thead>
<tr>
<th>Types of risk</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market risk</td>
<td>Refers to risk associated with price changes in the market, such as: interest rates, currency exchange quotations, prices for basic materials, costs with service debt. For the two types of debt, internal or external, interest rates changes influence cost for the debt service when the fixed rate debt is refinanced. The floating rate debt also changes when the rate frequencies change. The short term debt with a fixed rate is considered with a higher risk than the long term debt with a fixed rate. An excessive focus on the long term debt with a fixed rate can involve risks when future financing requirements are uncertain.</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td>The risk that the debt will be refinanced at increased costs, and in extreme cases not refinanced. In the situation when the refinancing risk is limited to the risk at which the debt could be refinanced at a higher interest rate, this could be considered a type of market risk. This could lead to supplementary real economic losses, as opposed to the purely financial effects of higher interest rates, but most of the times this problem is handled separately. Managing this risk is extremely important for countries with emerging markets.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>There are two types of liquidity risks. The first refers to the costs that investors face trying to get out of a situation when the number of buyers has decreased significantly or due to the lack of activity on a</td>
</tr>
</tbody>
</table>
certain market. This type of risk is highly relevant when debt management includes liquid actives management or usage of derivate contracts. Another type of liquidity risk, for a debtor, refers to the circumstances when the liquid actives volume can diminish very fast faced with unexpected bond flow, as this can lead to difficulties in cash flow by borrowing in a short period of time.

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit risk</td>
<td>The failure risk for debtors on loans or on other financial actives. This risk is very important when debt management includes liquid actives management.</td>
</tr>
<tr>
<td>Payment risk</td>
<td>A possible loss for the government as partner for not paying debt, for no other reason than payment incapacity form a different party.</td>
</tr>
<tr>
<td>Operational risk</td>
<td>This includes different types of risk, including transaction errors in different stages of operation execution and registration, inaccuracies or stops in the internal control activity or in systems and services, law related risks, breach of security or natural disasters that affect economic activity.</td>
</tr>
</tbody>
</table>


**Sustainability indicators**

Debt sustainability indicators are the most commonly used coefficient in debt management. These indicators express unpaid external debt and the
debt service as a percentage for the gross domestic product or form other variables that express economic growth. Some of the most used indicators for debt sustainability are shown in the table below:

**Table 2**

<table>
<thead>
<tr>
<th>DEBT SUSTAINABILITY INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Solvability coefficients</td>
</tr>
<tr>
<td>Interest service ratio – ratio between interest payments to export of goods and services (XGS)</td>
</tr>
<tr>
<td>External debt to GDP ratio</td>
</tr>
<tr>
<td>Ratio between external debt and exports</td>
</tr>
<tr>
<td>Ratio between external debt and incomes</td>
</tr>
<tr>
<td>Ratio between the present value of debt services and GDP</td>
</tr>
<tr>
<td>Ratio between the present value of debt services and the exports</td>
</tr>
<tr>
<td>Ratio between the present value of debt services and the revenues</td>
</tr>
<tr>
<td>2. Liquidity monitoring coefficients</td>
</tr>
<tr>
<td>The primary debt services coefficient – ratio between total debt services (interest plus repayments of principal) and export of goods and services (XGS)</td>
</tr>
<tr>
<td>Cash - flow coefficient for total debt or total debt services coefficient (for example the ratio of total</td>
</tr>
<tr>
<td>3. Indebtedness coefficient</td>
</tr>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>debt services to XGS)</td>
</tr>
<tr>
<td>Ratio between interest payments and reserves</td>
</tr>
<tr>
<td>Ratio between short term debt and export of goods and services XGS</td>
</tr>
</tbody>
</table>
5. Public sector indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>services</td>
<td>Ratio between short-term debt and total debt</td>
</tr>
<tr>
<td>Ratio between public sector debt and total external debt</td>
<td></td>
</tr>
<tr>
<td>Ratio between public sector debt services and exports</td>
<td></td>
</tr>
<tr>
<td>Ratio between public sector debt and GDP</td>
<td></td>
</tr>
<tr>
<td>Ratio between public sector debt and revenue</td>
<td></td>
</tr>
<tr>
<td>Average term for a non-concessional debt</td>
<td></td>
</tr>
<tr>
<td>Ratio between debt in foreign currency and total debt</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Raj Kumar (1999) and IMF (2003)

External public debt sustainability is reflected mainly by the indicator “debt service rate”, which is the ratio between the External Public Debt Service (EPDS) and the export of goods and services; this shows what amount of the export incomes covers payment of the debt service for a year (Gherghina, Cretan, 2012).

**Conclusions**

At a more general level, sustainability evaluations must be stated using strategy variables (such as expenses or tax rates) as well as using endogenous variables (such as interest rates of growth rates), but this central projection involves certain risks.
For example the income and expenses balance can become so offset that the debt dynamic would no longer be sustainable. This situation could lead, form the income perspectives, in a decrease of the growth rhythm or in not favorable evolutions on the export markets. In the expenses perspective there could be increases in costs, which would be difficult to avoid (such as demographic changes which impose supplementary pressure on sub financed social systems).

We can consider a country at a sustainable debt threshold if it can fully cover its obligations for external debt payments present and future without debt restructuration or overdue debts without compromising economic growth. Form an analytic perspective there are three determining key factors for debt sustainability: existing debt stock and its terms of payment; development of fiscal and external reimbursement capabilities of a country; structure and conditions for new external financing.

References


[9] International Monetary Fund / Assessing Sustainability, 28 May 2002


[14] OECD / Advances in Risk Management of Government Debt,


Using Java Objects and Services for Database Business Applications

Author: Dănüt - Octavian Simion, Lumina – The University of South-East Europe, Bucharest, Romania, danut.simion@lumina.org

The paper presents the facilities advantages of using Enterprise Java Objects in Business Applications and emphases aspects like simplicity, application portability, component reusability, ability to build complex applications, separation of business logic from presentation logic, easy development of Web services, deployment in many operating environments, distributed deployment, application interoperability, integration with non-Java systems and development tools. Enterprise JavaBeans - EJB is architecture for developing, deploying, and managing reliable enterprise applications in different environments. The Java Platform, Enterprise Edition and the EJB architectures provide superior support for Web-based enterprise database applications and makes easy to build custom interfaces for the end user.

Keywords: Enterprise JavaBeans; Business objects; Java objects integration; Java Platform; transactions; Web services; database objects
Introduction

Java objects represented by the Enterprise JavaBeans component architecture is the most important part of the J2EE platform. The core of a J2EE application is comprised of one or several enterprise beans that perform the application’s business operations and encapsulate the business logic of an application. Other parts of the J2EE platform, such as the JSP, complement the EJB architecture to provide such functions as presentation logic and client interaction control logic. EJB is a standard for building server-side components in Java. An enterprise bean can compose one or more Java objects because a component may be more than just a simple object [4], [5]. These required methods allow the EJB container to manage beans uniformly, map the database objects regardless of which container beans are running in. In other words, Enterprise beans are components that are used as parts of distributed enterprise database applications.

The main features of Java objects

Java objects represented by enterprise beans are not entirely remote objects. If a client wants to use an instance of an enterprise bean class, the client do not invokes the method directly on an actual bean instance. The invocation is intercepted by the EJB container and then delegated to the bean instance. By intercepting requests, the EJB container automatically performs implicit middleware [1], [4]. Some of the services that are available at the point of interception include:

- Distributed transaction management. Transactions enable you to perform robust, deterministic operations in a distributed environment by setting attributes on your enterprise beans. The transaction service is exposed through the Java Transaction API - JTA. The JTA is a high-level interface that is used to control transactions;
Persistence is a natural requirement of any deployment that requires permanent storage. EJB offers assistance here by automatically saving persistent object data to an underlying storage and retrieving that data at a later time.

The server side has different kinds of needs than GUI clients do. Server-side components need to run in a highly available, fault-tolerant, transactional, and multiuser secure environment. The application server provides this high-end server-side environment for the enterprise beans that map the database objects, and it provides the runtime containment necessary to manage enterprise beans. Specifically, EJB is used to help write logic that solves business problems. Typically, EJB components, enterprise beans can perform any of the following tasks:

- Perform business logic. Examples include applications like shopping cart, ensuring that the manager has authority to approve the purchase order, or sending an order confirmation e-mail using the Java-Mail API;
- Access a database. Enterprise beans can achieve database access using the Java Database Connectivity-JDBC API;

EJB components are not presentation tier components and they sit behind the presentation tier components or clients and do all the most of the business logic. Examples of the clients that can connect to enterprise beans include the following:

- Dynamically generated Web pages. Web sites who are transactional and personalized in nature need their Web pages generated specifically for each request. Core technologies such as Java servlets and JavaServer Pages (JSP) are used to dynamically generate such specific pages. Both servlets and JSPs live within a Web server and can connect to EJB components that map the database objects, generating pages differently based upon the values returned from the EJB layer;
- Web Service clients. Some business applications require no user interface at all. They exist to interconnect with other business partners’ applications that may provide their own user interface.
The bean provider supplies business components, or enterprise beans. Enterprise beans are not complete applications, but rather are deployable components that can be assembled into complete solutions. The bean provider could be an internal department providing components to other departments.

Frequently the application assembler who is usually a developer or systems analyst is not familiar with these issues. Those who will deploy the EJB are aware of specific operational requirements and perform the tasks above. The developer that will deploy the EJB has the freedom to adapt the beans, as well as the server, to the environment in which the beans are to be deployed [3], [4].

EJB defines three different kinds of enterprise beans:

- **Session beans.** Session beans model business processes. They are like verbs because they perform actions. The action could be anything, such as adding numbers, accessing a database, calling a legacy system, or calling other enterprise beans. Examples include a workflow engine, a catalog engine, a credit card authorizer, or a stock trading engine;

- **Entity beans.** Entity beans model business data from database objects. They are like nouns because they are data objects and are Java objects that cache database information. Examples include a product, an order, an employee, a credit card, or a stock. Session beans typically harness entity beans to achieve business goals, such as a stock-trading engine - session bean that deals with stocks - entity beans;

The utilities of Java objects in Business components for database applications

The usage of Enterprise JavaBeans that map the database objects can be detailed in an example of Entity Beans and Details Object which models
a component in a production system and which supports the remote client view. This component of system has the attributes comp number, comp description, and price of the component. The following source code shows the home interface of the Enterprise Bean Comp:

```java
package example_obj1;
import javax.ejb.*;
public abstract class CompObj implements EntityBean {
    private EntityContext theContext;
    private CompDetails theDetails;

    public CompObj () {
        //The create method of the home interface

    public String ejbCreate(String compNumber)
        throws CreateException
    {
        setCompNumber(compNumber);
        theDetails = new CompDetails();
        theDetails.compNumber = compNumber;
        return null;
    }

    public void ejbPostCreate(String compNumber)
        throws CreateException
    {}

    public abstract void setCompNumber(String num);
    public abstract String getCompNumber();
    public abstract void setCompDescription(String desc);
    public abstract String getCompDescription();
    public abstract void setPrice(float p);
    public abstract float getPrice();
```
// The method of the remote interface
public void setCompDetails(CompDetails cd) {
    setCompDescription(cd.getCompDescription());
    setSupplierName(cd.getSupplierName());
    setPrice(cd.getPrice());
    theDetails = cd;
}
public CompDetails getCompDetails() {
    return theDetails;
}

// The methods of the javax.ejb.EntityBean interface
public void setEntityContext(EntityContext ctx) {
    theContext = ctx;
}
public void unsetEntityContext() {
    theContext = null;
}
public void ejbRemove() {
    throws RemoveException
}{}
public void ejbActivate() {
}
public void ejbPassivate() {
}
public void ejbLoad() {
    if (theDetails == null) {
        theDetails = new CompDetails();
    }
    theDetails.setCompNumber = this.getCompNumber();
    theDetails.setCompDescription =
        this.getCompDescription();
    theDetails.setSupplierName = this.getSupplierName();
    theDetails.setPrice = this.getPrice();
The persistence manager ensures that after the method call the time stamp and other data of the Enterprise Bean are made persistent. The method ejbCreate initializes the time stamp, while the method ejbLoad sets the time stamp according to the persistent state. The time stamp is not public data of the Comp bean. The following source code shows the deployment descriptor of the Comp bean:

```xml
<?xml version="1.0" ?>
<ejb-jar version="2.1"
xmlns="http://java.sun.com/xml/ns/j2ee"
xmlns:xsi="http://www.w3.org/2001/XMLSchema-instance"
  <enterprise-beans>
    <entity>
      <ejb-name>CompObj</ejb-name>
      <home>ejb.comp.CompHomeEx</home>
      <remote>ejb.comp.CompEx</remote>
      <ejb-class>ejb.comp.CompBeanEx</ejb-class>
      <persistence-type>Container</persistence-type>
      <prim-key-class>java.lang.String</prim-key-class>
      <reentrant>False</reentrant>
      <cmp-version>2.x</cmp-version>
      <abstract-schema-name>CompBeanEx</abstract-schema-name>
      <cmp-field>
        <description>comp number</description>
```
This solution prevents clients from overwriting each other's changes. If the EJB container uses several instances of an Enterprise Bean identity for parallel processing of a method call in various transactions, it synchronizes the various instances through a call to the methods ejbLoad and ejbStore. A client will have to implement a relatively complex error handling mechanism for the case of an exception of type OutOfDateException [1], [6].
Conclusions

Java objects represented by Enterprise JavaBeans are the most important components of J2EE business applications and these include the business logic and can be used through interfaces in the Presentation Tier. These types of beans are specific for the Business logic and provide the java objects that represent the results from the clients requests that are also processed according with the business requirements of the database applications [2], [5]. In business applications the EJB work together on a Java platform through classes, interfaces, services and data types definition that map the database objects, so the design and implementation of those are very important for the interface designers, web designers, java programmers, the business consultants and the integration software architects and also allows dissociation between different modules of these database applications. The clients work with one exposed component interface and their requests are managed by the Java container, which can contain parts of enterprise database applications and access system resources such as database objects or other enterprise beans. Java objects are easy to work with, platform independent and can be used in different parts of business database applications.

References


URI: http://java.sun.com/javase/technologies/desktop/javabeans/
URI: http://java.sun.com/docs/books/tutorial/javabeans/
URI: http://www.sun.com/software/javaenterprisesystem/
URI: http://www.javarules.org/
URI: http://java.sun.com
Managing the company’s financial equilibrium during a tough economic environment generated by the extension of the actual economic and financial crisis, must represent a major and constant preoccupation for the management. One of the fundamental indicators which have the capacity to emphasize the way in which the financial equilibrium, needed for the continuity of a company’s activity is ensured, is represented by solvency, on which we will discuss in the followings.

**Keywords:** financial equilibrium; financial crisis; economic analysis; solvency; solvency rate

**JEL Classification:** G33; M10; M40

The solvency role in maintaining the financial equilibrium

The continuity of a company's activity is invariably conditioned by the ensuring and maintaining, in time, of some financial and structural equilibriums appropriate for the company’s specific activity, its environment, its market conditions in which it operates, and also specific to its medium and long term objectives. A company’s financial
equilibrium is given by its capacity to conduct its activity, in normal conditions, on short term but also an medium and long term, and these conditions can be ensured through an appropriate patrimonial structure and obviously through a financial structure than can ensure the payments of current and future debts on agreed term.

Romania’s last year’s reality, that emphasis the current financial and economic crisis, has proved that most of companies that faced insolvency was determined by the lack of capacity to pay its debts on term, from which it results the importance of maintaining a financial equilibrium of a company, be it small, medium or of international size.

The state of equilibrium or disequilibrium of a company can be determined through a complex system of indicators from which we remind: solvency, liquidity, structural rates, financial rates, floating capital, financing the needed floating capital, etc.

Within this system of indicators which have the capacity to measure the state of equilibrium or disequilibrium of a company, solvency holds a central place through its capacity to reflect a company’s possibilities to face its current and long term debts.

**Models for analyzing a company’s solvency**

As stated above, *solvency* express the capacity of an economic entity to face all its payments due, being in direct relation with its degree of indebtedness. Depending on the elements that are taken into account, solvency can be expressed through various. Thereby, in the followings we will stop on some methods of expressing solvency, with the mention that when creating and grounding these models was taken into consideration their utility in specific analysis made by the companies’ management during instability periods generated by the economic crisis, but not only.

**General solvency ratio**, reflects a business capacity to face its due dates, both on short and long term, being determined as a ratio between total assets and total liabilities, after the relation:
\[ R_{sg} = \frac{At}{Dt} \times 100 \]  \hspace{1cm} (1)

in which:
- \( R_{sg} \) = general solvency ratio;
- \( At \) = total assets
- \( Dt \) = total liabilities.

This indicator is expressing the degree of covering the liabilities with the assets of a firm, reflecting ultimately its capability to transform them into liquidities to pay its due debts.

One of the inconveniences of this indicator is represented by the fact that in its determination the sum of assets is taken into consideration regardless their degree of liquidity. It is known the fact that a part of fixed assets can become liquid after a certain period of time or never. Under those circumstances, we propose to be taken into analyze by the firm’s management also the following model of analyzing the general ration of solvency:

\[ R_{sg} = \frac{At - Aim_n}{Dt} \times 100 \]  \hspace{1cm} (2)

in which:
- \( Aim_n \) = non current unsaleable assets

This model takes into consideration only the saleable assets excluding from calculations those assets known as impossible to be capitalized in the time period that have been taken into consideration. Likewise, the indicator in the forms presented above, does not put into correlation the capability of meeting the liabilities due date with the possible terms of liquidity of the company’s assets, especially of the fixed assets, aspect recommended to be taken into consideration by decision makers when analyzing the company’s degree of solvency.
In the previously supported idea, to substantiate the previous model we consider that for periods of economic instability similar to that taken by companies in the current conjuncture of economic and financial crisis, could be taken into account the possibility of building a model of the immediately overall solvency ratio by excluding from the total assets those ones fixed in their entirety, regardless of their marketable weather. Such a model would be one of the following form:

\[
R_{sgi} = \frac{At - Aim}{Dt} \times 100
\]

in which

\[R_{sgi}\] = immediate general solvency ratio, at accounting values

Being a general indicator of characterizing a company’s solvency, as its denomination indicates, in its classical determination and in normal conditions, the assets accounting value is taken into consideration, which can wrongly reflect the firm’s true level of solvency, especially in conditions of economic crisis.

After what is known and practically demonstrated in this period of prolonged economic crisis, the main characteristic of this kind of periods is that, especially on medium term, the fixed asset’s market value tends to decrease, in many cases, dramatic declines of the market value of this asset category being registered, and consequently this value to be lower than the accounting value, fact that leads to another level of the business solvency ratio.

Starting from this reasoning and taking into consideration the fact that, on short term, the current assets and the cash do not suffer a significant influence, regarding lowering its market value, in periods of economic crisis, except from extreme cases, we propose to build a calculation model for the general solvency ratio that would consider the elements mentioned above. Such model could have the following calculation:
\[ R_{sg(p)} = \frac{At - (Aim_c - Aim_p)}{Dt} \times 100 \] (4)

in which:

- \( R_{sg(p)} \) = General solvency ratio with taken into consideration the fixed asset’s market value;
- \( Aim_c \) = Fixed assets at their accounting value
- \( Aim_p \) = Fixed assets at their market value

The practical inconveniences that the model of analyzing the general solvency rate and its derivatives presented above has, determined by the fact that for analysts and management it is important to have a more detailed knowledge of some aspects regarding solvency, determines us to propose for use in analyzing a firm’s solvency the models below, models that we appreciate to be more expressive in giving more details about the solvency analysis, referring to the patrimonial solvency ratio and the potential solvency ratio.

**The financial solvency rate**, determined as a ratio between total assets and total financial liabilities, after the relation:

\[ R_{sp} = \frac{At}{Dft} \times 100 \] (5)

in which:

- \( Dft \) – total financial liabilities

It must be underlined the fact that this model of solvency ratio is recommended by the romanian authorities to be used in grounding the projects of accessing EU funds, and the total financial liabilities includes: short term and long term bank loans; other loans and assimilated debts; interest related to other loans and assimilated debts (Applicant’s Guide, HG nr. 797/2012, page 31).
The potential solvency rate, expresses the notion of solvency more accurately, being a frequent indicator used in financial analysis and those made by banks in the lending process. This solvency indicator is determined as a ratio between owner’s equity and medium term and long term liabilities, after the relation:

\[ R_{sp} = \frac{C_{pr}}{Dml} \times 100 \]  

(6)

in which:
- \( R_{sp} \) = potential solvency ratio;
- \( C_{pr} \) = owner’s equity;
- \( Dml \) = medium and long term liabilities

The potential solvency ratio reflects the covering degree of medium and long term liabilities with the owner’s equity a business has.

The patrimonial solvency ratio, expresses the covering degree of medium and long term liabilities, including obligations towards shareholders consisting in subscribed capital and other constitutive funds from owner’s equity. This indicator in determined by the relation:

\[ R_s = \frac{C_{pr}}{Dml + C_{pr}} \times 100 \]  

(7)

in which:
- \( R_s \) = patrimonial solvency rate;
- \( C_{pr} \) = owner’s equity;
- \( Dml \) = medium and long term liabilities.

Characteristic to this indicator is the fact that it includes, in the medium and long term liabilities, the shareholders subscribed capital, in order to protect it, taking into consideration the possibility of its withdrawal.
This indicator is frequently used in the analyzes made by banks in the lending process and in clients classification, being considered that the optimal value is between 40-60%, and a value under 30% means a critical situation for the unit concerned.

The medium and long term indebtedness ratio, expresses the ratio between medium and long term liabilities and unit’s own resources and it’s determined after:

$$R_{il} = \frac{Dml}{C_{pr}} \times 100$$

in which:

- $R_{il}$ = medium and long term indebtedness rate
- $Dml$ = medium and long term liabilities;
- $C_{pr}$ = capital, including reserves.

This indicator reflects the dependence degree of the unit regarded medium and long term receivables. Financial analysts use medium and long term indebtedness ratio in measuring the risks that the analyzed business can be exposed to.

Expressed through any of the indicators presented above, solvency constitutes an important indicator which characterize the financial performances of a company and its state of equilibrium or disequilibrium. The insufficiency of those indicators is represented by the fact that they reflect the situation from a static point of view, at a certain date. For the characterization of different financial statuses of the business, it is necessary the calculation of solvency indicators and to monitor their evolution in time.

Based on the things presented above, in the table below elements for calculation the solvency ratios are presented, taken from the financial situations of a business and the calculation of the solvency indicators through using the models we spoke about during this study.
## Calculation of solvency indicators

<table>
<thead>
<tr>
<th>Indicators denomination</th>
<th>Symbol/Relation</th>
<th>N-1</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets, from which:</td>
<td>At</td>
<td>1.157.057</td>
<td>1.408.869</td>
</tr>
<tr>
<td>Fixed assets, at financial value:</td>
<td>Aim</td>
<td>657.404</td>
<td>645.482</td>
</tr>
<tr>
<td>Fixed assets, at market value</td>
<td>Aim(p)</td>
<td>491.505</td>
<td>327.197</td>
</tr>
<tr>
<td>Unsaleable fixed assets</td>
<td>Aim(n)</td>
<td>11.522</td>
<td>35.230</td>
</tr>
<tr>
<td>Owner’s equity</td>
<td>Cpr</td>
<td>707.375</td>
<td>602.367</td>
</tr>
<tr>
<td>Capital</td>
<td>Cp</td>
<td>744.763</td>
<td>389.893</td>
</tr>
<tr>
<td>Total liabilities, from which:</td>
<td>Dt</td>
<td>565.621</td>
<td>906.202</td>
</tr>
<tr>
<td>Medium and long-term liabilities</td>
<td>Dml</td>
<td>141.387</td>
<td>227.578</td>
</tr>
<tr>
<td>General solvency ratio (%)</td>
<td>At/Dt x 100</td>
<td>204.6</td>
<td>155.5</td>
</tr>
<tr>
<td>General solvency ratio affected by unsaleable fixed assets</td>
<td>At-Aim(n)/Dt x 100</td>
<td>202.6</td>
<td>151.6</td>
</tr>
<tr>
<td>Immediate general solvency ratio</td>
<td>At-Aim/Dt x 100</td>
<td>88.4</td>
<td>84.3</td>
</tr>
<tr>
<td>General solvency ratio with taking into consideration the fixed assets market value</td>
<td>At – [Aim(c)-Aim(p)]/Dt x 100</td>
<td>175.3</td>
<td>120.4</td>
</tr>
<tr>
<td>Potential solvency ratio (%)</td>
<td>Cpr/Dml x 100</td>
<td>497.5</td>
<td>264.7</td>
</tr>
</tbody>
</table>
The analysis of the solvency ratios for the example above indicates the fact that all the indicators show a decrease of the firm’s solvency, which implies high attention from the management together and the necessity to adopt some measures that would lead to the restoration of the its financial equilibrium and would ensure the business continuity.

References

Cloud Computing Technology - Optimal Solution for Efficient Use of Business Intelligence and Enterprise Resource Planning Applications

Authors: Teodora Vătuiu, “Titu Maiorescu” University, Romania, Mioara Udrică, “Titu Maiorescu” University, Romania, Naiana Tarcă, “Oradea” University, Romania

Given the current economic climate, cloud technology is an alternative for organizations to provide quality services at low cost.

Business Intelligence (BI) has today an important role in generating current information for strategic and operational decisions, so organizations need to focus on these investments for a better understanding of internal and external forces that influence decision making in order to improve performance.

Because Business Intelligence does not offer ways of planning, management, monitoring and control of the strategic objectives, the organizations need the adoption of enterprise resource planning system (Enterprise Resource Planning - ERP). Using two types of applications offers obvious advantages for daily operations.

For efficient use of BI and ERP applications, Cloud Computing Technology provides the optimal solution; this technology is accessed through the Internet, as a service (SaaS) on a monthly subscription.
General considerations regarding the concept of business intelligence (bi) and enterprise resource planning (erp)

Different authors consider BI to be computer based techniques used in extracting and analysing important business data, such as profit from sales or costs associated with profit. BI objectives include¹:

- Understanding advantages and disadvantages, both at internal and external level;
- Understanding the connection between different data for a better decision making;
- Finding innovation opportunities;
- Cost reduction and optimal use of resources.

„Business Intelligence“ is an umbrella term for various business managing approaches based on well-informed decisions, which lead to a high performance level within organizations (McKnights, W., 2004; Melfert, F., Winter, R., Klesse, M., 2004; Mukles, Z., 2009; Hatch D., Lock M., 2009; Borysowich, C., 2010; Jamaludin, I. A., Mansor, Z., 2011; Mircea M. (ed.), 2012).

Only by optimizing its performance a company can survive and remain a competitor in a changing market, being flexible to new demands (Muntean, M., Cabău, L., 2011). Corporate data represents a valuable asset, one absolutely indispensable for decision makers.

Business Intelligence (BI) can be described as a value proposition that helps organizations in their decision-making processes (Muntean,

---
¹ http://www.businessdictionary.com/definition/business-intelligence-BI.html
M., 2012). BI applications include applications relating to decision making, questioning and reporting, statistics and forecasting².

Figure 1: Business Intelligence (BI) definition

Since BI does not offer any systematic means of planning, monitoring, controlling, managing and implementing strategic business objectives, one also needs to adopt a system for planning the company’s resources (Enterprise Resource Planning - ERP). The use of these two types of applications offers visible advantages for a company’s activity.

Some of these advantages include:

- Using applications from one single provider – this ensures a common platform and eliminates any possible technical issues which might appear when running applications from different platforms.
- User friendly functioning – the final user is already used to the graphic interface and therefore training for the use of the new applications is simplified.
- The interfaces of the applications allow an easier questioning from the user, since there are expert functions (wizard) which allow this, thus reducing questioning through code lines which

² http://searchdatamanagement.techtarget.com/definition/business-intelligence
are difficult, time consuming and cannot be done by all users.

- The integrated use of ERP applications with BI tools leads to reducing the rigidity of predefined reports and allows on the spot reporting.
- The flow of data between different sources is reduced.

Cloud computing technology (cc)

Cloud Computing technology was named after the representation as a cloud, often described on a graphic representation of a network. Its concept on a large scale implies the use of the Internet in order to allow those interested to access virtual resources through which users can manage and control the services they have acquired.

Together with the rising access to IT resources a new technology of high interest was developed – cloud computing. The relationship between Cloud Computing and Outsourcing is better understood if we take into consideration that all clients except lower costs, service efficiency and flexibility as well as financial flexibility (paying only for what is used).

In the past, in the traditional outsourcing models, physical resources were owned either by customer or provider.

Cloud Computing announces the paradigm of accessing technological capacities without a property entirely on one side or another.

Cloud Computing – general presentation

The term “cloud computing”, defines an IT concept developed in the last years. More precisely, cloud computing refers to a service of renting hardware and software virtual resources. Through this service, the customer does not physically own the servers, on which different
software applications will be installed, but some virtual processing and storing capacities which he can access online.

**Figure 2:** Cloud computing technology

This type of services can be hired according to the computing capacity (millions of operations per second), to the storage capacity (GB) and to the transfer bandwidth used. A potential customer will never be interested in the aspects concerning the physical location of the resources and their maintenance:

- Rent for the place where servers are stored
- Ensuring climatic and electric power supply conditions necessary in a data centre
- Paying the employees which manage the data centre, etc.

For the customer all these aspects are hidden in a cloud, thus the name “cloud computing”. Let us suppose that a customer wants to develop a business of providing multimedia content on the Internet. He does not wish to buy his own servers. What will he do? He will rent computing capacity, storing capacity and bandwidth in a “cloud”. Here he will be able to run the necessary applications in order to provide
Some customer temporarily needs a very large computing capacity in order to break some passwords. He will therefore rent computing capacity in a cloud, this capacity being displayed on a large number of processors, which used in parallel will allow breaking the passwords in a reasonable time at low costs. The customer will never know where the resources he is accessing are kept physically. These can be placed in locations where electric power is very cheap and temperatures are very low in order to reduce costs (this is the case of Google data centres placed as near as possible to the North Pole).

Did you ever have the curiosity of knowing what percentage of the processor’s capacity is used when surfing the Internet? Maximum 30%. The resources of a personal computer are used throughout its lifecycle to an extent of maximum 50%. Cloud computing thus optimizes the use of resources and of electric power supply.

**Cloud computing services**

*Cloud Computing* is a model of TIC use in which resources are delivered - including hardware and software resources and applications - upon request through a public network in an environment divided among several owners.

The difference between a traditional model and a Cloud infrastructure results from the fact that the traditional model is based on resources such as hardware components and business data, whereas the cloud computing model is based on services.
From the functionality point of view, “cloud computing” services are devised into three categories:

- **Software as a Service (SaaS)** – the customer can use the software applications offered by the provider on a cloud type infrastructure – this is the case of web hosting services, email services, etc. The customer cannot configure the parameters of the used infrastructure (bandwidth, servers, operating systems, storage space).

---

Platform as a Service (PaaS) – the customer can install and configure his own software applications on the cloud infrastructure. This could be the case of using the WordPress platform on a hosting server which offers the CPanel interface. The customer can configure the site in the limits set by the WordPress platform.

Infrastructure as a Service (IaaS) – the customer has the possibility of accessing and configuring the computing resources provided by the cloud infrastructure according to his own needs. He can install any type of software, including operating systems. Also, he can configure to some extent the allocated network resources – firewall, filter spam, etc.

From the point of view of the manner in which they are offered, cloud computing services are classified in:

- Private cloud – the infrastructure is available only inside an organization which comprises more consumers. This could be the case of a retail stores chain. The infrastructure can be owned, configured and used by the respective company or by a third party, or both.
- Community cloud – the infrastructure is used by different entities which share part of the scopes, e.g. emergency services (police, ambulance).
- Public cloud – the infrastructure can be used by the public for academic or governmental purposes. This presupposes the existence of a third party who physically provides the cloud infrastructure.
- Hybrid cloud – the infrastructure is a combination of private, community and public services, which keep their character, but are unified through a technology which ensures the portability of information and of the software applications used.

The approach is different: in a traditional model all resources interact, this influencing the general infrastructure, while the service oriented architecture (SOA) of a cloud computing model generates a much more clear separation between two major layers. One of them is formed by the technology within the cloud infrastructure (hardware and applications) and the other one is formed by information resources. Services can be configured, accessed or used.
internally without the intervention of the internal user. In the traditional system it is much more difficult to separate between the technic and the functional infrastructure.

**Figure 4:** Location-Based Services on the Cloud for Windows platform

**Cloud Computing** architecture allows a clear division between the technological and the informational infrastructure based on services.

**Software as a Service (SaaS)** is a model of software delivery that allows companies to deliver solutions to its customers in a hosted environment over the Internet (Joha A., Janssen M., 2012). All major analysts, including IDC, Garnter, and Forrester, predict for the SaaS BI market a major growth throughout 2013 (Neubarth, M., 2011). Nowadays, various Cloud BI initiatives, in fact SaaS approaches, are gaining advantage over the traditional ones, lower costs being the main reason for this phenomena (Reyes, E.P.,2010).

**Cloud-Based BI** is a BI software solution that runs in the cloud and is accessible via any web browser in a so-called SaaS model.
Benefits of Cloud Computing

1. One first advantage consists in the fact that it reduces capital and operational costs, since one:
   - No longer requires to make large up-front capital investment on data centres;
   - Eliminates the need to plan ahead for provisioning;
   - Allows companies to start small and increase their investment resources as needed (pay-as-you-go).

2. A second advantage consists in simplification of application deployment & management through:
   - Common programming model across mobile, browser, client, server, cloud;
   - Access to strong ecosystem of widely deployed applications;
   - Integration with existing IT assets (Software + Services).

Conclusions

Romania is in line with the global trends, as the interest in cloud IT services is growing. Cloud computing thrives to offer the technical basis in order to satisfy the customer’s requests at business level.
The base notion of cloud computing refers to the model of technologic infrastructure which allows different types of operations to be executed in the same network. The network can be LAN or WAN, depending on the type of Cloud –private or public. A cloud computing infrastructure is made up of a few types of hardware components (servers, storage systems, network components, etc), software components (programs, services) and information.

The ERP and BI applications offer:
- Easy use
- High visibility of data interpretation
- Clear separation of the useful elements with a high possibility of differentiating information
- Standard for the improvement of activity
- High adaptability and flexibility of use

The ERP applications and BI tools can efficiently run through Cloud Computing technology, which has the following advantages:
- Access to this technology is granted through the Internet as a service on a monthly subscription, one paying only for the services used (SaaS).
- Reducing capital expenditure for software licence acquisition, as this is included in the monthly subscription.
- Reducing costs related to the implementation of applications.
- Since payment is made through a subscription the high price of these applications is no longer a problem; capital expenditures can turn into operational monthly expenditures.
- Reducing expenditures for software update and maintenance, for hardware or network administration, these being the responsibility of the SaaS.
- Reducing exploitation, training and assistance costs, which for a company would mean hiring a high variety of technology experts.
Cloud is a gold mine for medium and small companies and for the centralization of public IT services. The new IT era presupposes IaaS (infrastructure as a service), PaaS (platform as a service) and Saas (software as a service). IT will become a necessity; therefore we need to be ready to reinvent ourselves.

References

[8] Lungu Ion, Vatuiu Teodora, Manageability comparison: Oracle database 10g and Oracle 9i database, Online at http://mpra.ub.uni-muenchen.de/12158/, 2008


Small firms are big business in the aid of economic development. When the SMEs competitive advantage is based on knowledge as is the case of the knowledge economy, innovation and creativity become a decisive factor in the economic activity because knowledge tends to be developed in the actual contexts. Technical progress leads to innovation waves and creativity stands in the doorway of these phenomena, although it is usually not explicitly associated with it. At the same time, much less is written about the majority of small and micro size firms that constitute the core of the economy. The purpose of this study is to explore the implications, positive and negative, of the changed economic environment in Romania, for the development of small medium enterprises’. Results revealed that Romanian Small medium enterprises (SMEs), as in all transition economy, play an important role in the economic growth development and are increasingly recognized as having a permanent role as a seed-bed for future growth.

Keywords: innovation; development; growth; enterprise
Introduction

Given the importance of SMEs in their world, economies everywhere are given special attention. Hence the concern for their delineation as appropriate, with the intention to create conditions for broader and more effective participation in economic activities in or involved. The substance of this upgrade though is situated in a great range of differences from country to country or integration groups, however, has some common aspects are taken into account with a different intensity depending on the circumstances of the moment.

One aspect of great importance to the existence, perpetuation and rise or fall of SMEs in the economy of any country is their contribution to creating new value, or, in other words, the value added in order to be more relevant, needs to be examined closely, along with the number of employees. SME activity is not confined to any country to production in the strict sense; they participate in both exports and imports in order to achieve the purposes of the owners. In addition, it should be noted that between them, the most important place is micro. Due to its’ small size and simpler organizational structures, they can make many changes during their existence, that allow them to operate in conditions of economic efficiency. Another important advantage of small and medium size organizations refers to their innovative potential in the technical, technological and managerial view.

SMEs are a separate research field. There can be made two main arguments that justify the specific attention to this sub-population of private enterprises. The first is a quantitative argument: SMEs form a big and vital part of the modern economy. The second argument is more qualitative: in spite of the heterogeneity of the SME sector, they differ from large firms in many aspects.

A new business concept is the spark that triggers the innovation process. It on how the novel products or processes may be achieved from the platform of current op cents, that is, products and processes, combined with thoughts or estimates of the market new business
concept. The new business concept is conceived from the current state of products and processes in the enterprise, the current markets and a perception of future market opportunities.

Consistency between two major elements is decisive for a successful completion of the SMEs innovation process. The first element is the character of the innovation - what challenges does the innovation present. The second element is the capability of the SMEs to address these inherent challenges, that is, the capacity of the enterprise to muster resources and to act in a sufficiently dynamic way.

All countries statistics result that SMEs dominate in economy, representing over 99% of the total of companies, having substantial ponders in obtaining GDP and work place distribution.

«The World Competitiveness Yearbook» the most famous Annual Report on the competitiveness of nations which examines 60 countries and competitive economic regions based on four competitive factors: economic performance, government efficiency, business efficiency and infrastructure. An important objective of governance is to support SMEs to become competitive, according to the single internal market rules.

In 2009 "The World Competitiveness Yearbook" - the most famous annual report on the competitiveness of nations - developed by the World Economic Forum ranked Romania rank 68 of 131 countries (Bulgaria reached the place 76), this being a climbing 6 places rankings from last year when it was ranked 74, came close to the place in 2005 when it was ranked 67.

Innovation in small businesses is a different way. Young people are often trapped in their attempts to innovate in very different reasons. Therefore, in order to achieve its innovation often go to another company or they do their business.

When you innovate, large companies are considering the propensity to improve their products offer. Small businesses especially are moving toward "breaking innovations" that generate new products in business because they provide an opportunity to succeed relatively much
higher. Therefore, when engaging in research, small enterprises have share research costs much higher turnover than in large enterprises. Moreover, large enterprises in research - development focuses on another very important indicator for them: the share of production of new products in turnover.

Lately, attention is given, absolutely natural, SME branches of the peak of "high-tech." Thus, in a recently completed study, conducted with funding from the European Union Directorate General XXIII, divide, SMEs in the leading technology in three categories.

First of all SMEs in the sectors of "high-tech" and the media, characterized by a high affinity for the activities via the Internet, taking into account the latest developments in the field.

Second SME start-ups of "cyber-entrepreneurs", is focuses on the exploitation of opportunities offered by electronic commerce and service sectors.

And last but not least SMEs integrated supply chains of large firms that generate innovations and markets products under pressure from major customers.

The innovation infrastructure includes: incubators (infrastructure for start-ups), technological parks (experimental facilities), technical transfer centers and the system of intellectual property.

In a Romanian economy located yet in a consolidation process and of getting stronger of SMEs sector, environment factors (generally powerfully unstable) they act through numerous and diverse compromises. Maybe the most important are the ones who have a legislative order, which are based on taxes (fiscal, firstly) dissipated, changing and sometimes contradicted.

Against this background I searched for reasonable answers to the following questions: Is innovation a crucial concept for Romanian SMEs involving creativity, organization and profitability? Is it possible to use operational concepts that allow measurement? Is it possible to measure
the innovation in a transition economy, as Romanian is? What are the factors that influence in the low level of innovation of Romanian SMEs?

The methodology of research was focused on two directions: first, we tried to identify actual concerns regarding the development of capacity of innovation of the SMEs point of view; second we analyzed the elements that constitute to investigate the current state of innovation from the Romanian SMEs, as well as conducting a diagnosis analysis of the 730 Romanian companies regarding the capacity of innovation between January 2013 and June 2013.

The conclusion emphasizes that being with that decision an innovation entity can be called innovation infrastructure unit, practical a new concept was introduced refers to technological transfer centers which are financed through a governmental program. That initiative is very important for creating the visibility of the entity which wants to invest in innovation. The current situation of Romania is highly dependent upon the visibility level and the research system that includes the research institutes, the research departments of universities, and research departments of the companies.

**Literature review and theoretical background**

Despite the abundance of literature on the company, the interest of scientists and practitioners increased since everyone agrees that these organizations constitute the engine of progress in the contemporary society. On the other hand, various theoretical approaches are found less often in the empirical predictive value confrontations.

Business issues is circumscribed, mainly within the confines of questions put by Coase on the nature, existence, effectiveness and coordination mechanisms of the firm to these in addition to concerns arising from the changes occurring in companies on human resources, innovation, globalization, governance and borders. In the study mentioned, Coase has set itself the goal of developing a new theory of the firm, theory that wanted a realistic and viable, with which to explain the
reasons of the emergence of companies in specialized exchange economy and where are the resources directed to the price mechanism.

Although Coase developed a new theory of the firm in 1937, she had success in the second half of the twentieth century. Authors such as E. O. Williamson, S.G. Winter, S. Rosen, H. Demsetz, etc. developed the approach initiated by Coase to choose the transaction as the unit of analysis, or have found new areas of its application.

Unlike Coase, Williamson, who refers more specifically to vertical integration of certain types of firm, modern Capitalist Corporation has a structure of hierarchical organization, whose evolution is the result of transactional cost savings. In conditions in which the progressive increase of the division labor has produced a huge increase of transactional cost, there are efficiency differences between different forms of organization.

In terms of product innovation, it would appear that, historically, smaller firms may have contributed greatly to the improvement of existing products and even to the creation of new ones. Nevertheless, the amounts of money dedicated to research and development are not large, and the existence of a laboratory or a research team is exceptional in the SME environment (Santarelli and Sterlacchini, 1990; Kao, 1983).

For smaller firms, technology adoption is indeed a crucial decision. In the Schumpeterian sense, innovation can be viewed as a heart of entrepreneurship (Schumpeter 1934). There are empirical researches presenting evidences about the importance of small entrepreneurial businesses in innovation. Since Birch (1987) seminal study, the examination there has been several studies focusing on a the small number of high growth, young firms, the so-called gazelles that believed to be responsible for the bulk of new job creation, technology progress, and economic growth. At the same time, most small businesses that constitute the core of the economy do not innovate. Most SME innovations are marginal improvements of already existing products, and instead of new technology creation, they rely on the adoption of the available technologies (Brown 2002, Damanpour and Wischnevsky 2006,
Lankhuizen and Woolthuis 2003, Rothwell 1986, 1994). The investigation of small business innovation is a popular topic in the literature; our knowledge is still limited about the nature, the types, the factors, and aims of innovation in the smallest sized firms.

Romania, like other former communist countries, is in the situation of reinforcing the SME sector. Today, the view which is taken as a current guideline is that the most important way of supporting Romanian small and medium enterprises is to encourage the business environment and the general development of the economy. Long term economic difficulties are focused attention on the importance of innovation and technological progress for business competitiveness, sustainable growth and job creation.

On the other hand, in Romania there was created a vicious circle where the state is ensuring the minimum financial resources for stimulation of knowledge-based economy and only a few companies proved able to compete through innovation. Very often knowledge is strongly connected with people and all or part of it can do a major challenge. Innovation system is important for clarifying the area of innovation policy and also for fostering the interactions.

**Methodology**

The survey instrument used in this study was as a combination of a questionnaire survey and research interviews. The type of questionnaire is a self-administered postal one and it included a short glossary explaining the purpose of the survey. The questionnaire is divided into three parts and has a total of 45 questions. To collect data from interviewees a number of 730 companies were contacted by phone or email between January 2013 and June 2013.

Research interviews will then deepen and expand the results of the questionnaire topics. The development and the design of the questionnaire and the research interviews will obey and observe three
maxims of scientific method: construct validity, internal validity and external validity.

A central role in both the questionnaire and interview surveys will play the construction of scoring variables. They will be the pivotal element in developing a typology classifying an innovation of Romanian SMEs in strategies of development economic activity.

Results

This study analyses the quantitative and qualitative results of questionnaire and interview. Four hundred fifty representatives from different Romanian SMEs that approved to participate in this survey were distributed the questionnaires as sample respondents for this study. Despite the repeated reminders 680 filled-up questionnaires were received back in total. After elimination of received filled-up questionnaires in which item responses were missing, the final sample consisted of 590 responses. The usable response rate of 42.71% based on total number of respondents received the questionnaires are within the range typically reported for research studies in social sciences. Based on the scoring results in the questionnaire and the interview cases presented in table 1, typology for the companies’ innovation process was derived. The typology of Bayer and Gann (2007) is widely accepted as being useful to assess the organizational behavior Romanian SMEs. As justified by the scoring approach, this category led to merging of the two central types of Bayer and Gann into one.

Table 1: Frequencies of the Types of Innovation process

<table>
<thead>
<tr>
<th>Type of innovation process</th>
<th>Questionnaire Results</th>
<th>Interview Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reactor</td>
<td>252</td>
<td>44.44%</td>
</tr>
<tr>
<td>Defender/Prospector</td>
<td>144</td>
<td>22.22%</td>
</tr>
<tr>
<td>Analyzer</td>
<td>158</td>
<td>15.56%</td>
</tr>
</tbody>
</table>
To validate the scoring approaches, the multivariate methods of factor and cluster analyses was applied. The constituents of the scoring variables was undertaken a factor analysis, and the resulting factors would the input of a cluster analysis.

The present analysis also had the aim to investigate the state of planning and how innovation process of Romanian SMEs is linked with it. However, the investigation has also revealed that business planning for Romanian SMEs is developed only in a rudimentary way. The results of the questionnaire and the research views have shown that firms having a controlling unit use it to implement the innovation process of the strategy of economic development.

**Conclusions**

Researchers have been interested in innovation and growth for a long time. Small and medium enterprises represent an equilibrium factor at micro and macro-economic level. In permanent economic changing environment, SMEs are flexible and possess a greater adaptation capacity, favorite by reduced dimensions and rapid decision process. They adapt easily to consumer exigencies and requirements, being more appropriate to market.

Another important aspect is the fact that these generate in a big proportion technical innovations that are economy applicable. Many work places will come by innovation, and new discoveries will give birth to some new entrepreneurial adventures.

In the context of the current crisis, rapid development of the Romanian SME sector represents a priority, not only for the general reasons which sustain this sector in the developed countries.
Thus, despite the economic reform, small and medium enterprises in Romania are still confronted with a series of obstacles which, in the view of the economic and political instability, lead to uncertainty and to inhibition of the entrepreneurial spirit.

To become or to remain competitive, Romanian companies must continually develop ways of operating through more sophisticated strategies aimed at increasing research and innovation capacity and functioning in a business environment to the highest level. The competitive advantage of Romanian SMEs will depend on the state to create attractive conditions for such local or foreign companies to find ways most effective way to mobilize them. Creating a stimulating business environment for SME growth and their competitiveness is based on the national strategy and government policies to facilitate an incentive framework for foreign investment and development of commercial partnerships with small and medium firms in other countries. This should stimulate the concentration of domestic private capital to help boost the sector's role the Romanian economy.

This innovation process is based on defining groups of companies having similar sets of scoring values and for validation are applied there types of innovation (reactor, defender/prospector, analyzer) in contrast to the original four types of Bayer and Gann (2007). As justified by the scoring approach, this category led to merging of the two central types of Bayer and Gann into one.

Empirical SMEs research in Romanian faces several problems. Regarding size classes, the research object of Romanian SMEs has a very homogeneous structure. This study aims at covering the total range of SMEs including also the class of micro firms. So, for future studies it would be interesting to focus exclusively on the class of micro firms. Such a research project would require investing considerable time in collecting data.

We certainly have many casualties among SMEs due to the incorrect application of innovation process, as we will have winners of
the crisis, and the winners will be those who will be able to make accurate forecasts on medium and long term and manage the risks.

The results of the questionnaire and interview deliver that the company size is an essential factor to distinguish the sophistication of Romania innovation systems. Another factor for judging the innovation of SMEs is the personality of the owner or the Romanian managing director. Here the educational background and the interest business management topics play an important role, with owner-management showing more deficits than other managers. The interviews have revealed that some Romanian owner-managers have quite a fatalistic attitude toward innovation process. With increasing company size the problem becomes dramatic, but regulations for replacement and succession are generally established badly.

The results also suggest that for Romania the small and medium businesses represent the engine of the economic growth and a vector for disseminating the research and development results. The increase of the small and medium businesses sector had a positive influence upon the businesses environment reducing the unemployment rate and increasing the productivity. It is necessary for the Romanian state to rethink the fiscal system in order to better sustain the growth of the small and medium businesses sector taking into consideration that even though its major role in the development of the country is known and admitted, the support is not likewise.

In conclusion, the influence of innovation in the strategy of Romanian SMEs development economic is mixed, both negative, by the superior concurrence, the increase of the turbulence of the businesses environment, and positive, facilitating the access at new markets of provision and sale, the acceleration of the know-how transfer, the access at new technologies, partnerships and strategic alliances at international level, etc.

So, innovation will not only support the development of new products or increase the productivity of labor and capital, but also bring
more economic growth, employment, a better balance of payments, improve the labor conditions.

References


[23] OECD, Small and Medium-sized Enterprises: Local Strength, Global Reach, OECD Observer, iunie 2011;


[26] www.cnipmmr.ro;
Scientific Research between Real and Desirable

Author: Popescu Silvia, "Titu Maiorescu" University, Romania, silvipopescu@gmail.com

This paper presents theoretical and scientific findings and practical strategies of a theoretical and empirical research project co-funded by European Social Fund through the Sectorial Operational Program Human Resources Development 2007 - 2013, Priority 1 "Education and training in support for growth and knowledge-based society ", key Area of Intervention 1.5" doctoral and postdoctoral research support. Theme of the project, “Intercultural communication, and diversity management paradigm” is considered a great opportunity and yet unsatisfactory addressed so far. We aim to fill a gap in the theoretical research bringing new information and documented in intercultural communication and especially what not to try never dared before to sit on a deserved intercultural communication, diversity management paradigm that.

Keywords: intercultural communication; conjunctive paradigm; diversity management; performance management

Introduction

We started the research by conducting a theoretical approach in supporting argumentation place that it holds in intercultural
communication effective management of cultural diversity. Stated purposes, the proposed approach begins by proposing and developing a theoretical model to explain the new interdisciplinary relationships that cultural identities are from Europe, as a result of an intense process of intercultural communication, communication becomes itself a paradigm for managing diversity in the contemporary world. We called this new paradigm conjunctive model to emphasize both its size interdisciplinary methodological plan, as well as a reference that is a real process of enhancing the interference of national cultures, advancing is a new way to conceptualize the complementary relationship and interaction between European cultures. To achieve effective intercultural communication and economic boost to support and promote progressive transformation of society conjunctive paradigm should become a paradigm for diversity management in Europe and the world. I tried to show how intercultural communication can be the paradigm for managing diversity. Thus, we exploited not only theoretical research but also the results of psycho-sociological research conducted in Romania and Italy empirical research was conducted during October 2011-August 2012 and includes questionnaires, structured interviews and in-depth (adapted from questionnaires and interview sheet application and interpretation which has been effective). I found the analysis of many papers and questionnaires used in the psycho-sociological research interpretation, that good intercultural communication contributes significantly to the settling of clash of cultural sites and the potential of the huge diversity can play in the development of an organization. Lately, even speaking of a new profession, that of manager of corporate diversity, which is obviously the result of identifying the contemporary reality of intercultural communication as diversity management paradigm.
About the current state of research in intercultural communication

Intercultural communication means direct interaction between people of different cultures, it means accepting and tolerating differences. A comprehensive definition of intercultural gives Micheline Ray: "Who says intercultural say necessarily fully based on the meaning of the prefix inter-, interaction, sharing, openness, reciprocity, solidarity objective." (Pierre Dasen, Christiane Perregaux, Micheline Rey, 1999)

The study of intercultural communication has unfortunately own history. Many researchers coming from different fields and focuses on communication. Scholars from various disciplines such as anthropology, psychology, communication, sociology and international relations leave their research field to venture into a new area which is at the "crossroads of culture with human interaction." (William B. Hart II, 1997)

The importance of studying

"When cultural variables play a key role in the communication process, the result is intercultural communication" (ibid.)

We recognize and respect cultural foot print justify how differences in communication style, vision and personality. Perceptible differences mean that we appreciate others in a manner, to the extent of similarity or differentiation criteria. This leads to "social categorization", and when social categorization is negative, it becomes a source of racism, intolerance and prejudice.

"Social categorization can lead to mental and emotional associations based on three factors: cultural difference or group,

---

personality difference and difference in how people perceive their relationship intercultural two" (ibid.)⁴. “Personal style creates the first impression, which influences intercultural communication. “Style means to communicate personal qualities which we deduce from the message and how to be the interlocutor" (ibid.)⁵. Adopted motto - "Unity in Diversity" - reveals just the importance of cooperation, unity of people, but at the same time respecting and valuing diversity "implies acceptance of other cultural pluralism, tolerance, coexistence of plural, but the chance asserting their positions." (Constantin Cucoș , 2000)⁶.

The term perception of cultural difference makes us aware of diversity, whether of language, thought, habits or style. The concept of "diversity" is perceived in different ways from country to country; government policies on this subject vary from one case to another. "The sine que none of interculturalism is fully complying with the neighbor who resemble us." (Doru Munteanu, 2004)⁷.

Constantin Cucoş defined intercultural communication as a "trade or transaction value adjacent accompanied by understanding meanings between individuals or groups of components are different cultures. Exchanges can be made at the level of ideas, verbal, nonverbal, behavioral, physical object, organizational."(Constantin, Cucoș, 2000)⁸

Intercultural communication can be defined as "the ability to communicate verbally and non-verbally with individuals from other cultures so that all individuals participating in the communication to

---

⁴ William B. Hart II, A brief History of Intercultural Communication: A Paradigmatic Approach, Department of Communication and Journalism, Albuquerque, San Diego 1997, p. 9
⁵ William B. Hart II, A brief History of Intercultural Communication: A Paradigmatic Approach, Department of Communication and Journalism, Albuquerque, San Diego 1997, p.19
⁷ Doru Munteanu, "Cultural Diversity" in Interculturality versus globalization - international conference, Brasov 2004
encode and decode messages conveyed and avoid possible erroneous interpretations and assessments.” (Michael Hinner, 1998) ⁹

Social organization, a factor influencing element and intercultural communication is defined as "the manner in which a culture is organized and is directly linked to institutions that culture, which may be formal or informal" (Samovar, Porter, 2003) ¹⁰.

Methods used

The research in the project is based on the use of theoretical and empirical methods such as analysis, synthesis, approximation, extrapolation, comparison, and correlation, design of questionnaires, interview sheets, application and interpretation. From the methodological point of view, is an interdisciplinary and comparative research? Therefore, it requires a coherent methodology as an important step for a structured and rigorous analysis of the phenomenon followed during the project. Argue that qualitative methods are best suited for problem analysis pursued despite the preference for quantitative analysis, used primarily for their power of generalization. An alternative mixed methods research question emphasizes the preeminence of the paradigm or method. Quantitative research can provide statistics, but cannot explain the nature of the phenomenon. Therefore, we proposed two approaches to provide a solution to this problem: on one hand we advocate qualitative methods to investigate the issue, on the other hand believe that mixed solutions could be a solution suitable methodology. We cannot ignore the value of quantitative methods, although we consider to be too restrictive and insufficient for our purposes. Therefore, mixed methods should provide the optimal solution, which we have used it in this project. Consequently, the scientific documentation, first we used the techniques of collecting reference materials in the areas

addressed interdisciplinary vast areas otherwise: that of intercultural communication and the management of diversity, then appealed to the advantages that they provide critical breeding techniques, analysis, synthesis, interpretation of the texts of scientific papers in national and international reference. Next we continued to support the research and show how it can be Intercultural communication paradigm for managing diversity, but extending the theoretical research and practical experiences through ongoing empirical research.

Thus, we exploited not only theoretical research but also the results of psycho-sociological research conducted in Romania and Italy (during internship mobility at University "Carlo Bo" in the town of Urbino in Italy). The study was conducted on a representative sample of the labor market in Romania, October, and November, December 2011 (656 employees and 358 managers from 65 organizations in rural and urban areas, the private and the public that responded to the questionnaire). Two types of questionnaires used in previous studies were adapted to be used (one for employees and one for managers). Among employees, 300 respondents were female and 356 male and 155 of the managers of the respondents were women and 203 men. For some organizations, the human resources manager or staff inspector completed a safety organization - in total there were 35 such sheets completed questionnaire. Were conducted two focus groups with employed women aged 25 to 40, including women and women with higher education. Other two focus groups were male employees as subjects aged between 25 and 40 years with higher education and secondary education. During the internship mobility run in July 2012 at the University of Urbino Carlo Bo, Italy continued research, adapting and applying the questionnaire to 30 people employed in the tourist areas and industrial Fano, Pesaro and Urbino. I also received another questionnaire adapted short (12 questions) than applied with the theme Diversity in the workplace and firm performance that we used in Romania to 50 people employed (people running and managers in Bucharest Giurgiu and Ilfov) in Italy to 35 people in the tourist industry.
and San Marino. It aimed to know the opinion of employees and managers about the role of diversity management in increasing the performance of a public service or public institution in the public or private sector. We administered questionnaires to employees in various fields: the public administration, public and private services, social services tourism and trade. As of residence we have considered both urban and rural, the gender distribution we applied the questionnaire fair to women and men, and the elderly have covered mainly between 25 - 65 years. For research participants from Romania have used in-depth interview sheets (both employees and managers) to deepen the research and greater safety on opinions, value judgments of respondents and therefore the relevance conclusions. Representative sample in both countries is to provide accurate and satisfactory conclusions and usefulness objective research. The research objective was to identify the views of managers and employees about men and women in situations directly related work and situations that could influence the decisions of the organization. It also aimed to identify issues to provide more information on the processes / practices recruitment, promotion and management.

Key areas of research:
- Time to work
- Evaluation and Promotion
- Opinions about jobs, tasks or work guidelines
- Gender discrimination and sexual harassment
- Methods and styles of management

We analyzed and compared the responses of respondents performed to ascertain differences that will support the analyzes and interpretations for the purposes of argument and justification of differences of opinion and diversity management practices in the two countries. Very often, those in the board of a company from different cultures. You cannot help wondering how things relationships between them. How does foreign manager to convey his style western Romanian employees and how he adapts Romanian environment. There is of course
a common language of business and accepted a global language - English. The question is how intercultural communication, multicultural generally affecting corporate practice and standards, or whether this cultural diversity when there is short-circuit communication brings added value to the company itself. I emphasized how cultural communication within companies, targeting the same register of issues that we find in any other human interaction involving intercultural differences. There are references to values, beliefs, attitudes and even different standards. All this influences the perceptions of those involved and determine their actions. Consequently, the quality of communication determines the quality of each individual. We identified a phenomenon that is retained in the business potential of cultural diversity and diversity management efficiency by practicing firms. Problems in intercultural communication within companies are related to how they are perceived notions of good and evil, relationships and roles between men and women, the way time is perceived, what traditions are considered important, the language used, how in which it responds to other crops and as the exchange of information flows. A robust and effective multinational company, is based on a set of values that transcend basically the individual cultures within it, has therefore a diversity management as a result of the understanding of the role of intercultural communication. Thus, its employees adhere to them without sacrificing or being in conflict with their own values.

**The likely impact of research in the social sciences, economic and political**

With its wide opening multi, trans and interdisciplinary project within the priority research issues socio-economic and humanistic research directions that subsumes and / or highly complex research topics. Based on the principles of holistic integrative complex social and political sciences are at the draft of interference and resonance of several areas of social sciences and humanities perimeter and political (epistemology,
sociology, psychology, anthropology, linguistics, semiotics, economics, behavioral psychology) addressing various research directions and specific topics: Intercultural Communication from studies of gender equality, management, public policy. The theoretical approach will justify in a first stage that social and human sciences now face the challenge to develop new ways of thinking and understanding to a world dominated by contradictory trends. It is considered that in order to understand adequately large changes in the contemporary world social sciences need a "new paradigm. Contemporary world, simultaneously multiplying the forces of integration and identity, no longer recognizes the paradigm disjunctive" unity or diversity ".

A new paradigm, the conjunctive "unity in diversity" is trying to correlation and to reconcile the two contradictory dimensions of our world: the unity and diversity. disjunctive paradigm shift from the conjunctiva to signify not only a significant epistemological reform, involving "new alliances "field of knowledge or interdisciplinary approaches, but a restructuring of values and existential reordering of relations between their cultural identities in the new global environment. unity in diversity is perhaps one of the most important challenges of modernity as still exists quite strong ethnic and religious conflicts, domestic violence, seclusion in national values, relationship difficulties at all levels, population migrations from one area to another world. To achieve effective intercultural communication and stimulate economic to support and promote progressive transformation of society conjunctive paradigm should become a paradigm for diversity management in Europe and the world. The impact is validated by identifying examples of good and less good practice in the management of diversity in organizations in Romania and Italy.

We expect a positive impact, as both assumptions and conclusions, value judgments, assertions issued are the result of extensive deep AND a literature and practice of Romanian and international profile.
We conducted research in sensitive areas and relatively unexplored, in which I thought there are gaps, shortcomings in the theory and practice of management in order to help those who want to know the details and the details about these realities.

This is because we believe that without a proper diagnosis cannot launch assumptions and we cannot propose solutions and establish development strategies.

During the research conducted we found a need increasingly higher facto managers, and training managers regarding the existence, application and effectiveness of diversity management.

References


**Publications and research**

[1] Opinion Barometer on discrimination in Romania, Metro Media Transilvania, 2004


Web Resources

Publication Information:
Journal of Knowledge Management, Economics and Information Technology is published six yearly issues in hard copy (ISSN 2247-7756) and online (ISSN 2069-5934) by Scientific Papers.

Abstracted / Indexed in:
EconLit – American Economic Association
DOAJ – Directory of Open Access Journals
RePEc – Research Papers in Economics
EBSCO Publishing
Ulrich’s Periodicals Directory
Index Copernicus International
The Open Access Digital Library
Open J-Gate
Cabell’s Directories

The Journal’s editors invite you to submit original research papers, interested academics and practitioners. You can submit your papers by email to submission@scientificpapers.org. Submission guidelines and important info are available at http://www.scientificpapers.org

Issue acquisition:
You can buy a hardcopy item for 28,80 Euro (including delivery). Orders at contact@scientificpapers.org.

For any inquiries for the Journal of Knowledge Management, Economics and Information Technology please write at contact@scientificpapers.org or visit http://www.scientificpapers.org